

Steve Keen: This is where we are... And how we got here

Ross Welcome to Renegade Inc. A year on from the beginning of the pandemic, we reconnect with Professor Steve Keen to talk climate breakdown, fraudulent economics, the so-called Great Reset and how we can think about charting a different course.

Ross Steve Keen, great to have you again on Renegade Inc.

Steve Keen Good to be here. Slightly further apart than we were last time we spoke.

Ross Let's just play a clip of that interview that we shot a year ago because some of it was quite prescient.

Steve Keen (Video clip) The type of capitalism we have where the pressure has been to deregulate, diversify supply chains, globalise and so on, works in what William Baumol once called the cowboy economy where there are enormous, vast open, spaces. You can expand into them, you can dump stuff because it doesn't matter, the environment will cope. That's cowboy capitalism.

Ross (Video clip) And is that the idea behind Go West Young Man?

Steve Keen (Video clip) Yes, exactly. That's where Baumol took the idea from. What he then said is we're also in our own spaceship economy. We are so confined by the system we're in that we don't have any room to move. Everything we do gets dumped back into the vessel we're in. And this is one of the most tragic manifestations of that. The event itself wasn't predictable. That this event would happen was predictable. There's a great book written about it about 25 or 30 years ago by the New York Times health correspondent called 'The Coming Plague'. And it isn't the flu virus that happens to do it. That's what she thought would be the case. But it was inevitable that at some point we'd get a combination of a highly contagious disease which was very deadly at the same time. And in some ways, this virus actually hits the sweet spot of both.

Ross What is the scar tissue that's going to be left economically after this pandemic? What do so-called developed economies like the Netherlands, like the U.K., certainly the US, what does it look like in a post Covid world when we're thinking about economics?

Steve Keen I think what it throws into sharp relief is the whole idea about saving for the future, because when you talk about saving for the future, for you and me, it's whacking away little pieces of paper in a bank account. What actually matters for saving for an economy in the future is building infrastructure you'll need at sometime in the future. Now, the whole obsession with austerity that Cameron was responsible for, saving for a rainy day, well, there you are. The rain is falling and you guys haven't got a roof because you decided it was too expensive to fix it. So it's appalling how run down the infrastructure, particularly the health infrastructure, is of the UK, because, as we know, it was the country that gave us the idea of universal health care in the very first instance.

Ross But David Cameron has recently said that, actually, austerity got us gym fit ready for Covid. He said because of austerity, we were in a better place to be able to deal with a contracting economy. Discuss.

Steve Keen Oh, my God. I mean, I know you're a cricketing fan, but that's got to be some of the worst spin bowling I've ever heard. Honestly, the whole idea that you're prepared for it, what is going to happen after it, of course, is a massive need to focus on rebuilding the excess capacity that never built into the system in the first place. It used to exist back in the days when the NHS was first formed but pairing it down and focusing on efficiency means it completely lacked resilience and robustness. Almost a thousand medical staff have died because of Covid, let alone the more than one hundred thousand that have died as well. It's an appallingly bad exercise and if it didn't cause an enormous soul searching, there'd be something wrong. And I think that there will be something wrong, because they're going to try to ignore it and go back to business as usual afterwards. So this should be a real wake up call. You have to build infrastructure. And for crises like this, it can't rely just on the private sector. Get the private sector to do the innovation, the invention and so on, sure. But in terms of building physical facilities, you need the state to be in there with the excess capacity that it can carry, whereas private organisations can't afford to run such a large level of overcapacity at a loss.

Ross Brings us right to the crux of the matter, doesn't it? Trying to run surpluses, this fantasy land the politicians have. You know, remember, I think it was about 70 percent of UK politicians think that the Royal Mint issues the currency in the UK. I mean, that's the level of economic illiteracy. When we talk about surpluses, deficits, building infrastructure, creating capacity, why is there such a stubborn refusal for the political class and policy makers to understand how the economy really works and, actually, we can't run the UK with a surplus in this neo liberal, lean, kind of way, thinking that it is a whole country, thinking it's a private enterprise?

