The Uses and Misuses of Economics: Reflections of a Recovering Economist

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Abstract

This lecture is a personal and political reflection on dominant economic theory and practice and the imprint it leaves, for better and worse, on our public policy. The lecture considers the price of the preoccupations and misapplications of economics in the 21st Century and its contribution to some of our more important problems.

In the context of the global financial crisis, in particular, economic theory has a lot of explaining to do. Economic theories, like markets themselves, make good servants but bad masters. And bad economics makes a bad servant.

As the self-proclaimed queen of social sciences for most of last century, economics has reigned supreme in the heights of government and public life. But blind spots, ethical vacuums and excessive hubris have led economics and economists to make awful mistakes.

The body of dominant economic thought has intimidated thinkers, leaders and governments. It has misled policy. It has contributed to a world which knows the price of many things that don't matter very much, while failing to recognise the value of a great number that matter a great deal.

This lecture will consider the implications of some of this for how we live, work and care for each other, and how we create sustainable lives.

I am going to talk about economics tonight. This is a lot to ask of an Australian audience on Melbourne Cup night. Thank you for coming.

I want to explore what I love about the field and some of the things that are wrong with it, that have resulted in some ugly gifts.

I am going to rely on three recent books in my contribution:

- Tim Jackson (2009) *Prosperity without growth. Economics for a finite plant*, Earthscan Publishing, London (this is the book version of a report Jackson did for the UK Sustainable Development Commission).
- Jonathan Aldred (2009) *The skeptical economist. Revealing the ethics inside economics*, Earthscan Publishing, London.
- Richard Wilkinson and Kate Pickett (2008) *The spirit level. Why more equal societies almost always do better*, Penguin, London.

Academic practice has been described as plagarism *with attribution*. This lecture owes a lot to the ideas in these important books.

I studied economics for four years of my life between 1974 and 1978. I had brilliant teachers and some of them are haunting me tonight.

Studying economics for four years does not make one an economist. However, I have, in the years since, studied and written in a branch of economics: the labour market, now for more than two decades. I wrote my PhD about gender politics in an institution of the labour market, trade unions.

There is a certain irony in me talking on this topic tonight: as I am standing here I am being admitted into the Academic of Social Sciences in Canberra, having been nominated by and voted on, in the first ballot, by economists. It is perhaps ungrateful to be critiquing the discipline on such a night, but it is also a good night to explain why economics is so important and why it is such an inadequate intellectual and policy framework.

I have a love-hate relationship with economics. I love its clarity, its elegant tools, its insistence on clear concepts, its stripping away the inconvenience of untidy institutional and human irregularity and its insistence on rationality, on clear objectives and analysis of relationships between variables. But each of these has a shadow – in the Jungian sense: in its strength, also lies its weakness[1].

I grew up on a sheep farm: a place of clarity and efficiency – at least about production. Ideas of value, markets and an over-developed work ethic were central to our farming life. Even today, my family measures value in tons of wheat: that loaf of bread is worth so many tonnes of wheat. In that world, true accomplishment is material, it is real, and it results from sweat and hard work. Markets matter, and efficiency is central to prosperity if not survival: these concepts are critical to neoclassical economic thinking. In this world efficiently producing more output (more wheat, more refereed papers…) is absolutely admirable - and even a true expression of one's *personal* value.

Questions

I came to the study of economics out of this history.

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[1] Jung said: 'Everyone carries a shadow, and the less it is embodied in the individual's conscious life, the blacker and denser it is. At all counts, it forms an unconscious snag, thwarting our most well-meant intentions'. Our dark shadows are also 'gold' in Jung's contention, and I would argue in economic theory. (Jung, 1938: 131).

But I came to it with a different question: not about efficiency. I began my economics degree motivated by a particular question: what explains why some people are rich and some people are poor?

I can remember asking as a child, why didn't everyone in South Australia (that was my geographic boundary at the time; I didn't know about India) just put all their money in the middle and then share it out so that everyone had enough. I can probably remember putting this idea because of the shocked reaction it met. My family were not natural socialists I can tell you!

But while my background was telling me that hard work[2] was the road to not being poor, I knew some poor people who were not bad or lazy. One does not have to personally know a lot of poor people to suspect this; reading Charles Dickens will do it or wondering why the characters in Jane Austen's novels, amidst their seemly courtships, are so often visiting the poor in abject hovels.

