

*From the Desk of..**Graeme P. Maxton*

Author and Speaker on The World Economy and Asia

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Graeme Maxton - Modern Economics Has Failed Us

Graeme Maxton is the author of a new book *The End of Progress: How modern economics has failed us*, in which he raises fundamental questions about humankind's direction. Is the unrelentless pursuit of growth a road to nowhere?

Economic growth. Is that it?

Why are we all here? It is a difficult question to answer, and has troubled philosophers and thinkers for centuries. Thankfully, modern-day economists seem to have found the answer. Better still, we have all accepted their conclusion.

The purpose of life is to consume.

The reason we exist is to buy washing machines, shoes, fancy handbags and flat-pack furniture. And, the more we buy, the better. The more we buy, the more we can produce. The more we produce, the more jobs there will be. With more jobs, will come more spending. Then comes more economic growth. This is the path of progress, we are told.

Yet all this runs counter to the laws of proper, classical, economics. Moreover, it has created a world which is becoming socially and economically unstable. The problems created by our obsession with growth and consumption are coming to a head.

Modern economics has encouraged us to focus on the short-term. This has allowed businesses to think that they should maximise profits regardless of the longer term consequences. So they outsource production to cut costs, extract resources on the cheap and pollute rivers and the atmosphere without much care. They have done this to make a bigger gain today, to grow ever faster. Yet the unemployed, the environment and future generations are paying part of the price.

“Growth for the sake of growth is the ideology of the cancer cell.” It’s time we found a cure.

Moreover, our mania for growth has actually made a lot of people miserable. Although it lifted hundreds of millions in the developing world out of absolute poverty for a while, the financial crisis pushed them right back where they started. Even in the developed world, many of the rewards of our modern economic system look more like penalties: a mountain of debt, the rise of undependable low-grade employment and widespread obesity. The gap between rich and poor is now wider than it was in the 1920s in many countries. As governments cut taxes to attract investment, millions are being denied access to healthcare, infrastructure is crumbling and educational standards are falling. Citizens in much of the world have been abandoned, left with the airy hope that the free-market will somehow come to their rescue. But it hasn't.

The ideology of the cancer cell

Without change, we are heading for trouble. We face government defaults and a rise in personal bankruptcies due to the flood of borrowing. We face resource constraints within a few years, especially of oil and water, due to their over-use and over-population. And we face declining life-expectancies due to climate change, food shortages and overloaded healthcare systems.

Eventually, we will face conflict too. Tensions will rise between countries over the resources that remain while those who live in the developed world will eventually revolt against

the injustices they are about to experience in ever harsher ways – higher prices for the items essential to their lives, falling asset values and evaporating savings, with once-promised pension and healthcare payments denied.

Some of these consequences cannot be avoided. But we can manage them better and we can still change direction. But we need to realise that we cannot simply patch the existing economic system as we have been doing. Something more fundamental is necessary. At the core, we need to rethink our notions of progress. Growth for the sake of growth is the ideology of the cancer cell.

Classical economics says that companies and societies should think about the long term. It says that consumers should pay the full price for what they buy. Almost everything we consume today is too cheap, subsidised by the environment, and our grandchildren. It says that markets should be regulated when necessary and that scarce resources should be protected. It says that the gap between rich and poor needs to be managed, that we should seek the greatest benefit for the greatest number of people, not encourage individual greed. In Adam Smith's *Wealth of Nations*, the book that lies at the root of the discipline of economics, the 'wealth' in the title does not refer to monetary wealth. Smith's book is not about how countries get rich. It is about how they can improve the well-being of their ordinary citizens. Smith believed economics was about how society could achieve prosperity and progress. Essential elements of this were fairness and justice.

Modern economic thinking has made growth a goal, not a consequence. It has under-priced the world's resources, promoting waste, excess choice and a throw-away mentality focussed on short term objectives. It has encouraged under-regulation. It has provided a dream to those living in countries like China and India that can never come true. It has made it impossible for many other developing economies to progress. As a consequence, it has overvalued our future –our investments, our companies, and our assets.

It is an economic system which is unsustainable. Eventually those who are disadvantaged, those who suffer most, will rebel against the injustices, which will grow with time. They will become attracted to extreme political parties

promising social balance or they will rise up in revolt. Moreover, it is wrong for us to use up most of the world's resources in a few generations without pricing them correctly, wasting them without taking any responsibility for the consequences. We have a duty to our grandchildren too.

