TRANSCRIPT

Moving Beyond 20th Century Economics

Rohan Hazell:

What is the relevance of traditional economic theories in our rapidly changing world?

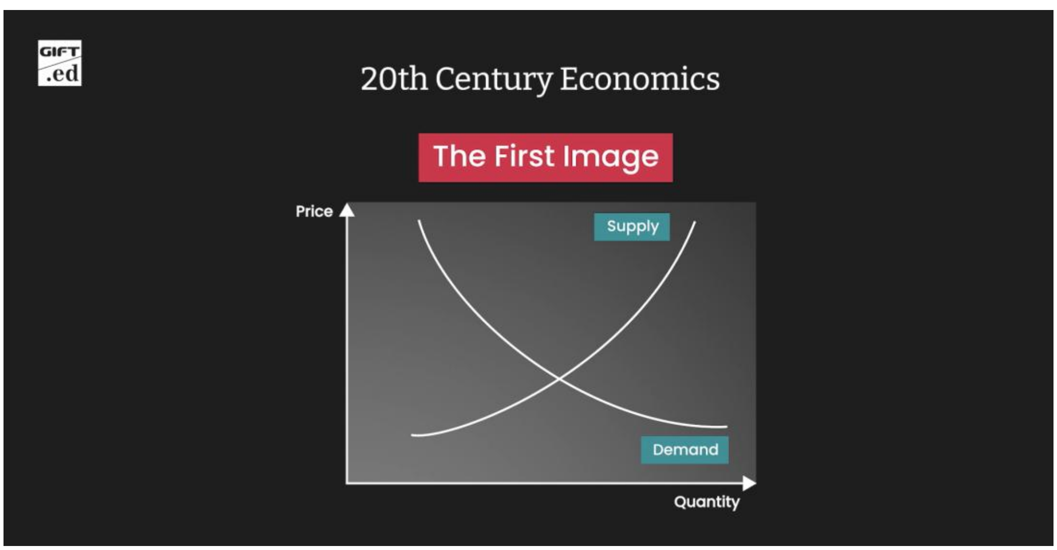
Kate Raworth, an economist from Oxford University, challenges long-held economic paradigms from the 1850s that remain dominant in today's economic discourse.

She explores why these outdated models are proving disastrous for contemporary societies, and expresses the need for economic systems that are regenerative and distributive by design.

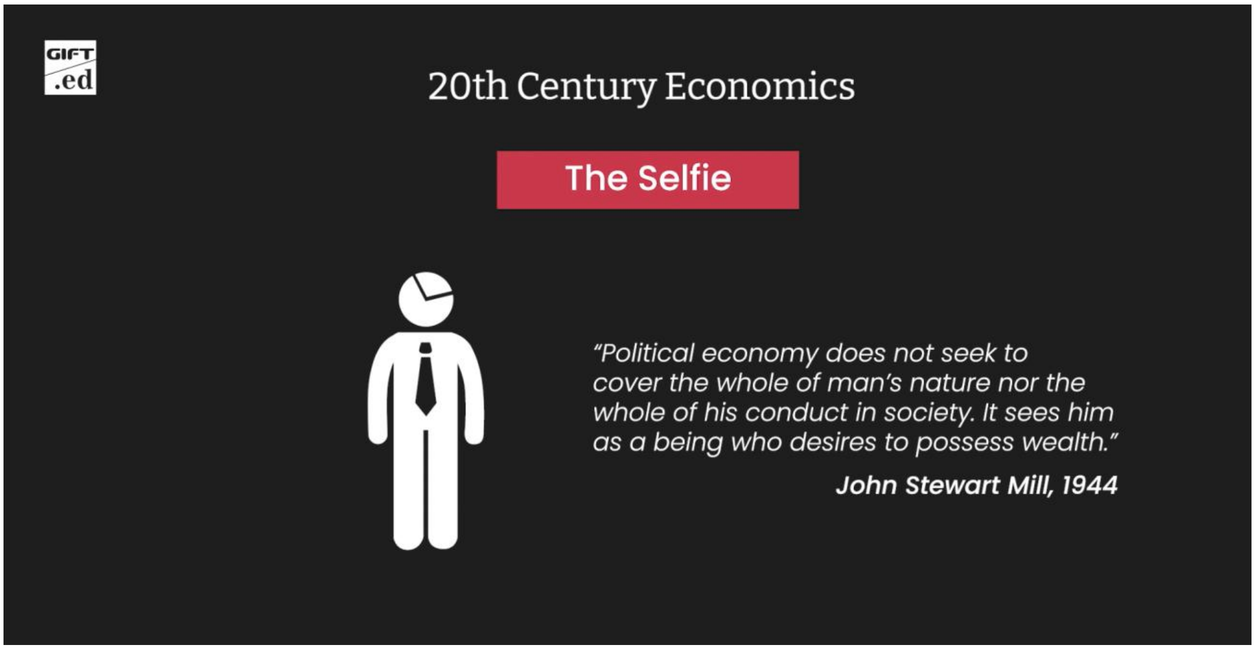
Kate Raworth:

