

TRANSCRIPT OF DEVELOPMENT DRUMS [EPISODE 34 – THE ECONOMICS OF ENOUGH]

Host: Owen Barder. **Guest:** Diane Coyle
Producer: Anna Scott

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Owen Barder

Thanks for downloading Development Drums. My name is Owen Barder of the Center for Global Development. My guest today is the economist and author, Diane Coyle. She is Vice Chair of the BBC Trust and a visiting professor at University of Manchester. We're going to be talking today about her latest book, '[The Economics of Enough: How to Run the Economy as If the Future Matters](#)', which is now out in paperback.

Diane, welcome to Development Drums.

Diane Coyle

Thank you for the invitation.

Owen Barder

We're going to do this podcast in four parts. First, I want to understand a bit better your thoughts about the desirability of the economic growth and whether it's a satisfactory goal for economic and social policy. Then in the second part, we're going to look at the big challenges that you identify in the book, environment, debt, inequality, the loss of trust and social capital that kind of thing. In the third section, we're going to talk about why it seems so hard to respond to these challenges. And then in the last section, we're going to look at your manifesto for enough, your proposals for how we tackle some of these problems.

When I first saw the title of your book, 'The Economics of Enough', I thought, perhaps, it was going to be another one of those books saying that we have to stop economic growth that we were running out of environment, or because of water or climate change or something that we were going to – that we should be satisfied with what we have, we should be satisfied with today's levels of income. And I thought you're going to be connecting with this literature about whether there's any connection between economic growth and happiness. So, I was quite relieved reading your first chapter to find it out isn't what you're saying. Perhaps you can explain for the listeners what you are saying about what should be the objective of social and economic policy.

Diane Coyle

As your question hints, there has been a bit of a bandwagon saying, there's been too much growth, enough to all that and let's measure or focus on what really counts instead and what really counts is, is human happiness and the surveys that measure that, so let's focus on those instead. And I think that's obviously silly if you give it a moment's thought where in the – what is it now, the sixth year of not having any growth and that is pretty obviously making people unhappy. One of you've got any improvements in productivity and in economy, the economy, the GDP needs to grow by at least that much to keep...

Owen Barder

That's gross domestic product, a measure of national income.

Diane Coyle

Gross domestic product. So, this measure of gross domestic product, national income needs to grow by at least as much as productivity to keep the same number of people in jobs. If you don't have growth, you're

going to get some unemployment. That's why people don't like recessions. So just reflecting on that should make people a little bit cautious about the happiness bandwagon that I think rests on not understanding statistics.

If you ask people how happy they are, you're going to be asking them on a range from 1 to 3 or from 1 to 10 conventionally, because there is no – there's nothing objective out there to measure, it's not like the temperature. And so that's not going to change very much from year-to-year, it's quite subjective and if you plot it over time, it won't increase. And what happened is it, Richard Easterlin and his famous paper on the subject that set off the whole happiness, the happiness movement plotted that against the level of GDP, gross domestic product. That is an artificial construct about how big the economy is and it can rise to that limit and it does. And whenever you plot a series that doesn't increase against the series that does increase over time, they're going to look, but they're not related to each other, but it's not meaningful and it doesn't mean they are not related.

Owen Barder

So, that's where we got this thing called Easterlin paradox, which I...

Diane Coyle

Easterlin paradox.

Owen Barder

...which was the idea that as economies get richer, people in them don't get happier and that gave rise to this movement that said, well, so we should stop focusing on economic growth. Most economists now agree with you that these statistics underlying the Easterlin paradox is rubbish and actually it turns out, surprise, surprise that as economies grow in the sense of GDP rising, people do in fact get happier. But that doesn't mean the GDP is necessarily a very good or complete measure of what it is we are trying to achieve, does it?

Diane Coyle

GDP is what it is. It's the measure of domestic product or output of the economy. It's not and it was never intended to be a measure of welfare and those two things need to be kept distinct. And we do have other ways of looking at welfare, the Human Development Index is probably the best known of those and that takes a range of things that are obviously important to people's well-being like indicators of health or mortality, access to technology and clean water and so on, education levels.

And so, if you want to measure welfare, there's perfectly good measure in the Human Development Index that does that or you can look at those separate components of it separately and there's quite useful information in doing it that way, in what we call useful to know that your health indicator is improving, but your environmental indicators are not improving, because that helps you focus what kind of policy responses you want.

Owen Barder

Right. So my colleague, Charles Kenny has a book, 'Getting Better', which has this interesting finding that in a lot of the poorest countries in the world, incomes measured as GDP per person haven't gone up very much in, for example, some parts of sub-Saharan Africa, whereas there have been massive improvements in life expectancy, reductions in infant mortality, improvements in education, access to clean water and things. So, there are obviously things that we care about or ought to care about which GDP doesn't necessarily measure.

Diane Coyle

Yes, so I think his finding points to what GDP leaves out that's important is actually logical innovations and it's a very poor measure of the new variety of things that we can access and the technological improvements. There's a famous anecdote that David Landes used in his book, 'The Wealth and Poverty of Nations' about Nathan Mayer Rothschild, who was massively the richest person of his day and he died for want of an antibiotic that would cost a few dollars these days. And that sort of technological improvement that has a very direct bearing on people's well-being isn't measured well by GDP. But GDP does what it

does and it is quite strongly correlated with things that we do care about. The resolution of the Easterlin paradox is that if you try to relate statistically measured happiness with the surveys and growth in GDP, there's a pretty strong link between the two.

Owen Barder

Right.

Diane Coyle

And growth in GDP is, to some extent, capturing the kinds of improvements in underlying welfare.

