

THE END OF PROGRESS



How Modern Economics
Has Failed Us

GRAEME MAXTON

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*Aufklärung ist der Ausgang des Menschen aus seiner
selbstverschuldeten Unmündigkeit.*

*Enlightenment is how humanity can escape its
self-inflicted immaturity.*

Immanuel Kant

*For my dear Bernice (aka Mitzi),
who was the inspiration for this book.*

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Graeme Maxton
Singapore, 2011

I

IT'S ABOUT YOU—YOU ARE RESPONSIBLE TOO

No society can be flourishing and happy, of which the far greater part of the members are poor and miserable.

Adam Smith

We should all feel a sense of embarrassment. Humanity has finally evolved to a point where our species is moving backwards. We are destroying more than we build. Every year the world economy grows by about \$1.5 trillion (or a thousand billion). But, every year, we devastate the planet to the tune of \$4.5 trillion.¹ We have officially moved into reverse, laying waste to more than we create.

Even so, most of us have grown sanguine about such statistics.

We all know that humankind has some problems. But then, there are bound to be difficult consequences for the planet when there are seven billion people in the world. So many of us ignore those and comfort ourselves instead by focusing on the counter-balancing evidence of our progress.

We have certainly achieved much in recent decades. More people enjoy more freedom and opportunity today than at any time in history. Life expectancies and standards of nutrition are higher in most parts of the world than ever before. There is more openness for trade between peoples. We have benefited from some of the fastest, most sustained economic growth for generations.

More people are educated to a higher level than in the past, and millions have been lifted out of absolute poverty. Women's rights have dramatically improved in many parts of the world and are now far removed from where they once were. Human rights are stronger too, with slavery mostly abolished, and the right to say, do and act as you will, greatly improved in almost all countries during the last thirty years.

The environmental damage we are causing is worrying, of course, especially when it is changing the climate. But what else can we expect? Transforming the planet is a consequence of our development. Pollution, deforestation and blighted landscapes from resource extraction are some of the negative effects of humankind's progress.

Moreover, a great deal of the destruction we have wrought is likely to be short-lived. Look at Europe. Much of the continent was once covered by forests. Yet their destruction hundreds of years ago had little effect on the world. More recently, coal-fired homes and factories in the United Kingdom (UK) created an air so toxic that it shortened the lives of millions. But we learned how to solve that problem and the air quality is now better. Or look at the United States (US). Some of its rivers were once dead, completely without life, because of industrial effluent. But they recovered. And, while humankind may be killing off thousands of species, we don't seem to be suffering any ill effects. We did not need the dodo. Why are tigers any different?

As for resource extraction, what else can we do? We need raw materials for growth. We cannot progress without digging metals and fossil fuels out of the earth. To stop would be to deny most people on the planet the chance to get rich, the chance to live in healthy modern societies. Reducing the pace with which we dig for coal or mine for oil would condemn billions to poverty for longer. Besides, by the time the oil has gone we will have developed a replacement, a hydrogen- or solar-based society, which is entirely pollution free. Invention is the nature of humankind.

Similarly, we know that there are food and water shortages in many parts of the world. More than one billion people live without enough to eat. But we can surely solve this problem too. Let's not get carried away by the ideas of the Reverend Malthus, and

his gloomy predictions of global famines because of insufficient food. He was wrong 200 years ago and he is wrong today. We can genetically engineer better crops, improve yields and desalinate the seas.

Yes, we are destroying more than we create. It is a consequence of our existence. We will find an answer. Just as we always have, won't we?

Unfortunately, planetary destruction is not humankind's only big challenge.

We have huge financial worries. Because of the economic crisis in the US and Europe in 2007, many of the world's largest economies are bust, laden with debts so large they cannot be repaid. Despite trillions of dollars of emergency support, the global economy remains dangerously unstable, with a bumpy path ahead.

Socially, there are signs of trouble brewing. Financial inequality is rising. The gap between rich and poor is wider today in most of the world than for decades. In the US it is wider than it was in the 1920s. Billions of people around the world are becoming fatter and less healthy. In much of the developed world, standards of education are falling.

Fundamental democratic ideas are also being corrupted. Many of our politicians seem to be mostly motivated by profit and the thrill of being in power. Few voice a desire to bring us a better life and give us hope for the future; few encourage us to raise our sights. There is little moral or social ideology behind their chat-show rhetoric and newscast sound-bites. As a result, millions of voters throughout the West have become bored and apathetic, uninterested in the systems that make our world tick, caring little about the principles at stake. We have even returned to an age where we fight wars about religion, just as we did hundreds of years ago.

More worrying still, the pillars of liberty are under assault too. With so much snooping by governments of many countries in the name of security, we are steadily undermining long-preserved notions of freedom.

Most troubling of all, few real solutions are being proposed to these problems. There is airy hope, a belief, that many of these difficulties are simply necessary for now; that it will be all right in the end; that humankind's innovativeness will somehow come to

the rescue. We will find a replacement for the world's oil when it is gone. We will somehow pay back all the debts. We will invent new ways to feed the world. We will restore hard-won legal rights when the war on terror is over.

There is, however, little substance behind these thoughts. We lack a clear plan or timetable to address the multitude of issues we face. Instead of focusing on material progress, we think instead about material gains.

Most critically, we are ignoring one vital element: many of these troubles are closely interlinked; they have the same cause. The resource shortages, the financial troubles, the political and social problems are all the result of changes we have made to the way we think about our world. And almost all of these changes have happened in the last thirty years. We have abandoned many long-cherished ideas, almost without noticing.

The environmental destruction, debts and food shortages are the price.

