It's about the economy, Stupid

I hope I have been invited to speak today due to my expertise in the "economy" part of the title – not the "stupid" part. I'll let you judge at the end of my talk!

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I will talk about the economy addressing not its mechanisms, but its function and nature -- perhaps in the spirit of the cautionary words spoken by Joan Robinson in 1955.

And to do that, I will touch on 3 things:

1. What do we mean by the economy?
2. How must we transform the economy?
3. What can cities do in this transition?

So -- What is "the economy"? or more exactly what does "the economy: do?

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Oikonomia to the Classical Age Greek philosophers who first wrote about it was the art – more than the science – of keeping our "house" – in the broad sense of the word – in good order.

Contrast that with the generic modern definition of the economy as the "process or system by which goods and services are produced, sold, and bought in a country or region".

And the generic definition of "economics" as the "science which studies human behavior as a relationship between ends and scarce means which have alternative uses".

To the Greeks, economic rationality meant attaining *the good life* as they understood it, to participate in the affairs of the Polis – of the city-state, to explore philosophical and other social and spiritual pursuits, and resist the impulse of excessive material consumption.

Much of contemporary economics is devoid of such an ethical base – it is agnostic as to what the *ends are*.

We trust that the cumulative self-interested choices of billions of who we believe are rational agents – I mean– people, result in a greater good that – because it is the cumulative representation of all those choices -- is a worthwhile end in and of itself.

Spoiler alert – this approach did not go as well as we would have liked.

While much of modern economics may not concern itself with the answer to "why" or "what for" it does have a singular, steadfast and unwavering focus on the "how".

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And that how is growth.

As children, we firmly believe that if something is good, then more of it is better.

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One scoop of ice cream is good,

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but two is better,

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and 3 … even better..

But then we grow up and we come to realise that too much of even a good thing can be bad.

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Seen in this light, economics has not quite yet matured out of a childhood trust that *ever more* is *always best* – or even worse, that economics has entered its adolescence with an *annoyingly blind faith* holding that belief to be *incontrovertibly true*.

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Ask most economists – ask most decision-makers, public or private – what it that the economy does and the answer from most will be -- It enables and drives growth in material throughput and output.

Always more growth.

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And let's be honest – this focus has paid off since the late 18th century.

Economic growth has led to unheralded progress in health, education, life expectancy and wealth.

Globally, we have never lived longer, been schooled more extensively, been freer to act with agency in our own lives and have experienced greater bounds in material human development.

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But this growth has not been without costs – costs that reflect the diminishment of the very things that enable life on earth and that enable the economy to even exist, costs that ironically and alarmingly, fall out of most forms of economic reckoning.

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And the foremost among these costs has resulted from the accelerating transfer of fossil carbon into our atmosphere …

….that has fueled economic growth all the while raising global temperature to levels increasingly incompatible with the conditions of life which have given rise to everything humans have ever achieved over our brief tenure on this planet.

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Though we live with seemingly unlimited desires, our planet is finite.

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The Stockholm Resilience Centre has mapped 9 critical planetary boundaries we must not cross to sustain life on earth as we know it – and thus sustain our economy.

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In 2009, we had had crossed 3 of these, in 2023, we have crossed 6 of 9 and trends are worsening, not improving.

The economics of ever more are leading to a world of ever less.

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If ever we have had a global "***Houston, we have a problem moment***" it is now but unlike those astronauts, we have no backup command centre to talk us back to safety.

Only ourselves.

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The economy that has gotten us to this point will not be the one that steers us back to a safe harbour – It is clear that just shoveling cheap nature into the economic furnace is not going to work as it has in the past…

So what is the turn we must make?

What is the shift in our thinking, in our economic model that will allow us to, pardon a Tennessee expression –

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… ***unfuckify the economy***.

There is no simple answer…

We must acknowledge that we cannot just jump from one economic framework to another –

We depend on today's economy for our livelihoods and for its ability to generate wealth necessary to fuel investment in more sustainable pathways. But we cannot depend on today's economic model to get us there.

We are, to take a vehicular analogy, trying to steer the transition with one foot hard on the gas pedal while we are pulling hard on the handbrake …. And we are running rapidly out of road.

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Whatever we do, we will have to address three system errors.