Owen Barder

So, are we saying – there are two ways of interpreting this. One is saying in practice people are going to care about incomes that if you – if we stopped caring about income or GDP stopped growing, we would have a situation like we are in today with very slow economic growth or recession and that makes people unhappy and that makes them vote for change of government, it makes them politically desire change. So, as a matter of fact, we're going to have to continue to pursue GDP growth or are you making a moral point, normative point that says we ought to pursue GDP growth, because it does in fact contain within it not everything that matters, but a lot that matters to people and we have a moral responsibility to pursue the things that make people happy.

Diane Coyle

I think the latter. I think we ought to pursue GDP growth. It's a very good single indicator to the kinds of things that we do care about. There's nothing to stop us caring about GDP growth pursuing it and also separately looking at indicators of health. And particularly the distribution, GDP obviously doesn't look at the distribution of income and one country where the link between GDP growth and happiness is not so strong, is actually the United States, the hypothesis being, that's because the benefits of GDP growth have been so unequally shared there, that do not – actually not many people have benefited from it. But I would supplement looking at growth with a national balance sheet and looking at what the implications are for the nation's wealth in the broadest sense of pursuing growth this year, because obviously GDP growth, it's what happens from year-to-year and you can improve that if you're eating your capital that ought to be...

Owen Barder

Right.

Diane Coyle

...benefiting future generations instead. So, we very much need some kind of measure of wealth, but not just money and not just the national infrastructure, but also human capital and environmental capital and natural resources as well.

Owen Barder

And I mean this is a common criticism of this measure, which is that we see rising consumption but this is essentially at the expense of particularly natural assets that we're using up, the planet's ability to accommodate us so that is not, if you were to use a balance sheet approach, although we've got good consumption this year with doing what Harold Macmillan said we're selling the family silver to pay the butcher, the way we're drawing down our assets, our environmental assets. Is – do you think that critique is fair? How – if we were doing a proper balance sheet approach, what would our GDP – if our GDP growth has been averaging 2.25% a year or 2.5% a year. What would it have been properly measured, I mean, if we – if we were taking proper account of the assets that we've been using up?

Diane Coyle

I don't know if anybody who's done that counterfactual calculation, because the statistics behind it are quite complicated and the World Bank attempts to measure comprehensive wealth for some countries are kind of moderately advanced and don't really answer the question that you're posing yet.

I would have thought, it's most acute in certain areas and energy use is an obvious one to look at, any country with natural resource base as the UK had with oil or other countries still do with oil and minerals

then that's another obvious place to start trying to make this balance sheet assessment as well as looking at GDP. And I think an interesting contrast in the developed world context would be the treatment of oil resources, natural gas resources by Britain and Norway, but then of course in lots of developing countries, this is a pressing public policy question.

[Interlude]

Anna Scott

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Owen Barder

My guest today is the economist, Diane Coyle, and coming up next, we're going to be talking about what she has in her book as a 'Crisis of Capitalism.' Diane, in your book, 'The Economics of Enough', you described a series of challenges, which you described as a 'Crisis of Capitalism', you talked about the financial crisis, the crisis of public finance and debt, environmental degradation and climate change, inequality and the origin of trust and social capital.

Now, many of our listeners will be familiar with these and probably quite gloomy about things like climate change, but I was struck reading it about, I mean, this term 'Crisis of Capitalism' is quite strong and it's quite a gloomy set of chapters about the world that we confront today.

Can you say something – I was – I'm going to ask you to start with this issue of public finances and debt, because I began reading the book, quite gloomy about this, but ended up much more pessimistic as a consequence of reading your book about it, so can you tell us something about why – why we should be concerned about – about this in particular?

Diane Coyle

I suppose the starting point was the financial crisis, which is front of mind, when I was writing the book and even now is quite an acute crisis. And obviously, the response to the financial crisis directly in terms of bailing out the financial sector, but also the effect of the recession on the government finances mean that the fiscal deficit and the build up of national debt is quite acute and then – and a number of countries there are lot household debts as well because people had been borrowing to get in to the housing market and the housing boom.

And that's what's front of mind, but as well as that, there's a sort of underlying iceberg of a problem with public debt, part of it is that there was lot of off balance sheet financing that went on not only in my own country, the UK, but in others as well and that's surprisingly large. And then the really big issue is the structure of the welfare state and pension system that we have, given the changing demography of the population.

And we set up the welfare state for the country, the growing population, whose average age wasn't getting older over time and now we've got reverse of that as stable at best or shrinking population and an aging population as well.

And I think a lot of people, if they think about it, assume that that means you have got to have enough money in your pension fund to make sure the pension is funded properly and then it will be fine and there has been a lot of debate about filling the deficits in pension funds. But the underlying economic point is that at any moment in time, the people who are not working are supported by the people who are working and generating national income and you can't – you can't eat a future financial flow, there's a sort of economic fundamental that you can't get around that there has to be enough been generated currently in the economy enough food, enough product, enough services...

Owen Barder

Right.

Diane Coyle

...to sustain everybody who's living in...

Owen Barder

In other words, when we say, if we don't save tins of beans that we're going to eat, when we're old, we save money and so we need an economy that can turn that money into tins of beans that we want to eat when we're old.

Diane Coyle

Yeah.

Owen Barder

And so there has to be enough economic activity going on, there have to be enough people producing those things for us when we're older for the money that we've saved to actually be valuable and useful to us.

Diane Coyle

That's right. That's right. Now, of course, in a lot of countries, these have been funded through the state sector, through state pensions and the implications are that to carry on paying pensions and paying for healthcare as well in the way that we have in the past 40 years over the next 40 years, we'll require – simply put quite extraordinary increases in levels of taxation, and I think politically, absolutely unsupportable increases.