To understand what is happening and why, we need to go back more than 200 years to the time of the Enlightenment. We need to return to the theories of Adam Smith, the father of modern economics and one of that age's greatest champions. His ideas about the free market and the "invisible hand" lie at the heart of most Western societies, as well as many others. They are at the core of our economic world. They are also at the center of almost all of our problems.

During the last thirty years, we have taken many of Smith's principles and trashed them. We have invented, instead, a new and distorted set of ideas with which to run our world: these are the source of many of our difficulties.

Since the late 1970s, wily politicians and wooly-headed academics have persuaded us to forget many of the ideas that lie at the foundations of Smith's theories. We have been encouraged instead to cling to the labels he used, without really understanding their meaning. We have warped his ideas, as well as other enlightenment principles—including those of democracy, social responsibility and justice—to suit our own ends. We use the same words as enlightenment thinkers, but our understanding of what these words mean

has changed. Like mutated genes, we have found meanings far removed from the original intent.

Smith's principles were about more than economics; they were about more than the free market and the invisible hand. In many ways his thoughts and opinions embodied the whole of the Enlightenment age.

The Enlightenment was a time of dramatic intellectual, social and political progress. It took place in the eighteenth and early nineteenth centuries, mainly in Europe and America. Influenced by the American and French Revolutions, it encouraged people to think that they could challenge convention and question authority. As one of the foremost thinkers of the time, Immanuel Kant, put it, the Enlightenment was “daring to know.”

The Enlightenment brought us modern science. It brought us reasoning. After the centuries when the Western world had been dominated by the church, the monarchy and superstition, it encouraged and stimulated discussion about the meaning of personal freedom and democracy. Notions about republicanism led to the Declaration of Independence in America. Enlightenment ideas were the source of later concepts concerning liberalism, sexual equality, meritocracy and the right to privacy. The Enlightenment was a seed bed, planted with new ideas that grew to create a giant forest of thoughts, sustaining us for generations.

The Enlightenment was about more than ideas though. It was about transforming values, with the opportunities for improvement open to everyone. It led to reforms in education and to the establishment of libraries where people could access books: magazines, journals and public lectures encouraged debate. In France, a thirty-five-volume encyclopedia was published with the aim of changing the way people thought. With more than 70,000 articles written by some of the foremost thinkers of the time, the books were an attempt to refresh the minds of citizens about their purpose, their world and their lives. Their authors aimed to destroy superstition through reason and give everyone access to scientific knowledge and modern ideas.

It is hard to overstate the importance of the shift in thinking that the Enlightenment brought. It is the foundation of almost all modern Western political and intellectual culture.

It was within this world that Smith developed his ideas. The foundations for his theories lay not in economics but in moral philosophy. In all his thinking there were principles of justice, tolerance and fairness that needed to be upheld.

During the last three decades we have banished many of these principles to the fringes, or trampled them underfoot. We have abandoned many of Smith's core beliefs. We have demoted notions of justice and fairness, promoting instead simplified ideas of individuality and unrestrained market freedom.

Such changes are behind the financial crisis in the US and Europe in 2007 and are the reason many of our societies are increasingly divided. Modern economic thinking has led us to under-value our world, accelerating the pace of planetary destruction. We mine lands to fuel factories, to power cars and illuminate homes. But we price the world's resources at the cost of their extraction plus a share for some profit, and no more. We ignore the costs that will be incurred by future generations when the resources are gone, or the environmental damage we cause by digging them up and using them. We use the world's raw materials on the cheap, leaving others to pay much of the cost. We think primarily about short-term profit and less about long-term social gain. This does not reflect the ideas of Smith. It does not follow his principles of economics.

Such wrong-headedness has also allowed other Enlightenment principles to fade.

Instead of raising the sights and ambitions of our peoples, as the French encyclopedia tried to do, we have allowed a cult of celebrity, a hunger for pointless brands, and a belief that information is knowledge to constrain our thinking. By ignoring Smith's ideas about social fairness, we have dismissed widening income inequalities as if they do not matter. Yet they are unsustainable and dangerous, the stuff of revolution.

Unless we take a different path, we will have to wave goodbye to social order but will be able to welcome instead an age of lesser plenty, of fewer rights and greater conflict.

Unless we cease squandering our most precious resources, many poor countries will never be able to industrialize. They will be plundered of the means to develop by China and the West: their oil reserves sucked dry, their forests gone and their coal

seams scraped clean. No amount of innovativeness or human ingenuity can replace many of the world's resources when they are gone. Optimistic modern-day economists need to have a chat with their colleagues who study the hard sciences if they are in any doubt. There are laws in the world of physics and chemistry, and unlike those of economics, they do not change. We cannot simply manufacture new supplies of copper, zinc or oil when the existing ones have gone.

Modern economic thinking has given us false goals, demanding growth for its own sake, encouraging a mania for consumption that requires the planet to be laid waste, exploited for our convenience.

In return, we were persuaded that progress would come along for the ride. We have experienced fast economic growth, for sure. But we have also created a world that is unstable. In many places, for the first time in centuries, we face falling life expectancies. We risk battles about food, water and oil as resources decline. We face strife over political ideologies and the rise of nationalism.

We were persuaded that there were no limits to growth. We thought we did not have to care about the consequences of our actions. We believed that the responsibility to borrow money within our limits, or the obligation to use the world's resources considerately was for others.

As we are about to learn, that was wrong.

Endnote

1. The Economics of Ecosystems and Biodiversity (TEEB), "Mainstreaming the Economics of Nature": a synthesis of the approach, conclusions and recommendations of TEEB, October 20, 2010. US Census Bureau.

PART I

OUR BELIEF IN THE
FREE MARKET
FAILED US
