The Case against Endless Economic Progress

Of madmen and economists

BY JOHN HOWARD WILHELM

> Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist.
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> Mathematics brought rigor to Economics. Unfortunately it has also brought mortis.
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> Economists are like computers. They need to have facts punched into them.
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> **—Kenneth Boulding (1910-1993)**

When I finished reading Graeme Maxton's book *The End of Progress*, I e-mailed Andrew Evans, the Chairman of the Modern Whig Party, with others copied in under the header "A Must Read on Peak Oil, Etc." In the text I wrote that I "would like to urge you to make an effort to read the book and to urge others to do so as well." The great bulk of the book is an analytical description of the situation we face with peak oil, resource exhaustion, population pressures, and our financial crisis. As such, his book summarizes concerns that have been expressed over the years in numerous articles published in *The Social Contract*.

In my judgment, the analytical part of the book is outstanding in the extreme. The concluding section — Chapters 13 and 14 on our response to the problem — is as poor as the rest of the book is outstanding with the exception of Chapter 15, "You, You Have a Role Now Too." (After writing the above, I reread Chapter 15. It is an excellent and important essay in its own right.)

In this note I want to summarize the book and then discuss some issues it raises in more detail. A good proportion of these are along the lines of some discussions my friend and fellow economist, and frequent contributor to *The Social Contract*, the late John Attarian, and I had had over the years.

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The best summary of the book and its arguments that I can give comes from the blurb on the back part of the front cover of the book's dust jacket:

> To fuel our economic growth, we scrape the planet of its resources, laying waste to more than we build. We do this to satisfy our desire for consumption, to spend ever more. To finance this, many people have borrowed more than they should. So millions have become burdened by debts, income inequalities have widened and many governments owe more than they can pay.

The End of Progress:
How Modern Economics Has Failed Us
By Graeme Maxton
Wiley, 2011
256 pp., HB; $29.95

> *All this is the fault of modern economic thinking*
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> Wrong-headed economics was the cause of the financial crisis. It has brought us a mountain of debt. It has encouraged us to waste the world's resources without much thought for the consequences. It is behind the rise of individualism and the weakening of many democratic principles. It is the cause of over-population. It has provided China and many other developing countries with a dream that cannot come true. It has even warped our idea of charity, social responsibility and progress.
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> Without a rethink, we face the end of growth. We face the end of progress. We face more poverty, greater conflict and rising ill health. Life expectancies will fall, as will standards of living.... We need to ditch many modern economic ideas. Notions about the free market, competition, regulation, and trade need to be reconsidered. We need a different mea-

sure of progress. We need to put ourselves, our societies, back at the core of what we want to achieve.

In his *Economism and the National Prospect* (AIC Foundation, 2001) and elsewhere, John Attarian argued that as a profession economists (he would call them economites) often suffered tunnel vision and frequently could not connect many of the dots in complex economic situations. On the back cover of his book's dust jacket, Maxton is described as an economist. But despite that, he has written a book that in many positive senses would not be unlike what I would have expected from John Attarian had he still been alive. But having said that, there is one aspect of our current economic situation which Maxton failed in his book to connect the dots on. And that is, as Jeff Rubin pointed out convincingly to my mind, that our current economic crisis was initiated by the oil shock we experienced in 2007-2008 (see his *Why Your World Is About to Get a Whole Lot Smaller*, Random House Canada, 2009). In a 2004 piece he shared with me, Attarian argued that we would hit peak oil during the following presidential term, Bush's second, with serious economic consequences that we are clearly now experiencing.

With the arrival of peak oil, the maximum physical output of conventional oil, which even the International Energy Agency in its 2010 report acknowledged, the typical Keynesian response to a serious economic downturn like the current one is no longer a feasible response, especially given the huge and rising government debts in the Western world. This is an important point that Maxton makes in his book, but on somewhat different grounds. With our budgetary and energy constrains, growing our way out of our current situation by fiscal and monetary stimulation is not a very workable prospect. On this score those like a Martin Wolf in the Financial Times and a Paul Krugman in the New York Times would do a great service by reading Maxton before writing again on economic policies under current circumstances.

As a concerned economist, I agree very strongly with Maxton that economics as a discipline has become quite dysfunctional as a guide to policy in the last 30 years. Maxton's explanation for this does not really satisfactorily explain why, thought it is important to understand. My explanation would involve four considerations.

First, I would identify as an important culprit the rational expectations hypothesis and efficient market hypothesis which due to the efforts of the likes of a Robert Lucas and Thomas Sargent, two Nobel winners, came to infest economics and contributed to our current economic misfortune, as Maxton realizes.

Second, I would point to, as part of that, the mathematization of economics that has contributed to the type of mathematical malpractice that has infested the "rational expectations revolution in economics" that engendered modeling so divorced from the real world's economic record.

Third, as a result of this, I would identify the declining attention given to studying and teaching economic history as well as the dropping of courses on the history of economic thought. And finally, I would identify what John Attarian labeled economism as a serious culprit. In discussing solutions to the problem here, which clearly Maxton sees as serious, he does not really adequately discuss what we need to do to correct this or the other problems we face.

There were a number of suggestions in the latter part of Maxton's book on which I suspect many Americans would not agree such as a 100 percent death tax. But leaving such things aside, Maxton does make the point in his final chapter that we also have a responsibility to think about what we can do to improve the situation we face, which he clearly realizes will entail more active government involvement. If the country is to face the real problems that concern Maxton in the years ahead, it is important for us to open up our political processes to responsible third parties and third party candidates who have the courage to tell the American people what they really need to be told, as opposed to our current presidential aspirants for 2012. On this score, as I would judge Maxton realizes from an e-mail exchange with him, we sorely need to look at the issue of voting reform to level the electoral field for third parties. It is unfortunate that Maxton did not discuss this issue explicitly in the last chapters of his book because this is one issue that he and others with his concerns need to deal with in future. Our two party system is seriously dumbing down our electorate, and we need to do something about that. ■