- The first is what it is we want the economy to do – what it must optimize,
- The second are a series of measurement errors we must address
- And the final is a casting error we must overcome.

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When James Carville, the US Democratic party campaign strategist, posted the words "The economy, stupid" in the 1992 election campaign war-room, he meant it as a reminder that voters care about the economy, first, second and last.

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But people are concerned about the economy not just for the sake of the economy, but because of what it enables them to do. And here too often, we conflate what it is the economy allows us to physically *obtain* with what it is that the economy allows us to immaterially *attain*.

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The focus on growth for growth's sake has proven problematic and untenable – but it has lifted masses out of material deprivation to a point where a better life is possible.

So it is understandable that we believe that the economic model that has gotten us this far will also be the model that will help us reach happiness, fulfillment, quality of life and prosperity.

The evidence says otherwise.

To start with, growth has delivered its benefits inequitably.

The poorest half of the world earn less than 7% of total income whereas the wealthiest 1% of the world earn 21% of global income.

The economic returns of growth, even where it is better distributed as it is here in Europe, are still not well distributed and in many places, it is getting worse.

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There is anger that comes with exclusion from the economy and its fruits just as there is fear that comes from the unequal impact of economic and environmental whiplash…. ignoring this fragilises trust in government and our democracies.

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We must also understand that, past a certain point, more growth doesn't automatically lead to a better quality of life.

Nobel prize-winning economists Esther Duflo and Abhijit Banerjee, underscore that increased GDP does not necessarily mean a rise in human well-being and that its pursuit can sometimes be counterproductive.

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Economists, sociologists, psychologists, cognitive biologists all studying the mechanisms of happiness and fulfillment show that once economic growth meets our material needs, its contribution to life satisfaction drops.

Those having studied the question, point to the need for our economies to optimize for something beyond growth – something like prosperity.

Prosperity, for the economist Tim Jackson, is about the quality of our lives and relationships, about the resilience of our communities and about our sense of individual and collective meaning.

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Jackson's work, the work of the OECD on alternative metrics and models of the economy, the work of emerging schools of economic thought all point out that *we can have* prosperity without aggregate growth, but that growth alone will not lead to prosperity.

Kate Raworth, economist and mother of Donut Economics,– says it succinctly and clearly – we need economies that make us thrive, not just survive.

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Several measurement errors hamper our ability to transform our economies.

The Nobel prize winning economist Joseph Stiglitz cautions us "What we measure shapes what we do and so if we measure the wrong thing, we do the wrong thing"

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A first and fundamental measurement error is that we conflate Gross Domestic Product or GDP with what we want the economy to deliver.

GDP sets no qualitative difference on the object of our spending – for GDP, expenditure on prisons and schools is equivalent as is spending on preventative health care versus costly downstream medical treatments.

But clearly schools and preventative care matter more.

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Measuring the economy only with GDP and only in view of its growth misses what the economy should be enabling us to attain. I have mentioned prosperity but even more fundamentally, surely, the economy should be contributing to happiness?

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The United Nations World Happiness report looks at what makes people – and societies – happy around the world.

And what it consistently finds is that GDP only explains a small part of what contributes to our happiness.

What are the other contributors to happiness?

Social support, Healthy life expectancy, Freedom to make life choices, Generosity and lack of corruption – things that GDP cannot and does not measure and thus does not account for.

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Another crucial measurement flaw is that the full costs of many important burdens are not included in the prices markets set.

Things like water and air pollution, the physical and mental toll of traffic crashes, habitat loss and climate change.

These so-called external costs are substantial – In Europe, they accounted for 716 Billion Euros in 2016 , 987 billion Euros if you include congestion.

For some, these externalities are a bug in the system – but under a more critical eye, these externalities are not so much a *bug in the system* so much as they are *a design feature* of the economy – hard-baked into its functioning because of the assumptions and metrics we use.

So when -- as we saw recently with the Euro 7 standards -- substantial decisions are made that must balance significant externalities, in this case deadly air pollution, *borne by all*, with the economic vitality of a *single but important* industry -- we must ask ourselves irrespective of the outcome and what we believe to be right – why is our economic framework failing to integrate these costs and benefits by default and by design?