How did this possibility sit with the 'striving brings success' story? If hard work and individual effort were not the answer, what other forces were afoot – constraining the results of individual effort? I grew up in a world where individual effort was everything, but by 1972 I was reading Germaine Greer and Chairman Mao. I was intellectually and politically riven.

However, when I finished school, the individual striving school of thought won in my mind and my mother and I took out a subscription to 'The Ayn Rand Newsletter'. For those of you unfamiliar with Ayn Rand, she was the mother of a set of right wing intellectuals; she wrote *Atlas Shrugged* 52 years ago and it is still a best seller. Rand's ideas are currently undergoing something of a revival in popularity in the US at present as President Obama leads a tide of renewed collectivism, as Rand's followers would have us believe. *Atlas Shrugged* was the ultimate capitalist revenge fantasy about a character, John Galt, who - despising the collectivist values of government and society - leads a strike of American capital against the 'looters' and 'moochers' who rely on the skills of the creative capitalists who 'have granted you [the general population] everything you demanded of us, ..[have] always been the givers'[3].

It is not obvious quite how this philosophy can be reconciled with events like those of the last year, with the world's tax payers contributing more than US$7 trillion to prop up the financial system, stave off economic stability and prevent recession (Jackson 109: 31). It is not the John Galts of the world who are the givers here, but the poor 'moochers' who paid their tax to a one-way rescue of capitalism and its heroic risk takers.

In 1975, however, I was – briefly – a 17 year old militant free marketeer: opposed to social security, and a large state, and in favour of taking personal responsibility for economic and social fortunes.

Wage earning in practice

With this in my mind, because I didn't know what I wanted to study at university, or even whether I wanted to go there, I headed out into the world for two years.

I worked for a few months as a research assistant at ANU but my first real job at 17 was as a rouseabout in New Zealand shearing sheds. I worked in two contexts: the first in a large, waged gang of mostly Maori shearers and shed hands. This was Marx's natural terrain: where the pastoralist was your opponent, the union your friend and your earnings arose only from what you could physically deliver. Shearing is sweated labour literally, with the labourer – a skilled

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[2] I think there was also a subterranean discourse of 'intelligence', and perhaps education, explaining success in this childhood world.

[3] Kirsch, A. (2009) 'Ayn Rand's Revenge' *New York Times*, October 31st, 2009. Review of *Ayn Rand and the world she made*, by A. C. Hellerpp, Doubleday, New York.

physical worker - paid by the sheep, and the sheep's owner picking up the difference between that, the other costs of raising the wool, and the sale price. This is not always a positive sum for the farmer it must be said, but it is very hard work for the shearer.

I left this job in a hurry when members of the shearing team tried to break into my room one night, in the hopeful belief that rouseabouts had larger nocturnal purposes than just sweeping the board by day. I loved shearers for their humour and colour, but not that much. My Canadian colleague and I packed our bags and walked to town.[4]

Our next and longer term rouseabout job was working for a gang led by petty bourgeois farmers who were shearing to supplement their modest farm incomes. Their mental stance was not that of a wage-earner. They were vigorously anti-union – as was I. They eventually bought their wide-comb handsets to shear my family's sheep in 1971 – at the peak of the wide-comb dispute – but that is another story.

However, I had enough doubts to let that central query – who gets rich, who gets poor and why? – lead me to enrol in economics. Unfortunately, economics degrees at that time did not allow you to ask *any* important questions until 4th year – when your tool box was presumably fully equipped with marginal productivity theory, the techniques of statistical analysis (pretty meagre in my case) and macroeconomic theory.

However, in honours I was allowed - indeed required - to 'think' rather than 'learn'. I was in a group of students who were obsessed with how the world got the way it was and how economic theory illuminated – or obscured - it. Geoff Harcourt taught the history of economic thought in a way which revealed that neoclassical economics was just one paradigm amongst several, and not a very satisfying one at that.

Economics as neutral, value-free science?

Neoclassical economics was just one way of looking at the economic world. And it was very peculiar. It did not include consideration of the distribution of income in its machinations; instead it focussed on the generation of product by the most efficient means – preferably through the invisible hand of markets. It was uncritical of profit. It was 'above' normative values: a positive, mathematical and scientifically grounded terrain. Such values are out of contest in this world. Neoclassical economics makes 'market efficiency the core explanation for distributive outcomes' and markets are deified as bastions of freedom and choice. (Freedman 2005). 'Free' markets are especially valued, for they allow individuals the most freedom in the economic world.

