Diane Coyle: Economics of the Future

The Nobel-prize winning and highly revered Economist Robert Solow was a great advocate of the idea that we should "run the economy to meet the needs of the present, without compromising the ability of future generations to meet their own needs", and it was on this note that Diane Coyle began her talk in the Ramsay Lecture Theatre last Thursday.

The term sustainability conjures images of melting polar ice caps and smog-enveloped Beijing streets in the eyes of many people, but, argued Coyle, in reality it encompasses a lot more than the environment. Take the sustainability of recent business practices, for example. Over the course of countless interviews she has conducted with business leaders, the figure that emerged for the required turnaround on investment (with the exception of those in the extractive industries) was two years; for those in the financial sector their considerations were quarterly.

In a recent interview, automated trading researcher John Cartlidge said "Economic theory has always lagged behind economic reality, but now the speed of technological change is widening that gap at an exponential rate. The scary result of this is that we now live in a world dominated by a global financial market of which we have virtually no sound theoretical understanding". The dominance of algorithmic and high frequency trading is such that a transatlantic cable is currently being laid (at a cost of $300m) that will save traders six milliseconds. American financiers drilled through the Allegheny Mountains between Chicago and New York in 2012 to lay a similar cable, which again, at a cost of millions and a saving of milliseconds, would allow them to gain an advantage over their rivals.

Such practices, argued Coyle, demonstrate how the emphasis in the financial sector has shifted from providing a service and creating social value to that of individual gain.

The risk and reward culture so heavily associated with the City of London and elsewhere is, however, only part of the wider problem of social unsustainability and widening inequality. Again, Coyle believes this is partly the result of our increasing reliance upon technology. In a world where businesses of all kinds are becoming increasingly automated, the demand for individuals with university level qualifications is rising whilst the demand for workers with more vocational skills is rapidly waning. Such divergence in income also results in part from the quashing of employee power that took place during the Thatcher/ Reagan era and the 'winner takes all' practices of, for example, the film and fashion industries where individuals are rewarded for renown as opposed to worth.

The final form of unsustainability discussed during the talk was that of the government's fiscal position and Coyle argued that however long-term a view you choose to take of when the deficit should be repaid, the books will have to be balanced at some point. The UK government's fiscal deficit is currently the highest it has been since the Second World War. This is set against a backdrop of an ageing population and a welfare system that was designed as part of a growing economy – something that we can no longer rely upon. The UK's position, however, is favourable to that of other western nations thanks to our higher birth rate and steady influx of migrant workers. Between 1986 and 2006, population levels in Western Europe grew by 12.4% on average; Italy, however, only grew by 3.9% - raising serious doubts as to the country's ability to deal with its worsening demographic position.

So how should we go about dealing with such a multitude of issues that are, to a certain extent, intrinsically intertwined? There's no easy fix according to Coyle. Take education policy for example. Even if the government were now to put in place the measures that would equip school children with the skills required in today's highly technically demanding workplace, the effects wouldn't be seen for a generation.

One solution suggested by some, notably Tim Jackson in his book *Prosperity Without Growth: Economics for a Finite Planet,* is that we should cease to be concerned with rates of growth altogether. Advocates of this maxim argue that we should seek to consume less, rather focusing on human relationships, community and the deeper meaning of our lives. Coyle, however, has little time for such mantras, arguing that to ignore a correlation between growth and welfare is equivalent to dismissing the relationship between growth and, for example, health, height and life expectancy: all of which have been empirically proven beyond the point of doubt.

Without growth, there' d be a lack of innovation and new products. Buying a new iPhone, for example would involve the sacrifice of something else. Citing Channel 4' s *The 1900 House, (*a television programme which aired in the late 1990s in which a family had to live in the manner of the Victorians) Coyle pointed out that it wasn' t the giving up of work, or lack of technological possessions that brought the mother of the house to tears, but rather the fact that, (as it hadn' t been invented by the Victorian era), shampoo was strictly prohibited. The point being that growth has permitted the invention of many of the trivial things that we now take for granted.

Coyle is a firm believer in the importance of measurement for the formulation of policy to improve well-being into the future. She dismisses the idea of using a happiness index, stating that monitoring happiness on a scale of one to ten against the continuous variable of time is a futile exercise and is unlikely to reveal little change. Rather, Coyle argues, dashboard measures of prosperity, such as those being trialled by the Australian government, may be the answer. These take into account factors such as environmental conditions and tangible assets (therefore placing less weight on the invisible sources of output generated in the financial sector). The ONS currently publishes an annual welfare report that includes some of these factors, however it' s 45 pages long and so readership is, to say the least, minimal. In order that politicians can be held to account on improvements in overall welfare, such measures must become accessible to all.

It is no coincidence argues Coyle that the substantial widening of inequality the occurred during the Victorian era coincided with the conception of many of the institutions that are of vital importance to society today – trade unions, for example. If we' re to solve the aforementioned problems in today' s society, then we must invest in new institutions. One potential example being organisations that gather data on wages within given professions using smartphone apps. This information could then be used to highlight the vast divergence in earnings between industries and even within organisations.

Coyle then went on to discuss the role that economists have to play in the reshaping of society. Citing an early article by NY Times columnist Paul Krugman in which he commented on the difference in mentality of CEOs of a bygone era (to whom a salary of many hundred times that of another individual within their organisation would have been viewed as reason to be ashamed), and their modern day counterparts. Economists, Coyle argued, should be aware of such changing norms and social conditions and, where possible, attempt to incorporate them into their work.

One prime example of how this can be achieved is in the teaching of the subject itself. Coyle - along with UCL Professor, Wendy Carlin - is part of an organisation that is currently looking into how the teaching of economics in Universities might better equip students for the world of work. Upon speaking to senior figures within the business and financial worlds, many believed that a greater emphasis on institutions and economic history may have stood graduates in better stead to deal with the changing conditions presented by the financial crisis. Coyle believes that there is the scope to remove much of the technical aspect from undergraduate courses, as for those (relatively few in number) who wish to become economists, it is something that can be acquired at a later date by undertaking postgraduate study.

Irrespective of your political/economic stance, it is very difficult to disagree with much of what Coyle has to say. For example, there is unequivocal cross-party consensus on the need to take other measures of welfare, GDP aside, into consideration.

Mervyn King, the outgoing governor of the Bank of England, has spoken at length of the need to ring-fence the retailing arms of banks from their risk-taking investment branches; therefore reducing the effect of attempted profiteering on the depositing public and allowing the banks to create more of the 'social value' that Coyle emphasizes the need for.

On education, I personally couldn't agree more. In the US, for example, undergraduate degrees are four years (at the very least) in length and students are encouraged to study a broad range of subjects during their first two years, before going on to specialize for the remainder of their course. It is taken almost as a given at many institutions that students will go onto graduate school upon competing their first degree, and in my opinion the system, whilst equipping people for the working world, treats education as more of an end in itself, as opposed to a means to an end. However, with the recent public outcry over the increasing cost of higher education, I think it highly unlikely that there'll be any kind of movement towards a system that would, inevitably, increase the financial burden placed on students.

A changing of social attitudes and practices that have been in place for decades is never going to be something that's easily achieved, but the longer governments delay the warnings of the self-proclaimed 'enlightened economist' and others, the more our legacy to future generations will be piled high with environmental, social and economic debt – David Cameron and co., take heed.

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Throughout the course of the hour, Dr Coyle spelt out how we might go about addressing many of the issues facing society today - such as widening inequality and unethical business practices - and ensuring that the legacy we leave for future generations isn't one of economic, social and environmental debt.