Another glaring measurement error is all that our economy is blind to. All that it excludes from its calculus.

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And first among these is the productive work that enables households to partake in other economic activity – the unpaid and devalued work of *care* for family, for those in need and for maintenance of the very households on which our economies are built.

Tellingly, when Adam Smith, one of the founding fathers of modern economics wrote his opus the "Wealth of Nations", he did so after moving back into his mother's house to be cared for and fed by her as he wrote. Needless to say, she was unpaid for her work and invisible to his theorising on the functioning of the economy.

This invisible, unvalued economy represents 15% to 27% of GDP across OECD countries and even more elsewhere.

In some instances, unpaid care contributes more to the economy than the manufacturing, commerce or transportation sectors.

It will be no surprise to *at least* half of you, women create the majority of that ignored economic value.

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On that note, let me just say a word on the casting error we commit when we think of the economy.

Here, I would just reiterate that we need to seek voices beyond those that have led us to the unsustainable economy we have today.

We need non-economists and economists who do not hide behind the specialist jargon of their field.

And in particular, I would advise you to turn to women economists – not because they are *more likely* to have the *right answers* or – but because it has been my experience that in economics, as in life, women generally ask *better questions*.

When so much of economics is devoted to getting precisely the *right answers* to the *wrong questions*, the ability to ask *better questions* is a largely untapped super-power.

In the male-dominated field of economics, we see that women economists' views diverge significantly from those of their male counterparts – this should tell us something about the voices we should open ourselves to in order to shape a more sustainable economy.

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And, in closing, what of the role of cities in addressing the economic turn I have outlined?

We generally think of the economy as something that is *national*, but national economies are first and foremost the aggregation of city economies.

We should understand that cities like our host Leuven or Antwerp, Arnhem and Nijmegen, also represented in this session, have lasted and anchored economic life far longer than the Empires, Kingdoms or even the countries in which they now find themselves.

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Cities generate the most wealth, concentrate the most population, serve as engines for the kind of catalytic creativity that generates innovation and progress.

They, *you*, are inevitable and primary actors in the economic transition we must make.

So what should you take from what I have briefly laid out here this morning?

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Use meaningful indicators for measuring wanted outcomes – not just the off-the-shelf economic indicators.

Monitor real costs and burdens, especially those not captured by prevailing economic measurement.

Among these, concern yourselves first with the costs and burdens that are poorly distributed. Concern yourselves that economic gains are fairly distributed and that people have a voice in how this is done.

Where costs and burdens are poorly, *or not at all*, captured by economic accounting, be prepared to deploy compensatory measures that nudge these costs back in line with what is tenable and tolerable.

Space allocation, parking policy, housing policies, targeted urban access management – all these and other tools form part of the mix that cities have and should deploy to ensure they can deliver on the mandates that people entrust to their local authorities.

Assess how to address economic exclusion and invisibility – how to ensure that productive contributions are not ignored or remain unvalued. Focus on what you can do to prop up the care economy and those who enable it. Including in transport.

And finally, redefine economic discourse by focusing on the outcomes the economy helps to enable -- the outcomes people aspire to -- not just on how the economy functions.

Understand that, fundamentally, the economy is just a model of how human society delivers on prosperity and fulfillment. It is not immutable, and it is continually shaped by a consensus regarding whet we consider to be “a good life”.

With all of that in mind, let me conclude by making a deeply personal reflection – a reflection that I believe is nonetheless relevant for cities as they evolve through time.

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The other day, I was reading an essay by caregivers describing what those about to leave this world communicated to them in their dying breath.

These were moments when people were coming to terms with their personal economy, if you will.

The ways in which they made decisions to allocate scarce means to what they needed, to what they desired.

And in preparation for this keynote, I reflected on what these people said when confronted with the final ledger of their gains and losses…..

What regrets will we have for not having consumed more?

What discounting will we give to not having laughed more?

What value will we give to those moments we sped through our days not taking the time to sit with those that mattered most to us?

What welfare gains will we have realized from having loved less than we could… less than we should?

What monetisation of our lives will we be most proud of?

What kindnesses will we have most cruelly economised?

Because in the end – for all of those people reflecting on a life soon to slip away – for all of us….

It is about the economy, stupid.

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It was just never about the economy we thought.