While even in the 1970s text books had chapters on market failure and externalities (those incidental outcomes that are not counted in economic calculus, like pollution) these were minor malfunctions on the otherwise robust body of economic theory.

Geoff Harcourt's course showed how economics could ask other questions in other ways strange to neoclassical economics: about the meaning of value, inequality and the political purposes of economics – to function as a convenient veil for the system of profit.

This was the terrain of Joan Robinson, who contributed a great deal to the study of developing countries and growth. She once said 'The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.' And she replied to John Maynard Keynes famous statement that 'in the long run we

[4] This was not the last time I had such an experience. The next was at the first residential union training course for bankers at Clyde Cameron college in around 1980, when some male classmates tried to break into the room I was sharing with my fellow unionist, Fay Gervasoni. They shared shearers' belief that female union delegates had nocturnal purposes beyond serving the union by day!

are all dead' by saying 'Yes, but not all at the same time'.

These economic thinkers were not neoclassical in approach. They were, in the tradition of David Ricardo, asking questions about power, income distribution, and the nature of values that underpin economic analysis. This is sometimes referred to as 'political economy' but in fact it is just asking the questions that neoclassical economics by and large *foreclose*.

It is not that values are not implicit in the valourisation of markets as the means of social and economic organisation; but in promoting markets, neoclassical economists aim to suggest that they stand above the muddy fray of normative talk. In fact they privilege money as a means of measuring value, expose society to powerfully destructive externality effects, and take the distribution of income, with which people approach markets, out of contention. In this way they veil the way in which markets shape inequality and give legitimacy to market outcomes and market institutions while undermining the institutions which constrain markets: regulation, governments and social welfare.

Fairness and gender at work

Through my working life and early engagement with economics, gender issues were a constant companion. I had read Germaine Greer and her shadow was present when I attended my first Agriculture Bureau meeting, the only woman; when I was the only woman in my honours class; when I was irritated by so many football metaphors in my economics lectures (Geoff Harcourt used them all the time: he was entitled to, given that he played Aussie rules until he was over 50). It was a fact that women only ever appeared in my economics lectures as housewives buying things.

Not surprisingly my first act of intellectual contest in this field of economics was around equal pay. When Peter Kenyon in a microeconomics tutorial showed how economic theory suggests that increasing women's wages above their marginal productivity could well cost them their jobs, I asked rather nervously whether this effect would apply if they were being paid less than their marginal productivity to begin with - perhaps because of discrimination? He agreed that this jobs loss should not occur if this were the case.

I see now that I was trying to pull the social context into the labour market; this was not an original idea, but it is a practice that is underdone in economic theory.

I think I felt from then that wages were worth understanding, and that the tools of economic theory could help, but they needed to be located within their social and political context. Keith Hancock and Richard Blandy encouraged this thought with their lectures about institutions and social capital.

Economic theory can help, but only so much. And sometimes it is just wrong

Economic theory cannot explain gender inequality in wages: human capital theory takes us only so far. A framework that suggests that differences in men's and women's wages reflects their relative skills and experience does not stand up to empirical testing.

The ratio of Australian women's to men's wages has been steady at about 84% for decades, despite women's rapid accumulation of human capital in the shape of qualifications and experience. Something else is going on here, and power plays a role: power built on gender inequality, the sexual division of labour which leaves unpaid work and care with women and mothers, and the failure of laws to eliminate discrimination against women, or to ensure fair pay. How else can we explain the continuing inequity in pay that gives more to a car park attendant than a child care worker? There is no microeconomic theory that can explain this, and inquiry after inquiry, and equal pay decision after equal pay decision by Australian wage fixing tribunals, have been unable to deal with the sticky, persistent problem of the underpayment of women.

But I would not want you to think that I did not learn useful things through an economics degree.

I found – and still do – many of the foundation concepts of economics powerful and valuable. I wrote my thesis about economies of scale in wheat and sheep farming, and I found the clarity of supply and demand, and many other primary concepts of marginal utility theory, very powerful. However, their weakness lies in the hubris of so many economists who do not admit the limitations of economic theory in the world of real markets, real people, real information systems – that are so far from the perfect assumptions of economic theory as to be laughable. Just take the issue of perfect information. No one has this; indeed the transaction costs of ensuring it mean that few of us can practice it even in relation to relatively simple transactions like buying electricity or a phone plan. Indeed there is now quite interesting research evidence about the psychological burdens of too much choice (Schwartz 2004).