Owen Barder

And the difficulty here is caused by the change in the structure of the population is because there will be more old people, because we live longer after retirement and because the baby boom is over and we don't have too many young people coming into the labor markets, so the ratio of people working to people not working will move against...

Diane Coyle

Moving very adverse – very adversely.

Owen Barder

But at the same time, won't those people who are working be fantastically productive? Won't they all be generating huge incomes because of productivity growth in the meantime?

Diane Coyle

Well, they may be. And there are different – there are different solutions to this and this is a problem of unsustainability, things that are unsustainable are not sustained and you can either plan your way out of it, or you can do a mix of things to work your way out of it, or you have a crisis at some stage. So it's not an overnight crisis metaphorical time bombs don't explode, it's – but it's a slow burn one.

One thing that could happen is that as you're saying, there could be great improvements in productivity, so that we don't need so many people working and that's fine, we can all enjoy 25 years on the golf course after we retire at the same level of income that we've been used to – retired people have been used to, or people could work later or we could have more immigration to change the demographic structure and population or in some countries there's plenty of scope for women to come into the workforce because the employment rate of women is low, or you can make the labor market work better, so there's less unemployment. So it could be a mix of all of those things, but they're all politically really hard to bring about.

And if you look at examples around Continental Europe at the moment, where the – because of the financial crisis, the public finances are in actually desperate crisis at the moment, they are even so finding it very hard to raise the retirement age by 2 years or make the labor market work a little bit better, so if the

employment rate goes up a little bit. So the politics of even small change in this area seems to be extremely difficult.

Owen Barder

Your book suggests that we have, in particular, a public sector financial problem that the – where this – where this will manifest itself is in the obligations of the state that through the welfare system, through pensions, we – we will find ourselves having to bear costs that we're unable to bear at an appropriate level of tax, so this will manifest itself in the public finances and it – on one reading of what you're saying, you seem to be taking the George Osborne line that we have to bring spending down, we need a prolonged period of austerity to rebalance the public finances.

Now, I'm not asking you about the kind of Keynesian macroeconomic question of – is it good time to do that now as opposed to once the economies begun to recover and we're able to take some demand out of the economy without damaging economic growth. But in the long-term, are you taking the – the kind of fiscal hawk view that we have a structural problem in the public finances that we have to do something about or are you saying that actually the problem is not in the public finances, it's in the real economy, it's to do with productivity and immigration and working – people's working lives and so on, what's the – where are you on, on how far this is essentially a problem of public finance?

Diane Coyle

Well, I think, we have both problems, I think we have a problem about low productivity and a problem of public finances. So I am a long-term hawk about needing to address this structural problem, we went into the financial crisis in the UK and a number of other developed countries as well with a public sector deficit that was a large proportion of GDP and even if you're not somebody who believes in balanced budget over the cycle and you think it's okay to have a small budget deficit over time, we didn't have a small – we had a big one over time, so I do think I am a hawk about the long-term public finances. And we ought to have an honest debate about the way we have financed healthcare and pensions entirely through the state and if we want that to continue then what level of taxation is needed to support it.

Owen Barder

One of the themes of your book and we'll come to this in a second in more detail, is the idea that we don't pay enough attention to the long term, but it seems to me that George Osborne's behavior and the present government's behavior is, perhaps a counterexample, seems to be a government that's doing something that's politically unpopular perhaps foolishly at a time of poor economic growth, of tackling some of these long term fiscal issues faced by the state. Is it your view that that is a – that this is unique, one of these rare counterexamples of someone looking after the long term or that they are not looking after it enough and actually that they are not facing up to the challenges or what – how does this fit with your narrative of we don't care enough about the long term?

Diane Coyle

Well, I don't know enough about Conservative debates to know how much it's tactics and how much it's long term, I mean as you say it does look like it's very focused on a particular view of what long term ought to be namely a smaller government long term. And there is a debate to be had about the short term Keynesianism, I mean by definition if you increase government spending you increase GDP because there is a plus G in the definition – plus government spending in the definition of GDP, so there is a short term impact and there is a debate to be had. And that's a very vigorous debate about whether or not that's needed to jumpstart the economy back into growth because growth will really help you sort out the public finance stability. And I don't know the answer to that. I am not a macro economist.

Owen Barder

One of the most interesting and I thought quite challenging part of your book was a discussion about values and really the idea of social capital which is one of these awful bits of jargon but this notion that there are intuitions and behaviors within society often implicit, the idea of trust for example, which need to be that underpin an effective society, an effective market, an effective community. And I was reminded of George Bush's call for a kinder, gentler capitalism and you seem to be a bit – but actually often in your book you

are harking back to kind of Victorian era of capitalism. I was interested in what you think is going on there and why it matters?

Diane Coyle

The Victorian era was interesting because it was like us at the time of profound structural change in the economy because of the technologies and at the same time the sort of social upheavals that you see alongside any structural change of that kind. And there was obviously extreme poverty, very visible of a kind that haven't been experienced before and that brought forth this rather remarkable intuitional or moral, even, response and amazing acts of philanthropy, amazing acts of social innovation and a lot of the institutions that we have relied on for postwar capitalism were laid down in that Victorian era and that's everything from museums and libraries to trade unions, mutual organizations in particular mutual assurance companies and all of that social innovation was one of the responses, but also the paternalism I suppose of Victorian capitalism, and of course there were bad industrial bosses, but a cohesive group who thought that it was their responsibility for the whole of the society to benefit or at least not be degraded by their activities. And I suppose that's something that has evaporated in the years since around 1980 and although there were obviously some very useful things about the kind of Reagan and Thatcher revolution and the way that they tackled embedded intuitional interests that were not serving the public interest and the way that it shook up rigidities in the economy and although that turned out to be a good thing, at the same time it unleashed a sense of lack of responsibility that has grown unsustainable. And the financial markets make that absolutely clear that the degree of practice of self-interest and greed in the financial markets has brought the most extraordinary economic catastrophe on this.