I believe that the economics being taught today, still in universities, is based on the textbooks of 1950, which in turn are founded on the concepts of 1850. And for the students of today and the citizens of 2050, this is turning out to be a disaster. Let me tell you why.

I believe some core concepts still shape what I'm going to call 20th century economics. It's outdated and it's still being taught. Let's have a whirlwind tour of that old mindset that we need to leave behind, because whether we've studied economics or not, it shapes how we hear and understand the economy, because it's all around us.



So the first image that's taught is of supply and demand. It puts the market at the centre of our vision. It makes price the metric of concern. And this concept was actually derived by economists in the 1870s who wanted to make economics a science as reputable as physics. Like Isaac Newton had discovered the physical laws of motion. They wanted to create economic laws of motion. And so they talked about the law of diminishing return, the laws of supply and demand. They're not laws, these are invented. And they tried to say that just as gravity pulls an object to rest, so prices pull markets into equilibrium. No, they don't. Markets are booming and busting, and their complex is ever changing. But they created this image to give a sense of equilibrium and stability at the centre of this pseudoscience. We need to move beyond it now.

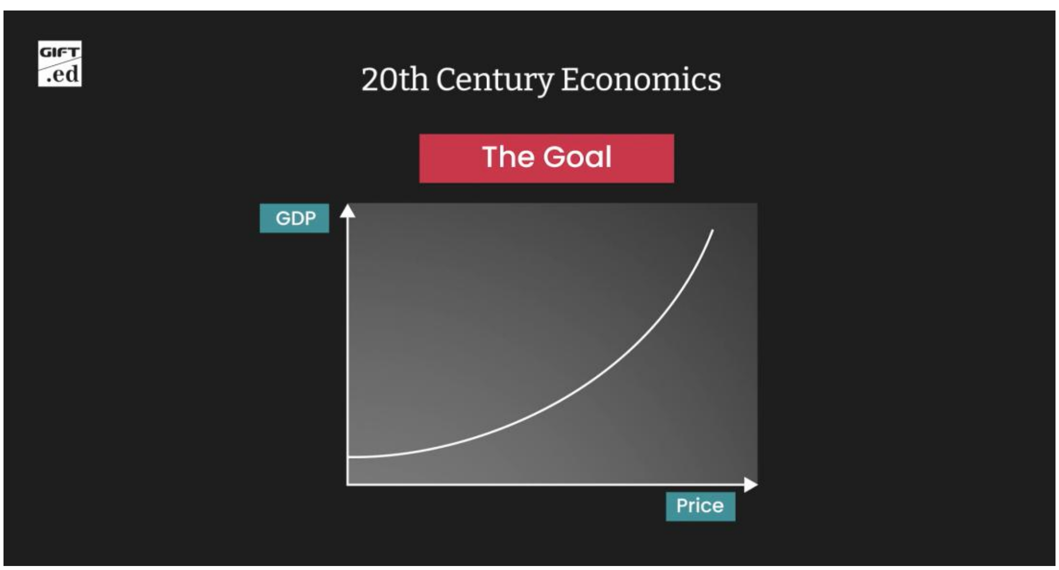


What about the portrait of humanity that they place at the centre of their economics? It's a character called rational economic man, first created by John Stewart Mill in 1944. He said, political economy, the name of economics in the day. "Political economy does not seek to cover the whole of man's nature, nor the whole of his conduct in society. It sees him as a being who desires to possess wealth."

You know, I respect John Stewart Mill in many respects, but this was a very unhelpful thing he did. By saying that economics is only concerned with humanity. As someone who desires to possess wealth, he created an absolute caricature of human beings, which has resulted in this character of rational economic man who sits in the heart of every microeconomic model today.