Some of my favourite economics lectures were about the operation of grubby and unruly spheres beyond the improbable assumptions of economic theory: the labour market and its governance – and the ways in which this was bought to life by Tom Sheridan, Ian McLean and Sue Richardson, not to mention Merv Lewis and the mysteries of international finance and macroeconomics.

I found to my advantage that an economics degree is highly over-valued in employment. I benefited from this over-valuation. In the eyes of some who recruited me, an economics degree made me into a kind of a man - someone more valuable that a women, some one 'safe', and perhaps properly aligned with the dominant values of central banking or public sector policy, for example. Probably - they hoped - not an unruly woman or a bleeding heart.

Learning from central banking

Five years on from my short career as a rouseabout and with an economics degree in hand, I undertook a short career in central banking, finding myself a long way from the sheltered umbrella of my landed, mallee farming family: a mere wage-earner on the streets of Sydney, working in the Reserve Bank where I discovered what it was like to have just a wage and a suitcase (and, it must be said, a big store of human and social capital).

I was, I suspect, something of a square peg in a round hole in the Reserve Bank where I worked for a bit over two years. I prepared briefing notes for the Governor on various countries that he was visiting. I had a stamp made that said 'This exploits women' for use on the early morning copy of the *Australian Financial Review* which circulated around the International Department, peppered with pictures of scantily clad women draped over photocopying machine advertisements.

I also learned a little about the working lives of the note counters who lived and worked – mostly women – in the bowels of the bank. Through them, I was introduced to unionism and ran for my first union election as shop steward in the Bank's International Department. I had left Ayn Rand and the petty bourgeois farmer-shearers behind as I made my way down Redfern Street to the Bank in the morning, and saw how a whole set of things shaped my chances, and those I met. Individual effort was not enough when other things were not equal. People were not counting notes in the bowels of the Reserve Bank because they were lazy or lacked motivation. And my wages were not four times theirs because I worked harder: I did not.

I had come to the end of Ayn Rand. Personal efficacy can get you only so far.

Economics is *made complicated*: which shuts down debate

The failings of neoclassical economics are not only in the foreclosure of discussion about inequality and values-based discussion. They also lie in the ways in which power is ignored in economic life – the kind of power that separated me from the note counters - as well as *means* economists employ which make the workings of the economic world obscure and difficult to understand for many citizens.

Nothing is perhaps more dangerous for democracy than the moment when citizens give up engaging with technocrats and their intellectual handmaidens in the academy, in the hope that they – the intellectuals and technocrats - know what they are doing.

We have seen the recent fall out from this in the international financial collapse. The market for derivatives was an emperor without any sensible clothes: huge risks were being marketed in dangerous ways. But citizens – and governments - had their fingers crossed because the workings of the international financial market had become too complex to understand or to govern.

However, as one wit put it, if something is too big to be allowed to fail – like a very large bank – then it is probably too big to be allowed to live – especially if its continued life depends on the welfare support of the tax payer in a non-reciprocal form of corporate welfare when failure looms.

Unfortunately, the paradigm of neoclassical economics does not lack for self-confidence. The global financial crisis has shaken the foundations of economic policy, revealing bankers and financial analysts as - at best - seriously flawed and - at worst - fools. This has not stopped bankers from continuing to defend their hefty bonuses – even as, in the UK case, the government invested 37 billion pounds bailing them out, with similar scenes in many countries.

Financiers and bankers' intellectual handmaidens are neoclassical economics textbooks. Together they share an attachment to market mechanisms and to small government. Both should be held to account in the current crisis. Many policy-oriented economists have been instant converts from conservative monetarism to profligate Keynesianism and a one-sided market bail out, throwing aside decades of theoretical purity about government deficits in favour of unseemly barracking for government rescue. Not least amongst these was Alan Greenspan, former chairman of the US Federal Reserve - and a devotee of Ayn Rand - who admitted to "shock" that financial markets didn't worked as he expected (Jackson 2009: 31). While UK bankers have said 'sorry' for their role in the crisis, economists have yet to apologise. They cannot predict how long the current international crisis will last or whether the current remedies will work. They can confirm, however, that relying on the past as a guide to the future is not wise.