Steve Keen Yes. I mean, it comes back to economics, economic theory. I mean, most of your politicians are victims of a degree in philosophy, politics and economics where they get one or two years of economics if they're unlucky. And in that, they learn the supply and demand analysis of the market system. And that whole idea that, you know, if you can describe an economy as a pair of intersecting lines where any deviation from the point of intersection will make you worse off, that has a system with no government to it. So quite automatically its anti-government because governments which displaces you from the point where the two lines intersect, and that, of course, is a nirvana. Now that sort of background, intellectual background, they are in no position to actually work out what the role of the state should be in the first place. And they are going to undermine the viability of capitalism by trying to enhance it.

Ross Have you seen these three words 'Build Back Better' being bandied around, the Great Reset, apparently. What is the Great Reset and what are we building back that's better?

Steve Keen The Great Reset is a TLA which stands for a three letter acronym, which seems to be very popular in political circles. What was the other one, the three slogans for save lives, Save the NHS, blah, blah, blah? It's substituting spin for substance. The people who are saying the Great Reset are the ones who actually have run down the country in the last

decade, decade and a half. So I wouldn't expect a Great Reset unless you had a great political reset and got rid of them. And there's no sign of that happening whatsoever. I mean, by the looks of it, the Labour Party now is Tory lite and there's really no change in the political or economic philosophy. And until that occurs, there won't be a Great Reset they'll just be a great advertising slogan, otherwise known as gas.

Ross Sir Keir Starmer presided over Jeremy Corbyn's Green New Deal. Ann Pettifor, no less, worked on this. And suddenly, overnight, along with a lot of other things that Mr Corbyn was passionate about, all this has been thrown in the bin. Why do you think that's happened to the British Labour Party?

Steve Keen I think in many ways the British Labour Party followed the leader of the Australian Labour Party under Bob Hawke and Paul Keating going back to the 1980s. They're the ones who gave us the idea of neo liberalism, not as a sort of political philosophy out of America, but the idea that the progressive parties, the Labour Party's, the Democrats and so on, could actually run the economy. If they could prove they could run the economy better than the conservatives, then they could combine socially progressive policies with economically responsible ones and get the best of both worlds. That's pretty much the theory. The trouble is with that theory is that conventional economic theory doesn't describe the real world at all. It's a fictional construct. And I had arguments with some of the main architects of that system under the Labour Party back in the 1980s when I helped write the accord. I wasn't a lead writer by any means, but I was involved in the writing of the accord, which was initially supposed to be a sort of Swedish social democratic idea to build an industrial policy around, you know, sensible planning, what the future objectives were and so on. And the bureaucrats, mainly neo classically trained economic bureaucrats, deliberately undermined that when the Labour Party was in power and turned it into wage restraint by using retirement funding, the superannuation scheme, to reduce wage pressure. So what you had was this belief that if you just follow the economics textbook, you can combine that successfully with good social policies. And what in fact happened was that textbook ended up leading to the global financial crisis, to the austerity and demobilising the state and so on and everything falling apart. And then in the process of that, because the working class copped more of that negative than any other part of society, it made the working class ripe for being hit by the anti social progressive policies of the conservatives. And it backfired completely on Labour in Australia. It gave us John Howard. It's backfired on you by giving originally Cameron and now you've got Keith Starmer looking like he's trying to revive the whole thing, still not understanding that that is not the description of a real world. It's a textbook model that doesn't work. And that's why we need what they call a Great Reset that they're not about to do because they don't understand the economy in the first place.

Ross And just for accuracy, it's Sir Keir Starmer, not Keith Starmer. But actually, I kind of like the improvement.

Steve Keen Yes, let's call him Keith.

Ross Janet Yellen recently came out and she said, look, we can easily get back to full employment in the US provided the stimulus bill is passed. Is that fantasy thinking?