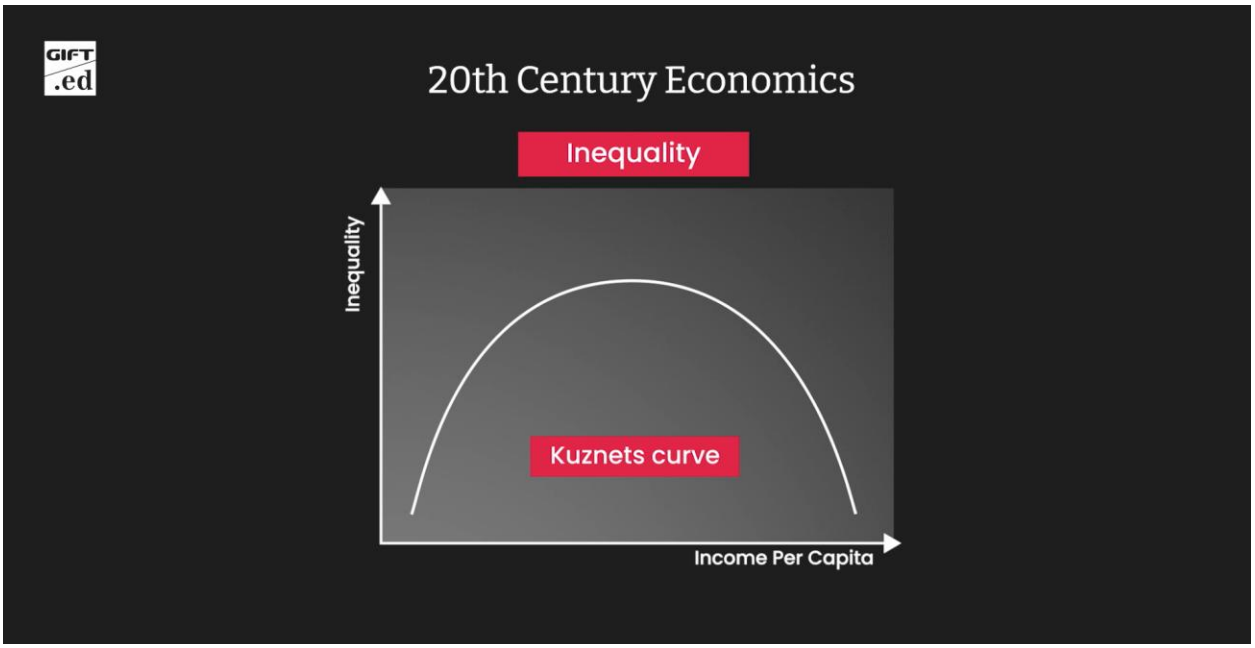
If I drew a picture of him, he would look like this. He would be a man standing alone with no dependence. He has money in his hand because he interacts with the world through markets. He has ego in his heart because he's driven by self-interest. So he has a calculator in his head, he's endlessly calculating the prices of everything, and he has nature at his feet, the rest of the living world as a resource for humanity.

Now, the real problem with this character is that when we are told he is like us, we become more like him. Students over time say they value self-interest and competition, not altruism and collaboration. So who we tell ourselves we are shapes who we become. And we need a new portrait of humanity. The last is the goal. And the goal put at the centre of our vision is endless growth, no matter how rich a nation already is.



I'm sitting in the UK, one of the richest countries in the history of humanity. And our government, our politicians and our economists all still deeply assume that the solution to this nation's problems lies in yet more growth endlessly. These we must leave behind.