The discrediting of unbounded, poorly regulated markets which follows from the current global financial crisis draws attention to the frayed garb of conventional economic theory. It invites a more assertive, diligent and evidence-based research effort - linked to policy and planning - in relation to markets and their inappropriate operation in some spheres of social and economic life.

We may be waiting for a long time to hear the apologies of some neoclassical economists who uncritically backed the rapid expansion of risky lending to keep the engine of economic growth on track.

Markets: Good servants, bad masters

We are overdue for a thorough discussion about the limitations of markets. The old observation that markets make good servants but bad masters, was never more salient. Prime Minister Rudd (2009) has argued for a rethink around markets and economic orthodoxy. However, his own Government is facing two very distinctive market crises in relation firstly to carbon and secondly in relation to the sale of that most fragile of human 'products': care of infants and children. I am not going to deal with the Carbon Pollution Reduction Scheme (CPRS) here (but there are many problems with it - see for example, various papers at; https://www.tai.org.au including Denniss 2008). However, I would like to address the second – the limitations of markets in relation to the care of children.

And what of the market for care?

Over the past decade Australia has engaged in a unique experiment in market life, allowing the provision of early childhood education and care to be increasingly provided by the corporate sector. This experiment proceeded without attention to even the most basic of neoclassical economic theory's cautions about market operation: that consumers should have good knowledge, that there should be an identifiable product with observable characteristics, that there should be many buyers and sellers and relatively easy entry to production.

The 'market' experiment with childcare in Australia has failed each of these tests. Perfect – or even good - knowledge about the product of care is in short supply. While infants and pre-schoolers are the direct 'consumers' of childcare, parents are the purchasers. Is it sometimes hard for them to judge the product – one they do not experience directly. Parents rely on signals like observation and the reactions of their children – and they hope that regulators have quality under control. Parents are over-optimistic childcare consumers and a lack of alternatives sometimes explains this tendency.

Australia's experiment with market care relied on a monopolistic corporate provider. By 2008, ABC Learning was responsible for the care of over 120,000 children, receiving over a $1 million a day in tax-payer funded rebates.

These problems go beyond 'market failure' and inappropriate business practices. Most obviously, the pull to deliver shareholder value is in direct competition with the quality of the service - and poor quality care has long term personal and community costs, with significant cognitive and emotional effects on children.

Eddy Groves complained that 'The enormous amount of pressure that the public market can put on a company to continue to grow is astounding' when discussing the company's expansion into the US and its dire consequences (Foley, 2008).

The logic of the market (cost minimisation and profit maximisation) has particular implications for care. A variety of market failures have accompanied Australia's experiment with monopolistic corporate provision, resulting in major gaps in provision in some areas and some kinds of care (especially for babies), rapid cost escalation, and variable quality. The risks of poor quality care are born not by the provider, but by the state, parents and children. These risks extend to the costs of keeping failed services functioning.

These characteristics of care make it far from an ideal candidate for private, corporate provision. This is why so many countries adopt public care systems.

Of course it is worth bearing in mind that we only count care when it enters the market: so we can grow our GDP pretty fast if we institutionalised all our children from birth and anyone over 70: which takes me to my next point: neoclassical economics mistakes GDP for prosperity.

A fundamentally mistaken equation (GDP = Happiness) which casts a long shadow

The critique of GDP as a measure of progress is now old - a debate that will not be new to this audience I am sure. It is a convincing critique even just as an *economic* measure on at least five grounds (Jackson 2009: 179):

1. It measures activity without attention to whether it is a positive contribution to economic welfare or not: for example, it includes the clean up costs of oil spills as well as the production of oil. It also counts car accidents, the costs of crime, and so on;
2. It ignores the contribution of unpaid work to economic welfare;
3. It doesn't account for changes in the asset base of the economy;
4. It doesn't take account of inequality's contribution to real welfare losses;
5. It doesn't take account of the effect of the depletion of natural resources as a consequence

of GDP growth.

GDP is a measure of 'busyness' – not economic welfare (Jackson 2009)[5]. But the deeper critique of GDP is not of its failures as a measure of economic activity – though these are real enough – it goes to the larger question of how GDP relates to human happiness. Economic theory, and the primacy of economic thinking in public policy making, has led us to a strange equation: that human welfare is approximated by the dollar value of GDP.

