



## ‘How Modern Economics Has Failed Us’ New Book Examines the ‘End of Progress’

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**GUEST AUTHOR BLOG:** by Graeme Maxton author of, "**The End of Progress: How Modern Economics Has Failed Us.**"

Adam Smith would not have liked modern-day economists

For someone now seen as a corporate libertarian, **Adam Smith's** views on company profits might come as a shock. Even more surprising would be his views on the sort of free-market economics we follow today.

Adam Smith, the father of economics, was a canny Scot who had a strong belief in free-trade. He thought that businesses should be free from regulation too, or at least mostly free.

**But Smith was also a moral man.**

Before he took up economics, he was a professor of moral philosophy. He approached economics with a deep sense of right and wrong and talked about the need to maintain the 'laws of justice' in all things. Efficiency was important, but so was sustainability. With freedom came responsibility. Freedom did not mean that we could ravage the planet for short-term gain.

It did not mean that mortgage salesmen could sell loans which would force the borrowers into penury. 'Freedom', in the enlightenment sense, always carried a responsibility to others and to society.

Smith also believed that wealth should not just benefit the individuals who created it but wider society too. So he thought that the rich should be taxed more than the poor. He also said that profits should not be too high. If they were, he said, ruin would soon follow.

“The rate of profit ...is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin.” (*An Inquiry into the Nature and Causes of the Wealth of Nations, bk.1, ch.11, conclusion.*)

In Smith's sort of economics, profits were defined as returns sufficient to maintain a business long term. If they got too high, he believed that the invisible hand would ensure a stiff doze of competition brought them back into line. This was in everyone's interests because excessive profits act against social harmony. They increase income inequality.

We have abandoned Smith's sort of economics. In the technology and many other sectors, companies have generated huge profits because of a lack of competition. In the finance sector,

profits have been excessive because of a lack of regulation.

Moreover, many of the financial institutions that have made the Western economic world so unstable in the last few years, have made their profits from speculating. They haven't just made excessive profits, they have not added any economic value either. The same is true of the trading houses, commodities brokers and property developers. Some of the big investment banks regularly make more than \$100m a day simply betting on the market. They gamble—but fiddle the outcome in their favor.

With so many financial and economic problems facing us, we need to ask ourselves some fundamental questions again.

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**Graeme Maxton**  
*Author, "The End of Progress"*

- What do we mean by the free-market?
- What do we want our banks and businesses to do for us?
- Do they carry some sort of social responsibility?
- Should economic growth be a goal or a consequence?
- Are we happy that many of our biggest industrial sectors are dominated by a just handful of companies?
- Is it acceptable that many of the largest companies in the world make their profits from gambling, rather than supporting economic growth or financing business development?
- Are we happy to weather the damaging social, economic and financial instability that this periodically creates?
- Are these the sorts of businesses which we want to encourage or restrict?

It's time we thought again about modern economics and what it means. It is what Mr. Smith would have demanded.