

Taming the Debt Monster

By John Peet

Financial markets around the world are trying to adjust to the momentous stresses evident in the US and Europe. In NZ, economic forecasts don't look particularly good. Debt and interest payments will increase as a result of more borrowing, but the borrowing will allow economic growth and that is what we all want, isn't it?

Will these policies work? There are two sides to a response to that question. Side A says economic growth is undermining the very ecological systems that not only support life on the planet but also are the foundation of the economy, and for that reason it is not sustainable. Side B says failure to grow the economy risks social and political instability. Both are probably correct.

This creates a dilemma. By definition, there is no simple escape from a dilemma. The usual approach is to accept one side as fixed and try to change the other. Politicians have chosen largely to accept Side B and concentrate on economic growth, trying to maintain ecosystem health while population and consumption increase. This is done via economic ideas that depend upon two core beliefs.

Belief 1 enables social, environmental and resource issues of Side A of the dilemma to be largely ignored (as "externalities"), and Belief 2 enables social issues to be addressed by assuming people behave as robotic price-driven "consumers". This policy has been adopted by all NZ governments in recent years.

These core beliefs have to be rejected in any scientifically-based economics for a sustainable future. The perspectives of mainstream economics and modern science are actually in fundamental conflict, despite many assertions to the contrary.

Real goods and services are always physical, and if their total quantity grows and they are exchanged for money in the marketplace, the quantity of money can grow too, and debt together with interest can be repaid. The resource and waste implications of their production also grow, of course. This is because supplies of energy and resources and their transformation into goods and services are subject to the laws of physics.

Over the last couple of decades in particular, debt-based money supply has grown vastly more than the increase in production of real goods and services. Going into debt increases consumption in the short term, on the implicit assumption that it will all come right through economic growth.

Banks were largely freed from government controls a couple of decades ago and soon money had become a commodity, with trading in debt and derivatives an industry in itself. Debt grew massively, and the house of cards collapsed in 2008. It is at grave risk of collapsing again, as recent events in Europe have confirmed.

The real costs of key resources and of pollution are now rapidly increasing, at the same time as people and nations are being encouraged to increase their demands for goods and services via easy finance. In the end, however, money is still a claim on future consumption – an IOU in effect - so when it is spent, the physical and resource connections kick in. Mother Nature doesn't do bailouts, so printing or borrowing money simply builds up resource problems for the future.

A central issue here is that the mainstream has yet to learn that the much-vaunted productivity of developed nations is the result not of the magic of the market, human innovation, creative finance or some vaguely-defined “technology”. It is due to the magic of fossil fuels. Given that a barrel of oil can do the work of around 20,000 hours of human labour, such dramatic expansion of productivity is not so magical after all. Without cheap, mainly petroleum-based energy, the staggering economic growth of most of the last century just wouldn’t have happened. Given the unfolding realities of Peak Oil, and the inevitability of steadily-increasing costs for fuel, it may never happen again.

Belief in the inevitability of endlessly-continued economic growth has fuelled a monstrous confidence trick on humanity and nature that is a direct consequence of following misconceived ideas about prosperity and growth.

In order to build a strongly sustainable future, it is essential that we accept the primacy of safeguarding the health of the planetary ecosystems that give and sustain life - meaning that Side A is primary - and address Side B issues by means of a new economics.

Addressing Belief 1 involves adopting the same approach used by physicists and engineers 100 years ago, and incorporating the reality of limits and constraints. Addressing Belief 2 involves understanding the complexity of behaviour of real people, especially in families, groups and communities.

The Steady State, a term taken from physics and ecology, provides a framework for the new economics. In a steady state economy (SSE), resource use and waste generation stay within levels which can be supplied and absorbed indefinitely by the surrounding ecosystem. These in turn must be determined by good science and clear ethics determined by society. With advances in technology and social organisation, it is entirely possible to envisage further improvement in the health and happiness of people living in a SSE.

Overall, however, the world economy must cut back heavily in resource use and pollution. The main cuts must come from the wealthy, who use most of the resources anyway and have been relying on debt creation to use even more. The poor need at least enough to live decently, meaning that continued growth in inequity also has to be reversed.

We badly need good economics, but we also badly need a good scientific, technological, social and ethical basis for policymaking. It is high time for a nationwide conversation that is not afraid to challenge entrenched political-economic positions, and improves the standard of policy advice to a level capable of future-proofing this country.

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