The stability of our economic system is now dependent upon the continued growth in this odd measure – which, once we are reasonably well fed, clothed and housed, has a weak relationship with human happiness.

Most studies find – beyond subsistence – a weak relationship between GDP and human happiness. This is most clearly illustrated in relation to Japan, where there has been very little increase in measures of 'life satisfaction' since the late 1950s despite a six-fold increase in real GDP per capita (Aldred 2009: 52). Similar results arise for the UK and the US and many other countries; all before knowledge about the ecological limits of growth – which I now turn to.

An ecologically illiterate economics

The damage of this equation of GDP with prosperity is even deeper, in view of climate change and the possibility of a planet population of 9 billion within a few decades. While debates about limits to growth have been underway amongst some economists since the 1970s and the Club of Rome, the science around climate change makes an ecologically illiterate economics an increasingly dangerous blindness.

Similarly, the consequences of very wide inequality on both a global and national level is a dangerous blindness, with a billion of the world's population at present living on less than a dollar a day (Jackson 2009: 5; see also Wilkinson and Pickett 2008 for a full discussion of the costs of inequality to all, not just the poor).

Tim Jackson describes current economic policy as 'ecologically illiterate'. The ways in which economic theory mistreats the environmental impact of growth and economic activity have long been critiqued. These are analysed (where they are mentioned at all) as externalities to the system.

An ecologically illiterate economics is no longer just perverted, in the context of climate change, it is life threatening.

We now find ourselves on the horns of a very acute dilemma: in a situation where if we stop the growth of GDP our world becomes unstable, and if we continue it we are courting ecological disaster (Jackson 2009: 187). While the limits to growth debate of the 1970s was mostly concerned with the issue of diminished natural resources, today's problems are not confined to the question of sources, but concern the more serious issue of 'sinks': that is, how the climate is to absorb the impacts of economic activity. Environmentalists have long been concerned about these issues but they have not been taken seriously – until an economist, Nicholas Stern (Stern 2006)– pushed for the quantification of the economic costs of failing to act on climate change.

More recent assessments of climate change have led Stern and many others to suggest that dangerous climate change is coming sooner than previously thought. While many economists have concentrated on technological ways of decoupling economic growth from damaging carbon emissions, this is very hard to do in practice. The question of accommodating growth within

[5] The most recent attempt to examine alternative measures is President Sarkozy's Commission on the Measurement of Economic Performance and Social Progress, which involves Amartya Sen.

ecological limits is both pressing and alarming. As Jackson puts it:

> Economists have to be able to answer the question of how a continually growing economic system can fit within a finite ecological system (2009: 14).

Given how such growth depends on easy credit, the endless pursuit of novelty by consumers, and the making of identity through competitive consumption ('the filling of the empty self' (Jackson 2009: 101)), it is hard to envisage a conversion of our economy to green sustainability: 'Our ecological debts are as unstable as our financial debts. Neither is properly accounted for in the relentless pursuit of consumption growth' (Jackson, 2009: 33).

In this context a new definition of prosperity is required, one that takes account of our need for financial and ecological stability, for flourishing human capabilities (to coin Sen's vision), and for a more equitable world that avoids the prospect of 'social recession' in the pursuit of the chimera of endless economic growth.

This view is not confined to a small cult of radicals. Only this week, that bastion of British respectability, Chris Patten – once Governor of Hong Kong and now Chancellor of Oxford University – called for a new approach to growth, pointing out that over the last century our population quadrupled – and with it water consumption has increased nine-fold, energy use thirteen-fold, and carbon-dioxide emissions grew seventeen fold (2009: 3). He called for a new approach to growth:

> For all of our lives, my generation has defined success in terms of rising GDP growth: more money in more pockets, more resources for public programs, and more jobs. None of these will necessarily be a measure of future success. We need to talk more about the quality of growth…what we should want to promote is the right sort of growth, growth that won't ravage our future prospects. (Patten, 2009: 3).

This problem is made more complicated by the fact that the developed world at least, a growing portion of our economies are made up of the service sector, and productivity gains of the kind that have sustained growth over the past decade are unlikely to be easily replicated. Services costs are mostly made up of labour, and quality services almost always depend on more labour and lower productivity: this is the situation in our hospitals, school and care industries (Aldred 2009).