Owen Barder

This part made me – kind of reminded me of Marx, right, this notion of capitalism containing the seeds of its own destruction. I mean why wouldn't a market economy faced with for example mutual societies where they could raise a bunch of money by demutualizing and flogging of the shares. Why wouldn't they do that? I was surprised that you were surprised that capitalism has eroded some of those institutions as markets become more competitive and firms have to do more to survive. Don't they have to eek out every way they can to maximize their profits and their shareholder value or face extinction? I mean what should be stopping them from doing that?

Diane Coyle

I think that problems have come about because markets have actually become less competitive and not more competitive and it turns out that the flow has been mistaking pro-business and pro market policies. We have had pro-business policies and increasingly pro big business policies and there has been a capture of politics by a wealthy – increasingly wealthy economic elite and again that's probably clearest in banking but I think there are many sectors of the economy where you can see that the rules have over time increasingly been set to favor large incumbents and keep out competition, and in a competitive market I would expect to see much more variety of corporate structures, I would expect to see more mutuals or more working co-operatives or more social enterprises and not the sort of monoculture capitalism that we have ended up with.

Owen Barder

That's very interesting. So I mean one area where we have often talked about innovation happening in particularly since the Big Bang in the 1980s era in the city of London. We often talked about financial innovation, these incredible dynamic markets, but I think what you are saying if I hear you right is actually there hasn't been innovation in the interests of customers and of better services and products, there has been innovation in the way that the financial sector captures rent, captures service. Is that right? Am I ...

Diane Coyle

Absolutely right. And an interesting way to put the question is to ask why do we not have anything like Ampesa in the United Kingdom with this fantastic financial sector and it's because the innovation has not been innovation to serve customers because actually the forces of competition are rather weak.

Owen Barder

Right. A Kenyan friend of mine was in Washington D.C. recently and was bewildered that he couldn't use his mobile phone for payments; it was really interesting. Yeah, no, okay – so that – and the other – I don't want to spend a lot of time on the environmental crisis because I think that's reasonably well documented but again what I found interesting all through your book was the way you marshal a lot of evidence and try and draw a balanced point of view. On the climate change question, I wondered whether you felt that there was the response of the originations to the impending possibility of climate change is sufficient. I mean is your reading of the economic evidence about what it would cost and what the possible benefits are such that you think this is an area where we are not responding as we should or do you think that it's broadly right to wait and see and see what happens and maybe future generations will be richer and smarter and be able to deal with the problems when they emerge?

Diane Coyle

I think we are not responding as we should. I am sure there will be technological innovations that help us out of what appears to be a pretty horrible tradeoff and improve the terms of it. But I don't think we are doing enough. Being an economist I would like to see carbon priced properly and the carbon markets that we have always been undermined by governments giving way to the lobbying of large companies that don't want to pay increased costs. I think they are foolish actually. If you look at the example of companies in the 1970s in Germany where they were made to bear the full cost of the oil price shock and the German authorities rather than take any risk with higher inflation imposed a recession on the economy. German companies, of course some of them suffered in terms of lost sales and there was unemployment, but they responded by investing in new and better technologies which over the long term made them much more productive than UK companies but the government policy went the opposite way. And I think a farsighted company would see paying more for carbon as a really strong incentive to develop better productivity in the future.

Owen Barder

The problems you describe in your book – inequality, the erosion of trust and social capital, the financial crisis, the environmental issues, all these apply just as much if not more at a global level and global inequality is much greater than inequality within any particular nation. Your book mainly focuses on national questions, but do you think that increasingly we're going to have to address these questions globally as well? And am I right to be even more pessimistic about our global prospects than you are about on national prospects for facing up to these challenges?

Diane Coyle

Responding to any of these challenges is bound to have to start with national politics and it's all the harder than at the global level. Just think at the moment about the dynamics between – within the EU, between German politics and Italian or Greek politics, it's extremely hard to address any of them globally I think. And obviously there are areas where there has to happen and climate changes is a good example. I don't think we found very good ways of doing that global politics. And so, for example, on climate change, there are these enormous conferences, a huge amount of effort goes into them. And that talking about targets that are very hard to measure a tool and where the data is very out of date and how on earth can you get policies with any leverage when that's the kind of target that you are talking about. So it's a huge other set of problems which is why it didn't go into them in the book. But I don't think we have begun to think about how to do that global politics well.

Owen Barder

I am talking with Diane Coyle, the author of 'The Economics of Enough', which is now out in paperback and is available on the Kindle. We've talked about the big challenges, after the break we're going to look at some of the reasons those challenges haven't been solved.

[Interlude]

Anna Scott

Do you have a topic or guest you'd like to see on Development Drums? We're always open to suggestions so please tell us yours by visiting our Facebook page. You can also find out who we have lined up for Development Drums and pose any questions you have for them there.

Owen Barder

Diane, so far we've talked about the first half of your book, which is about these huge challenges, the environment, the financial system, problems of public finance, erosion of trust and social capital. The middle part of your book then talks about three obstacles which get in the way of addressing them. Now listeners who don't know your work more generally might be quite surprised by the first of those, which is, measurement or failure to measure what it is that's going on. Tell us why this – I mean this sounds a bit tangential and a little bit techie. Tell us why you think this is really important?

