

Are we all mad, or economists?



Weak economic thinking is undermining human progress October 2011

A contribution to the Club of Rome BLOG by Graeme Maxton

There are many wise people, some even award-winning economists, who think that the West's economic problems can be easily repaired. The engine is just faltering. A bit more fuel and a tug on the right levers and it will be back to normal in no time.

Their solutions are certainly appealing, but they are also wrong.

Modern-day economists tell us that we can reflate struggling Western economies with financial aid, by printing money and encouraging consumers to spend again. They say that we should boost spending in developing countries where there is a vast untapped capacity to consume. Other countries need to liberalise their stifling market restrictions to unleash new opportunities.

We will soon be back on the road to growth, they say.

The trouble with these ideas is that they see the problem as the solution. They call for more spending, to generate more growth.

Encouraging people in the West to spend more is not a solution. It will only increase their debts. Persuading the citizens of spendthrift countries to consume more will only bring them the same troubles—too much debt, no savings, and societies focused on materialism. Trying to force the French, the South Koreans, the Japanese and others to liberalise their markets is also pointless. These countries do not want their markets liberalised. It is not their way.

Today's economists are still trying to reimpose a failed model of progress on us—one based on unrestricted markets, consumerism and short-term gain—in the hope that its wider application will somehow fix the system's obvious flaws. Apart from being morally vacuous and financially foolish, their obsession with growth also goes against the laws of nature. As human beings, we don't grow forever. We reach a steady state and then stay that way. Yet modern-day economists want us to believe that our economies are somehow different, that they should grow forever. As Kenneth Boulding, John F. Kennedy's environmental advisor put it, "anyone who believes in indefinite growth in anything physical, on a physically finite planet, is either mad – or an economist".

For the last 30 years, we have been led to think that growth was essential, that it was the best way to measure human progress. We were persuaded that unregulated free-markets were the most efficient way to allocate the world's resources. We thought that globalisation was advantageous for everyone, despite the unequal way in which the benefits accrued. We believed that big businesses and big banks would behave benevolently, and in our interests, just as long as they were free from government interference.

These wrong-headed ideas have failed. They have allowed economic power and wealth to become shamefully concentrated, with the combined wealth of the 793 richest people equal to that of the three billion poorest. They have encouraged us to squander the world's resources by underpricing them. They have supported business efforts to outsource production, undermine local employment, exploit workers overseas and pollute the seas and skies without any care.

We don't need any more of this sort of economic medicine, we need a different sort. We need new economic doctors, people with different ideas and a different approach. We need to return to something more like Adam Smith originally intended.

In classical economics, companies and societies are expected to think about the long term. Consumers should pay the full price for what they buy, not be subsidised by the environment and future generations. Markets should be regulated when necessary and scarce resources should be protected. The gap between rich and poor should to be managed. For Adam Smith, essential elements of economics were fairness and justice.

We need to dispense with stimulus packages and plan instead for government cutbacks, reduced consumer spending and tax hikes. Developed economies need to be pruned back until they are viable. Those who have gained too much need to be squeezed so that their gains are put to better use. Unearned income from speculation needs to end.

To be successful, we also need to change Western attitudes. Citizens have to accept that the level of economic activity of the past was neither normal, nor sustainable. It was a debt-fuelled bubble, a freak of economics, which carried consequences.

But we can look forward to something better in the end. A more socially balanced and sustainable society. A world where resources are properly valued, where products last longer and the gap between rich and poor is much narrower than today.

Ditching the ideas of modern economics is the first step on the road to a better world.

Graeme Maxton's latest book, *The End of Progress, How Modern Economics Has Failed Us*, is published by Wiley. It has been nominated for the Financial Times and Goldman Sachs Business Book of the Year Award 2011.