We have reorganised labour in many of these spheres in the past two decades so that they are run very leanly, relying on unpaid overtime and intensive work. It is hard to see, for example, how we can organise a home-care worker to get out of their car, shower a frail aged person, check on their medicines and drive off to their next appointment in less than the 30 minutes currently allocated. Productivity and growth cannot drive forward to deliver more growth here and we cannot keep increasing our hours and intensity of work to achieve it.

Ecological economists suggest that the way out of the contradictory clash between unsustainable growth and unstable non-growth includes new forms of low-carbon investment, a large new role for the public sector, living with lower growth rates, reducing the hours of work, and a new 'ecological macro-economics'. Pricing or taxing carbon will inevitably be part of this.

Not so long ago I heard a social scientist asked to reflect on the future suggest that within 30 years economics would have become a minor branch of the discipline of ecology. Perhaps.

We certainly cannot rely on the market mechanism and the sovereign individualistic, competitive consumer to deliver an adequate ecological response. On the positive side, economics understates our capacity for changing behaviour for non-material reasons: look at the enormous savings in water use that citizens across Australia have engineered in the past decade, mostly because they were asked to do it and understood the need to do it, not because of any price or real allocative controls. Markets may be part of our solution, but they will not be the whole story.

A reproductively illiterate economics

Finally, it is important to comment on the significant twin of ecological illiteracy in economic theory: ‘reproductive illiteracy’. Economic theory is constructed as if the social and economic world of reproduction did not exist, representing the iceberg below the visible iceberg tip of production. This is feminists’ main critique of neoclassical theory and it is profound point: production is nothing without reproduction. Underneath every economic act there is an act of social and human reproduction and care, of children, the aged, the disabled, and nurtured community and household life.

I am not going to rehearse this critique here, but it is hard to exaggerate the policy errors built on this blindness - and the way in which it shapes in particular the economic and social fortunes of women around the world.

As long as we do not value unpaid care, then we devalue the work of women, and we impose very significant costs on those they care for. We are yet to reap the consequences of this, I believe, for the larger society; however, the private costs of overloaded lives – as women combine paid work and care on men’s terms in so many countries – are very significant for women. The fact that we neglect their measurement in many countries does not make them any the less important.

What questions matter now – and a better economics to help answer them

Where do I end up on the question I began my economics degree with: what explains why some people are rich and some people are poor? And the second question that grew up along side it: what will it take for women to be treated fairly?

These days I can see merit in both ‘social structure’ and ‘effort’ answers to the first question. We are the child of our social circumstances in many ways. But our personal efforts also matter. I don’t think Ayn Rand is all wrong: personal responsibility matters.

But many good people will never find life easy, through no fault of their own. Life happens: we are trundling along successfully in the world and then our marriage ends and, distracted, we forget to insure the car, and we run into a Porsche, and we are bankrupted. Our son goes on holiday to Bali and falls off a motorbike and is now unable to talk or walk. These are stories I’ve heard in the past week. Poverty and misfortune are accidents that happen every day.

We need a benevolent, compassionate state and society, one that does not leave everything to markets and pretend that everything can be measured in dollars. Our social science queen, (neoclassical) economics has left us perverted, over-oriented to the market and the dollar, and unable to address the ecological crisis that now looms because we do not know how to keep our society stable while we kick the growth habit.

When it comes to gender equality, we have far to go. Women are poorer around the world, not only in our own country. Australian women increasingly enter men’s world of paid work, on terms men created in their care-less, if brief, bread-winner stage. While the feminist project always contested the male terms of paid work and the reallocation of unpaid work, the failure to achieve either makes liberation through paid work a wicked result: guaranteeing merely the right to perpetual exhaustion and a diminished sense of self because we are now ‘made’ through work.

But these days I think we need a different question: it is not just about rich and poor. The larger question is about what it will take for us to build a sustainable world that is equitable between citizens – and not just at a point in time, but overtime and between generations, as well as between women and men.

Keynes was right when he said:

> The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.

I think if David Ricardo or Adam Smith or John Maynard Keynes were alive today, they would wonder why economists are so locked into a calcified, outdated economic theory that ignores the 'scarcity' problem that now overshadows all others, requiring a new theoretical and policy ecological literacy.

If they were women – a long shot even in the corridors of today's economic institutions - they might even add a perspective about reproductive literacy. But perhaps I hope for too much.

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