Steve Keen It's not a stimulus bill. It's a recovery bill. And this is what worries me, it's seeing this thing as a stimulus. We waltzed into this with the highest level of private debt in the world in the history of capitalism, in the aftermath of the financial crisis in 2008, which reduced in America's case by 20 percent of GDP, from 170/150 percent of GDP, already higher than the Great Depression level. That's sort of sustainable with the cash flows before Covid. When Covid hit there are many, many people, both businesses and workers, who can't afford to pay their bills, so they're running up debt to cover it and there's been an explosion in private debt because of that. That is going to be more important, I'm afraid, under the stimulus package than going the opposite direction. So I just don't think that because they don't understand the role of credit in the economy, they're not aware they're going to get a negative credit shot on one side while they're trying to get positive government stimulus on the other. So the idea that the stimulus alone will do it again is a textbook vision of the economy that won't work in practice.

Ross I'm going to make you the Chancellor of the Exchequer in the U.K. You've got a chequebook. We're allowed to run a deficit. We're not going to be hamstrung by this surplus idea. Where do you start getting Britain back on the road to some sort of normality?

Steve Keen The first thing I'll do is what I call a modern debt jubilee, and that would be using the government's capacity to create money to cancel private debt, not to change the amount of money in the economy, but to turn what is currently debt based money by bank created money into Fiat base. That would be the first thing. That would then mean people weren't carrying a huge financial burden and could spend more easily, which at the moment they can't do. Then I'd be looking at government investments in infrastructure, particularly your health system, which of course we can see how much that's been destroyed under austerity. Equally, education and infrastructure for the power, because if there is going to be a Great Reset, one of the most important things to reset is energy production, because in this sense, Covid is a form of climate change impact on us. We are putting so much pressure on the economy.

Ross Just explain that for us.

Steve Keen What climate change is really caused by is the human species taking up far too much of the resources of the planet. In that situation, if you look at it from the point of view of a pathogen, what's the best population to infect? The answer is humans. Any other population, you're not going to get the same number of potential beings to be transmitted between. So we make ourselves the main target for pathogens and equally, our livestock, our animals and so on. So we've made ourselves incredibly vulnerable in a whole range of ways. It isn't just carbon dioxide, which is the usual focus of talking about climate change. It's the pressure we put on biodiversity. And by also reducing the number of competitors we face, fundamentally, we are making ourselves the main target of pathogens.

Ross Steve, you talk at the end of the first half about how we humans are putting such pressure on our natural environment. Recently, Professor Sir Partha Dasgupta talks about, 'Our demands far exceeding nature's capacity to supply us with the goods and services we rely on'. He claims that 'We would require 1.6 earths to maintain the world's current living standards'. He goes on to say that, actually, pandemic diseases, not dissimilar to Covid-19, 'are just a tip of the iceberg'. And that seems to echo what you said at the end of that first half.

Steve Keen Yeah, it is the tip of the iceberg, and I think we're likely to see the iceberg arriving this year because a large part of what we're seeing, putting pressure on parts of the earth that are going to tip elements of the climate from one state to another. And when that happens, it's something which is simply beyond our power to reverse. And the scariest one that we face right now looks like being the disappearance of Arctic summer sea ice sometime in the next one or two decades.

Ross Just talk about tipping points then, because it gets bandied around doesn't it? Everything is apparently a tipping point or a hockey stick graph. What does it actually mean? What's the mechanism that drives a tipping point?