All these problems will be resolved of course. It is how they will be resolved that is the question.

We can probably find a way to muddle through the financial troubles and the coming oil shortages. For millions of us there is little risk of famine, poorer health or shorter lives. But for hundreds of millions there is. These people will have to change their diets and live less well. We can probably only improve yields to manage food shortages, to ease their suffering.

“A wise man does not look upon himself as a whole, separated and detached from every other part of nature. He considers himself as an atom, a particle, of an immense and infinite system”. -- Adam Smith

Much thought also needs to be given to dreams and expectations. Billions of people will have to lower their hopes for their futures—and substantially. They will need to accept that the living standard their children can expect will be no better than theirs. It may be worse. Many developing countries will have to accept that they have been condemned by the current system, that they will

never become industrialized nations as they once hoped. Similarly, places such as China and India will have to accept that the majority of their citizens will never achieve the standard of living of the West today.

We can create a world that makes fewer demands on the earth's natural resources, not more. We can find diplomatic answers to the sources of conflict between the world's peoples. Calm talking can remove the need for guns, home-made spears and missiles.

It is comforting to think that this is what will happen. It is better to see that sort of future than anything more bleak, which would only induce insomnia. So we all hope there will be a transition to a better system, a muddling through, and that everything will be all right. That the challenges we face will not change our lives very much.

But they will. Even without conflict and famine, billions of us will have to modify what we do, cut the resources we use, and change what we value. We will have to change our lives, whether we want to or not.

Those who embrace the changes will find them hard. It will require a different way of thinking from today, a new way of seeing the world and our relation to it. For those who resist the changes, and that is likely to be the majority, the transformation will be tougher still.

You and me

Addressing the challenges will need cooperation, consensus and leadership. It will need your participation too, and mine.

We all have a responsibility for where humanity stands and for where it is going. It makes no sense for us to complain about inequality, about the world's resources being squandered, and about the debts that await our grandchildren, without responding.

We can start by becoming less accepting. We should be more sceptical about the modern economic model we have followed, with its promises of endless growth fuelled by consumption and debt.

Too many of us believed that growth was good, that it was a valid measure of human progress. We believed that unregulated free-markets were the most efficient way to allocate the world's resources. We believed that globalization was advantageous for everyone, despite the unequal way in which we knew 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.

As well as blaming ourselves for such foolishness, we should blame the economists for their sloppy thinking and the politicians for selling us such twaddle. Our belief in these wrong-headed ideas has allowed economic power and wealth to become concentrated in the hands of a few people and institutions. We have sat back and watched, while a small minority have consumed far more than their rightful share of the world's resources to gain far more than their rightful share of the world's wealth. The combined wealth of 793 richest people is equal to that of the bottom three billion.

We also need to ask ourselves what life is about. It is not about consuming, about accumulating money and about growth. There are a vast array of other pursuits that can fulfil us—social, cultural, intellectual and spiritual pursuits—which do not drain the planet of its resources or promote disharmony. We need to take control of our future, to create just and sustainable societies.

We need to develop an economic model for the future that is not held captive by the free market, by consumption and by growth for its own sake. We need to think differently about inequality, poverty and population. We need to think about how we can restore the bonds of good society. We need not abandon free market economics entirely—but we need to ensure that our economies are managed to meet our needs—all of our needs.

About Graeme Maxton and The Insight Bureau

Graeme Maxton is an author and commentator on the world economy and Asia. He is a free-lance contributor to *The Economist* and a popular speaker at business and investment events as well as a presenter to Board meetings and management/strategy gatherings. He also chairs and moderates business dialogues at international forums. His latest book, *The End of Progress*, has been nominated for the FT/Goldman Sachs 'Best Book about Business' award 2011. It will be published in Asia in July and available in Europe and the US in September.

www.insightbureau.com/GraemeMaxton.html

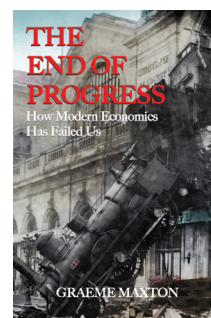
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www.insightbureau.com

Tel: +65-6300-2495

engage_us@insightbureau.com



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