Diane Coyle

The reason in general that measurement's important is that it's what policymakers respond to and the all the political pressures – I mean there's a bit of ritual really, isn't it? Because gross domestic product is this made up number really, it's a metaphor for how the economy's doing and there's a song and dance about whether it's going up by 0.1 or down by minus 0.2. So in way it's a bit ridiculous but they are very powerful. And it's a cliché to say that what you measure determines what you take action on. What we have are a lot of measures that focuses on short-term things and the real gap is anything that measures long-term things and in particular not having any kind of national balance sheet so that we know how much we're taking away from future generations to benefit ourselves currently.

And there have a sort of sporadic attempts to do this, there's the National Institute here, people in the United States have done generational accounts that look at implicit pension burdens and healthcare burdens of the future. The national accounts have satellites so there's an environmental satellite to the national accounts that gives us some information about the use of natural resources. But I think we very much need to make that more systematic and have a regular publication and to turn it into the same kind of political event that the regular statistics we have already are.

Owen Barder

So I am sympathetic to the idea that that we should measure these things, I mean just on the grounds that more information must be good. But I wonder whether it's really – I mean if these things matter to people – if it matters to people that their parks are being degraded or their traffic congestion is getting worse and even though that's not measured in GDP anywhere and not measured in the national accounts. If people are aware of it, won't that then manifest itself in their voting behavior and political pressure to do something about these things and why do we need to – why do we need the office of national statistics to tell us that we're unhappy about traffic congestion? If these things matter to people, won't that come through in the political economy of how we do – how we make decisions?

Diane Coyle

I don't think it would because you're making presumption that what people are aware of and...

Owen Barder

I guess I am saying if they are not aware of them then it can't matter. Alright? It only matters if enough people are aware of it and care about it enough to change their voting behavior about it.

Diane Coyle

But the thing about official statistics is they shape awareness. They legitimize things that we, as a society, care about. And there is a lot of evidence from the psychological literature that people don't pay attention to things that change slowly over time. So if you are living in a place that you've live for a while and the traffic going by your house is getting worse and worse but a little bit every day, you adjust to it and actually not aware of it.

The great example is the Air France plane that crashed into the Pacific a few years ago, when they recovered the black box, they found that the engine had stalled in the middle of a thunderstorm and the – there is a verbal warning to the pilots in the cockpit who are both experienced and it sounded something like 78 times saying your engines are stalled, restart your engines. But because they have so much information to absorb and lots of things were changing around them, they didn't notice. Attention is...

Owen Barder

Right.

Diane Coyle

...it's really hard to focus. And so, the point about statistics is that it says this is what we're focusing on...

Owen Barder

Right.

Diane Coyle

...which is a bit of a tangent but...

Owen Barder

And how difficult would it be – I mean it sounds like, we all know that there are problems with GDP as a measure and there are a lot of – there is a lot of work that happens in the home, for example, people caring for others that never gets measured, and presumably part of the reason that – I mean there are all kinds of power relations about why those things don't get valued as they should, but part of it is just it's very difficult to measure how much caring is happening in the home. And I think we want some government inspectors coming around and seeing how many hours we're spending with our children or our elderly parents. So how – this notion that we are going to do a better job of particularly measuring assets – measuring our environmental assets, for example, is this is a whole new industry of statisticians and government workers who again to start correcting this information or what do you envisage, how do we make this happen?

Diane Coyle

I would redirect the effort. Actually, I think the – there has been too much effort put into refining GDP in a more and more sophisticated ways and if you went down the route of valuing unpaid work or the other things that people think should be in or out of the GDP, that makes it even more complicated, and it's pretty complicated already. I would go back to basics on GDP and say GDP is a measure of the market output of the economy and gives us an indication of productive capacity and productivity and put that effort instead into measuring assets properly.

Owen Barder

The chapter on values, I thought – we're turning to chapter seven of the book – I thought it was one of the most interesting chapters and that's saying something because it's a book full of, lots of interesting insights and connections. But it is a chapter in which you mount a defense of markets, the market economy. And you also mount a defense of economists, you – I think you counter some of the common criticisms that economists know the price of everything and the value of nothing and all that stuff, and you explain that actually economics is all about, some of these ethical and value questions. But you come up with this interesting idea that there – that in any society you can have any two of the following three things, you can have economic efficiency, you can have equity and you can have individual freedom. And your claim is that you pick two of those that you want but if it wants you move in the direction of those two, you almost definitely move away from the third. Tell us a bit about how – why you think that's important?

Diane Coyle

We've had, I suppose, generation of concentrating on individual freedom and on efficiency, so it's been all about markets, I mean to capture, it's the neoconservatism...

Owen Barder

Right. Kind of Thatcherite....

Diane Coyle

...neoliberal Thatcherite agenda. And the consequence of that has been the increasing inequality because if you liberalize and deregulate and let everybody look out for themselves then that's an inevitable consequence. But, over time – and I think we're now seeing this – it undermines some of the social norms and some of the trust that makes markets' individualism – makes market individualism work properly and – so you have to find some way – there is no right answer for all time is what I am saying. And, it will always

be the job of society to tack between those three different legs of the stool and make sure that you don't get too far in one direction and build up problems on the third leg. And, then there have been other areas when you would point to the opposite happening that you'd had an area of greater collectivism and there's the old equity/efficiency tradeoff that anybody who's studied economics is familiar with that, when you determine some of the outcomes that are different from what a market would achieve, then you're going to get some inefficiency linked to that.

Owen Barder

In essence the pre-Thatcher period.

Diane Coyle

The pre-Thatcher period.

Owen Barder

Right.

Diane Coyle

And that was fine until it went too far and then it wasn't fine.