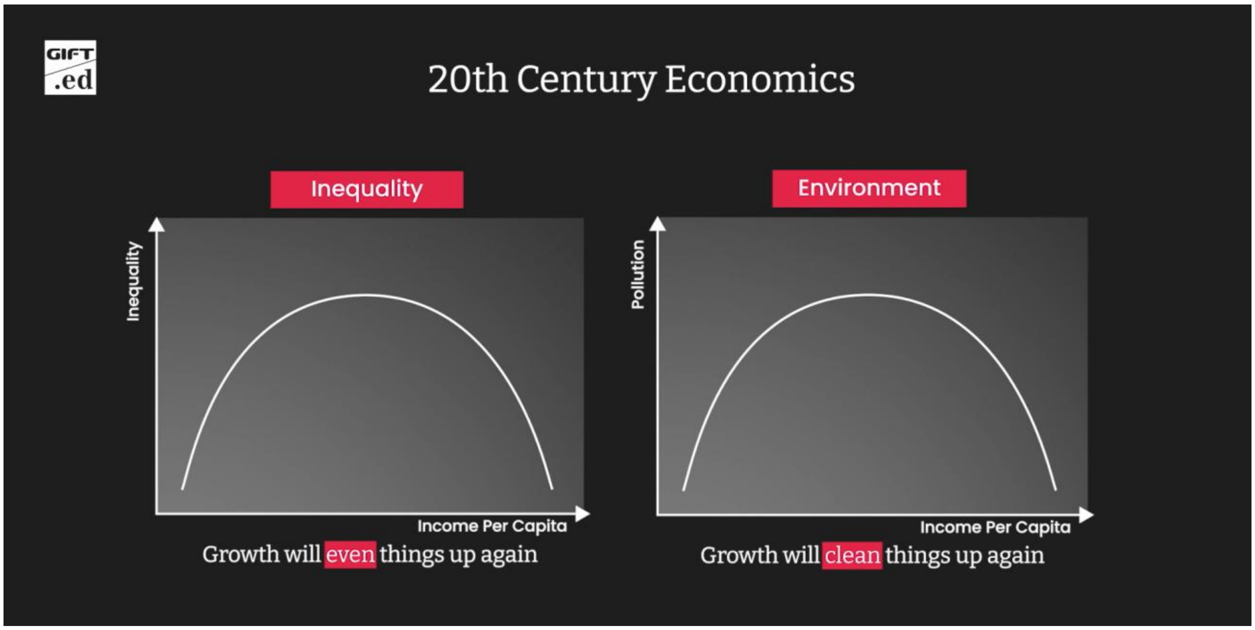
Let me add two more. I spoke about economists wanting to discover the economic laws of motion to prove their science. And two apparent such laws have been profoundly powerful and influential in policymaking. The first is around inequality. In the 1940s, brilliant economist Simon Kuznets put together data from the United States, Germany and the UK on what happens to inequality in those countries over time. And he was surprised by what he found. He found that over time, first inequality increased, but then it decreased. He didn't expect this. He thought the rich would get richer, not that the poor would catch up, but he plotted the data.



Somebody else drew it like this, an upside-down U curve. It became known as the Kuznets curve, after him. And it whispers out a very powerful message. If you care about inequality, don't intervene and try and redistribute wealth, because you might slow down growth. And look, growth apparently will even things up again. Only it doesn't.

In 2014, Thomas Piketty came along. He looked again at the data. He said, actually, Kuznets was measuring these countries before the wars and after the world wars. And war destroys the wealth capital of the wealthy and afterwards the government invests in health, education and housing. It was war that built this. It was war that turned this curve down. Not the inherent workings of the market, but the mantra of go through austerity together and tighten our belts and we'll come out better on the other side, has had a very, very long tail of influence. It's trickle-down economics that never trickles down, but keeps trickling up, as we see with the rise of a global 1% now.

In the 1990s, other economists plotted data on local air and water pollution. And they said, we think we see a pattern, that across countries, as they get richer, first pollution increases, but then it decreases. And they tried to explain it with improvements in technology, and that richer people wouldn't stand for pollution, and that companies became more efficient.



What they didn't have with their local data was global data. But now we have it. We have global data on carbon emissions and on countries' global footprints. And this curve does not bend down. Growth does not clean things up again. So to grow now and clean up later does not work.

Countries with high footprints and high carbon emissions, it tracks up and up and up. It takes a great deal of effort to even start trying to bend that curve down. So the idea that growth will even things up and growth will clean up after itself, are complete fallacies from the 20th century. And we must leave them behind and recognise that we need to create economies that are regenerative and distributive by design.

Rohan Hazell:

Globalisation and technological advancements underpin our modern civilisation, but they have also created 21st century challenges that cannot be resolved using 20th century approaches.

Today's economic models, policies and decision-making must therefore reflect the latest science, data and evidence, as well as a more nuanced understanding of the purpose of the economy.

Kate Raworth invites us to reimagine our economic identity, encouraging a shift beyond outdated models.