Funding the Future

Why weâ€™re in a mess

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Martin Wolf has an interesting article in the FT this morning. In it he argues that:

The persistent fealty to so much of the pre-crisis conventional wisdom is astonishing. The failure of Keynesianism in the 1970s was significant but certainly no greater than the combination of slow economic growth with macroeconomic instability produced by the pre-crisis orthodoxy. What makes this even more shocking is that there is so little confidence that we could (or would) deal effectively with another big recession, let alone yet another big crisis.

What explains the complacency? One reason might be the absence of good ideas. The economist Nicholas Gruen argues just that in a provocative article.

Gruen's article is also worth reading.

But what's surprising is Wolf's next comment, which is to suggest that there are some good ideas, such as:

Some have argued for a shift from debt to equity finance of house purchases. Others have called for the elimination of the tax deductibility of debt interest. Some note the perverse impact of executive incentives. Some argue convincingly for higher equity requirements on banks, rejecting the argument that this would halt growth. Others ask why only banks have accounts at central banks. Why should every citizen not be able to do so? Some wonder why we cannot use central banks to escape dependence on debt-fuelled growth.

There are links in the original. And I can’t argue with many of the ideas in themselves. But are they the big ideas? The ones that will really rock the world? That will reorientate it on its axis so that 2007 is never on the agenda again, just as 1939 was no one's desire come 1945? I don’t think so.

Wolf is right that there is a poverty of thinking. So was the anti-Corbyn MP who was noted in the Guardian yesterday saying that the reason Corbyn had done so well was that Labour's right-wing ‘were shit’ at offering new thinking.

But isn’t the reason obvious? Since 1979 we have lived in a world where simplistic thinking has prevailed. So, the market is good and state intervention is bad. The West is good; the East was bad. Growth is good. By implication, constraint for the sake of the future is bad, even if not stated. Choice is a virtue. Single best solutions are bad then, even when better. And so on.

This is the depth to which our poverty of thinking has fallen. Supported by economics so crassly simplified that it has no relationship to the real world, this polarised pattern of thought, which would be the clearest sign of potentially severe mental ill health if it was not so ingrained in the collective psyche to have been normalised, is what has destroyed our capacity to think our way out of where we are now.

And I mean that: polarity, where the answer is ‘either / or” with only one preferred option acceptable for anyone to supposedly choose, is an indication of an era when thinking ceased.

It’s not just that we need new ideas in that case. We do need those ideas, of course. But we need a new lens through which to view them. Right now we are only presented with the lens of the market. Even Corbyn is doing that with his and John McDonnell's dedication to balanced government budgets Worse, we’re only presented with the lens of a market that cannot, does not and never will exist because it’s virtues can only ever be a theory never capable of translation to reality, even if that was desirable.

We have suffered from an era of Platonic thinking, where the illusion of a supposedly perfect, unreachable, form has led us down a very dark alley.

What we now need is a revival of Aristotelian ethics. We need to find the new Golden Mean.

The challenge we face is as philosophically basic as that.

And what would that mean look like?

It would search for economic truth based on observation, not abstract theory.

It would recognise what is good, including much of what the state does, and much of what business does too.

It would ask where the boundaries between state, market, communities, individuals and planet should be.

It would recognise our finite capacities.

It would recognise the dependency we all have on others, without exception.

It would value each other.

It would ensure each could tend in their own lives towards the mean so that they could be fully integrated into the society of which they are a member.

And it would view compromise as the greatest virtue.

That is the thinking we need.

Martin Wolf and centrist MPs aren’t there yet. But nor are the left or right.

And that’s why we’re in a mess.