Owen Barder

So – and the direction that you think we should now move in, where we've – I think from your last answer you're saying that where we've ignored too much the equity, the social bonds part of a – of this trilemma. Is that right?

Diane Coyle

I think we've ignored that and I think we've – we can't afford at the moment to ignore the efficiency bit of it. So, the libertarianism bit of it is the one that will have to give.

Owen Barder

Okay. So, in essence, what we're saying – in practice, what you mean is higher levels of individual taxation? Or, why do we have to concede something in the space of individual freedom to have a more social – a big society? Why is there a tradeoff between individual freedom and a small social aspect of market capitalism?

Diane Coyle

Well, it would be the freedoms of the individuals who've been rigging the markets in their own direction at the moment and so addressing some of those....

Owen Barder

Okay. So, things like saying you can't pay big bonuses, for example.

Diane Coyle

Exactly.

Owen Barder

Okay. And, it seems to me that – and we'll come to the governance issue in a second but actually this is a good segue into it. It seems to me that part of the problem is that, as people have become more wealthy, they've also become more politically powerful and so able to lock in a rigging of the system in their own favor. So, they are able to prevent competition in markets and lock in various kinds of monopoly and rent-seeking behavior....

Diane Coyle

Wealth has been parlayed into political power.

Owen Barder

Right. And, I suppose one of the ways in which we might need to constrain freedom is to reduce the freedom of very wealthy people to use that to acquire political power. Is that consistent with what – well, tell me more about this notion of the crisis of governance that's your third crisis.

Diane Coyle

Well, the extremes of executive pay, which started with the banks but actually bled out into the corporate sector, have come about because there has been no restraint. And, even the self-restraint that there used to be on what people paid themselves out of corporate profits has vanished. So, on the one hand, the regulation and the absence of competition means that profit margins have increased a lot. And, then on the other hand, there has been a quite small and cohesive group of the elite who've had a university education, been to business school that might not all know each other but they're the same kind of people and they have been paying themselves that money and set up structures to do it. So, this whole panoply of remuneration committees and remuneration consultants is all a fig leaf for channeling the money from the profits from having rigged markets into their own bank accounts and their own yachts and mansions.

Owen Barder

But, there is a broader theme in your book about this idea that the problems that we face, things like environmental degradation, are addressable in a technical sense, but there is a failure of governance that enables us as a society to do that; that our governance – and it's partly because of the exercise of – the concentration of wealth and, therefore, power in our political system. But, I am struck – most of us think that there is a general progress towards more democratic, more accountable systems. We're seeing, right across the world, particularly in Sub-Saharan Africa, a strong shift to multiparty democracy, peaceful transitions of power for the first time. Our sense is that government is better, is getting more democratic and yet in the book you are saying, well, these challenges – these very real challenges, thinking long term, thinking about some of the – thinking about assets as well as income, we're not facing up to. So, is governance – what's happening? Is government getting worse than it used to be? Why are we – what is it about governance that's leading us to fail to address these questions?

Diane Coyle

It seems to me it's getting more populist and so governments are having to respond to particular bandwagons or areas where that kind of pressure builds up. But, I find it astounding that there has been so little political response to the financial crisis and the restructuring in the banking sector. And, it has taken years of the crisis to agree to phase in over years more some small changes to the amount of capital that banks will be required to hold and minor changes about reporting and about payment structures.

Owen Barder

So, do you think John Vickers – you're talking about the Vickers report at this point, right? Do you think he flunked it? Why did Vickers not recommend a separation of retail banking from casino banking, for example? What was it about our government system – yeah, he is a smart guy, right? There are very few people more – better qualified than him to do this. And, he's probably not in the pocket of a bank. So, why didn't he recommend something more radical?

Diane Coyle

I haven't talked to him about it so I couldn't tell you. But, my impression is that it was – they took too technocratic an approach and, when you do that, you think about really quite small changes and not the big picture and to think about the big picture and the power of the financial lobbies in our political system that's for government to do, that's for politicians to do. And, when in the U.S. there are five financial sector lobbyists for every member of Congress and you need money of the banks to get elected, then you can see why change is difficult. But, even so, our financial system is vulnerable to another crisis. This could – this whole run on the banks could happen again tomorrow and nothing has been done about it. It's simply extraordinary.

Owen Barder

And, it does seem to me there is a failure of the imagination of the elite, right? There is an opportunity to really change the settlement between our financial sector and the rest of the economy. And, there's popular opinion is behind doing something about this. And, yet somehow no part of our political system has really

articulated what that new settlement would look like and what it should be and we seem to be very constrained within, as you say, these technocratic solutions about changing the capital adequacy ratios and things. And, I just think – so that suggests that there is something wrong with our governance system that would – that that I – that to me sounds like a class problem. It sounds to me like a problem of an elite that is insufficiently diverse and insufficiently willing to think broadly. Is that part of our problem? Or, is that too Marxist an interpretation.

Diane Coyle

Well, it may be. Maybe we'll all end up being Marxists in our old age.

Owen Barder

Okay. In this section about governance failure, you talk a lot about long-term problems and our failure to address them. I read some of our problems as failures to deal with the collective action problem that – something like climate change; it seems to me that there is quite widespread agreement that we need to do something about this, that we need to take some steps to make our industry less carbon intensive and reduce carbon emissions and it's the rich world that needs to do that. What we seem to be arguing about is who exactly is going to bear the costs of that. Is it going to be industry? Is it going to be consumers? Which countries? Which industries? And, it seems to me that it's not that we're not thinking long term or that we don't recognize there is a problem or even that we don't have the measurement. It's just that we don't have any mechanism by which somebody can say, right, stop arguing; you're going to do this and you're going to do this and that's going to get us there. I like the idea of a carbon price as a way to give people incentives to do this. But, I am wondering whether you understate in your section on governance the idea that we just don't have good enough mechanisms for solving these collective action problems.

Diane Coyle

I think that's a fair point. And, the example a while ago about not having a good target for these international climate negotiations because it's hard to measure and it's retrospective actually speaks to the kind of collective action problem you're talking about. You need to think about it more in game theoretic terms and what's the focal point of the game and what – how you're aligning people's incentives. So I think that's a fair comment.

Owen Barder

You also have – again another theme running through the book is the role of technology, the way that technology has changed the economic structure of the economy that we're consuming more weightless for you have an earlier book about the weightless economy, but also about the notion that technology might change the way we do governance that it's more possible to consult the public more often and engage people and for institutions to become more accountable. Tell us about – I mean how big – is this a fad or is this really going to change the way we do governance and the way we do economics.

Diane Coyle

I think it will really change but I wouldn't want to be too starry-eyed about engaging large numbers of ordinary people in these sort of decisions because, in those, people aren't very interested and anybody who does public consultations will find that actually the number is – who want to be bothered to respond to a questionnaire and still less think about it is pretty small. But I think it will work through there being the potential for the few people who are interested to act as new intermediaries and access the massive amounts of data that are now available and the tools for analyzing that and the potential to get at all the documents. And they will – that will then filter out...

Owen Barder

Right.

Diane Coyle

...from there. So I suppose in a way that traditionally in the old world, the old technology world of newspapers acted as that kind of filter, there will be some new mediation mechanism, I don't know exactly what it will look like but I'm confident it will happen.

Owen Barder

You used to work at a newspaper as I recall. Do you think that the shift from the old organized media of newspapers and broadcast towards much more crowd-sourced, online, citizen journalism. I mean that comes with some risks, right, are we managing these risks well?

Diane Coyle

We're probably at the point of maximum disorganization, aren't we?

Owen Barder

Right.

Diane Coyle

When it's not yet completely clear how you authenticate, validate all of that kind of information. And it does take a lot of effort to validate it properly.

Owen Barder

Yeah. I mean – my instinct is that the crowd rather than an editor or a desk of subs are going to do a better job of validating things.

Diane Coyle

That the crowd in a structured way?

Owen Barder

Yes, and I'm not sure that we have that.

Diane Coyle

We don't have the structure.

Owen Barder

We don't have that.

You're listening to Development Drums with me, Owen Barder, and my guest, Diane Coyle. Coming up in the last section, we're going to look at Diane's Manifesto of Enough.

[Interlude]

Anna Scott

If you're interested in development policy issues visit the Center for Global Development's webpage and sign up for our weekly Development Digest, a concise and up to date roundup of important and diverse European policy news.

Owen Barder

Diane, the last section of your book sets out what you described as a manifesto for tackling these problems. What are your main recommendations?

Diane Coyle

I think a manifesto is a slightly grandiose title for the need to try and be a little bit positive after some quite challenging analysis and it divides into three areas. One is about measurement which we talked about in an earlier section and although that always seems really boring, I think it's quite important. Another is looking at institutions, and what kind of economic and social institutions do we have and what scope is there for innovation? And then the third is something that economists have not often talked about and that's values and morality, the morality of capitalism and engaging in that kind of debate in a way that we haven't for a generation.

Owen Barder

On institutions, it's easy to say that our institutions are failing and there are obvious things that we might want to do like, for example, limit the role of money in politics and clearly that's a much more pressing

need in America than it is in the UK but it is perhaps a need in both now. But that's quite hard to do, right? I mean these institutions are there entrenching the power of various elites. So how do you envisage we bring about change in institutions of the kind you envisage?

Diane Coyle

Well, I think it's always worth trying to reform existing institutions, it would be well worthwhile trying to have some corporate governance reform so that the structure of corporate boards and bank boards has changed and those remuneration committees go and the investors actually have a say over what the boards of directors do. So incremental reform is worth having a go at, but as you say it's very hard and people quite quickly get bogged down in details that actually wouldn't make much difference one way or the other.

Owen Barder

Right. As we've seen with Vickers actually.

Diane Coyle

Oh, yes, it's very good example of it. But I'm very interested in the scope the technologies themselves bring for much more radical, social as well as economic innovation. And again, the parallel would be with Victorian times, the problems called forth the kind of institutions that we needed in a self-organizing way and mutuals and cooperatives and trade unions where people organizing themselves to do things that would make their lives better. I think we see a little bit of that now with new technologies and including in the financial sector, all kinds of new startups and peer-to-peer lending and crowd-sourced funding and so on, which are really small-scale and some of them won't work, but some of them might. And that's the kind of area where I'd be much more optimistic really about getting institutional reform.

Owen Barder

And in your part about being clear about values and morals in economics, again, how or who could be against having a more morals or values-driven economics? But what does that mean? Who should do what to make that happen?

Diane Coyle

I think a lot of it is – what's the phrase for it? It's the symbolism, it's the statements that political and business leaders make and that could be quite powerful and change the way the businesses operate. A good corporate example is Paul Polman of Unilever, who everybody talks about, because he's quite rare. But he does make a difference in the kind of statement that he makes in the way that the company does business. And like any big corporation, you will find things that they do that you don't like, but I think they do good business in all senses of the world. And he is not embarrassed to use his position and the symbolism of his position to just talk about it. People move from one moral universe into another surprisingly quickly, depending on the peer pressure around them.

Owen Barder

My expectation is that companies will do this – I mean think Paul Polman is a good example of someone who is ahead of this curve. Andrew Witty at GSK is another example. But it does seem to me that in the end this will come about when companies believe that this is what their consumers want or at least other among their key stakeholders or perhaps consumers, perhaps shareholders, perhaps employees that they will – there will come a tipping point where they think we can't just be hard-nosed, profit maximizing, cost minimizing people, we have to demonstrate that we have certain kinds of values, because otherwise our customers will go somewhere else.

And yet, surprisingly consumer – there is a group of middle-class consumers, who care about these things and buy fair trade and do all those things, but there are a hell of a lot of people who can't afford that, right, you just want to buy – they have to buy the cheapest food available or the cheapest products available. Do you think that in the – is this just a call for us as well-heeled metropolitan middle-class people that we don't want to see our firms being as economically efficient as they can be, putting up the price to a lot of people for whom that's – the cost of doing more moral business will be quite serious. They aren't choosing to buy fair trade, because they can't afford it. So what business are we telling them that is what they want?

Diane Coyle

Well, I'm obviously not in the business of telling people they have to pay more for business to be able to do good and I would start in different places, actually I would start with – I mean, the thing about tipping points is that it looks like nothing is changing, then it changes very quickly and this business about maximizing total shareholder return but, brackets, siphoning a lot of that off to the executives, that's really quite recent and it came about quite quickly and it came about because of politics, and so the politics could actually change it quite quickly and I would start there and I would start with legal and regulatory changes and I would tax bonuses to smithereens and start changing the climate there long before I went to asking consumers on low incomes to pay more for fair trade goods.

Owen Barder

Would you make changes to the legal fiduciary responsibility of the companies? I mean, there is technically a legal requirement to maximize shareholder values in there, I mean, should that change, is – would that be part of the...

Diane Coyle

Well, the interpretation of it has changed.

Owen Barder

Alright.

Diane Coyle

And I think...

Owen Barder

It should change back.

Diane Coyle

...it should change back or if it looks like the law constrained changing back then the law needs to be changed on that, because I do believe that companies doing business with a purpose of – a purpose of not to maximizing profit and total return will actually do better in the long-term anyway and that investors that invest in those sorts of companies will do better for their pensions or whatever in the long-term deal.

Owen Barder

I want to challenge you a bit on what I see is a mismatch between what I found a very compelling narrative of the challenges we face. The environmental challenges, the problems of social fabric of trust and social capital, the problems that we face as changing demographics in society and the impact on the public sector, the financial crisis, all these seem to me very real and compelling and difficult and you identified these three obstacles to – they're getting in the way of doing something about them, the failure of measurement, failure of governance and the failure of values, the manifesto then doesn't seem to me to be up to the task of fixing these problems.

Diane Coyle

No.

Owen Barder

So, should I have finished the book as I did a bit pessimistic and a bit gloomy?

Diane Coyle

Well, I myself vary between pessimism and optimism. The manifesto doesn't answer all the challenges, I think that's absolutely right. And I think it's partly because responding to any of these challenges isn't simple and there isn't a list of 10 bullet points actually that you can give to fix any of them and because it's a book I tried to give 10 bullet points, so it doesn't work. Tackling any one of these requires a lot of detail and we've just kind of sketched over some of them, but talking about fiduciary duty and remuneration consultants and corporate governance structures. As soon as you start on that, there's lot of details there and

then when you're looking at across the whole water-front, you don't need 10 bullet points, you need probably 10,000 bullet points of actions to take. I think this is a big, a big, a big scale drop, a long drop. That was pretty pessimistic, isn't it?

Owen Barder

It is, but it's also realistic and as – if I may just ask you for a thought about how this works out on an international scale, because again many of these challenges are global in nature and it's difficult to change company law over in the UK, where we have a reasonably well-functioning parliament, how difficult is it to change some of the problems for example of the way the international financial system works, where we don't have an effective executive at a global level or an effective legislature at a global level that can make those kinds of rule changes, how do we – do you have any – are there parts of this story where you think is most promising to make progress at an international level?

Diane Coyle

I think there is hope in the way attitudes are changing around the world, I mean, the intellectual climate is a global intellectual climate and I think that is changing and has changed quite dramatically and so there's a prospect of people in lots of different countries having exactly these kinds of thoughts but the practical politics of implementing it in international institutions I think is really tough. And particularly in the financial markets it may come to a choice between working around what you might perceive of as a problem in the American financial markets and cutting yourself off from it, I mean there might come a point when there is a choice to be made there.

Owen Barder

I would have one measure of optimism which is your tipping point point, which is that I do think that all these problems – I look back to the history of the evolution of slavery and it must have seemed impossible to imagine a world in which we got rid of slavery when they sat around in the East End of London and plotted the evolution of this campaign, but actually – these are – it's amazing how ideas do spread and take off and tip...

Diane Coyle

Yes.

Owen Barder

...and people are willing to meet and what's inspiring about I think your description of moving back to a world driven by values and markets is the idea that this is actually what people want. People regret the loss of some of these values in the social fabric and the trust, because that's part of what makes it worthwhile living as a human being. So, I think that this could quite quick – I think as we begin to identify solutions, it could quite quickly gather momentum, so I think that's grounds for optimism.

Diane Coyle

I have been amazed going around the world, talking about the book, at the amount of interest and the range of people who are interested in this, when it's a book about GDP and measuring happiness.

Owen Barder

You've been listening to Development Drums with me, Owen Barder, and my guest today has been Diane Coyle, who is the author of 'The Economics of Enough', which is now out in paperback. Diane, thanks very much.

Diane Coyle

Thank you.

Anna Scott

Thanks for downloading Episode 34 of Development Drums with Diane Coyle. Join us next time, where we're joined by CGD senior fellow and expert in migration, Michael Clemens, to discuss his work on migration and development.

[Music]