Steve Keen What it refers to is that there's a characteristic which needs a particular temperature to be maintained. And the easiest one to think about is ice. If you want to go ice skating, you really want the ice to be colder than zero degrees Celsius. Ice at two degrees Celsius is not a lot of fun, OK. So the tipping point is to go from being a solid to a liquid in that case. And we're all used to that. Now, what we're talking about at the climate level, lets stick with ice, the Arctic sea ice during the summer means that the radiation falling on the North Pole gets radiated back into outer space because at least 80 percent of it, when that light hits the ice gets reflected right back into space again. Now, as you move to more and more of that ice turning into blue ocean, then rather than 80 percent of the energy being reflected, maybe 5 percent gets reflected. And that's an enormous increase in the amount of heat being absorbed. One thing I've learnt from reading all the papers I've read on climate change is rather startling. The Arctic during summer receives more energy from the sun than the tropics do. The reason being, of course, it's in the sunshine 24 hours a day when the tropics are in sunshine for 12 or less. So you, therefore, get a larger amount of energy up there. So if that goes from being ice to being blue water, there's an enormous increase in the amount of energy we absorb from the sun. And that is fundamentally what climate change is about.

Ross The last time we sat together it was here talking about Covid. The interview before that was up in Norway at KAKAnomics, the Nordic meeting place. At the time you were shaping up to write this paper, which is a demolition job of William Nordhaus and his climate modelling. The paper is called, 'The Appallingly Bad Neoclassical Economics of Climate Change', admittedly not the catchiest title, but it does what it says on the tin. You've really gone to town with this. Just give us a brief overview of what's in it and why you wrote it.

Steve Keen William Nordhaus was given the Nobel Prize for his work on climate change, and my first reaction to that was, well, at least they're recognising that it's a problem. Then, having done my own work on the role of energy in production, I thought it was time I could make a contribution to the literature and I could read what he actually wrote. And I was simply appalled. That's why I used that title. There's no other word to describe the work but appallingly bad because Nordhaus began from the assumption, effectively, that capitalism could cope with any shock whatsoever. And therefore to show that that was possible with climate change, he had to show that climate change was trivial. So his very first paper, which gave an empirical estimate of the impacts of climate change on the economy, worked out that the impact of a 3 degree increase in temperature would be to reduce global output by one quarter of one per cent and he then boosted it to 2 per cent by throwing in fudge factors. The

reason he got that result was he literally assumed that 87 percent of industry would be unaffected by climate change because it occurs in what he called 'carefully controlled environments'. He included mining in that level. So what he meant by 'carefully controlled environments' is anything that happens indoors will not be affected by climate change. That was the assumption. He literally mistook climate for the weather, and that rather than being like an aberrant statement back from 1991, the same thing was written by the Economist who wrote the economic section of the IPCC report in 2014.

Ross Right. So there's the smoking gun, right?

Steve Keen Yeah, it is a belief that neoclassical economists have that climate change is like the weather. And all the statistics they've generated is about what would happen if the weather changed by 2 or 3 degrees. Now, if the weather changed by 2 or 3 degrees, you'd be outside playing with the dog rather than the dog insisting on staying inside to avoid the weather. It's that level of trivialisation. But a 3 or 4 degree increase in temperature can, for example, mean that the Arctic no longer has summer sea ice. And what that would mean is that during winter the coldest part of the northern hemisphere is going to be the winter sea ice. But when it melts, it's then Greenland. So the centre of rotation at the lowest pressure weather systems up there moved 2,000 kilometres from over the Arctic to over Greenland. Now, that sort of disturbs the weather in the UK somewhat and indeed the whole of Europe. And so it's that inability to see what climate change actually is and trivialising the dangers and outright distorting what scientists have had to argue there are no tipping points in the climate. And if I just do a quote from a paper by an English academic called Tim Lenton saying: 'A variety of tipping elements could reach their critical point within this century'. Nordhaus's summary of that says they 'find no critical tipping elements with a time horizon of less than 300 years until global temperatures have risen by three degrees'.

Ross Wow!

Steve Keen Now, OK, so that's a bit like saying Ross got out for a duck and scored a century.

Steve Keen (Video clip) What they've done to climate change, they've assumed that the very weak relationship we can now find between income and some part of America and the temperature in the same part of America, that will apply as we increase the temperature of the planet.

Ross (Video clip) Right. So your salary, or a median salary across a state, plus climate change, have been put together....

Steve Keen (Video clip) As though they are interchangeable. The way they put it was that we assume that the variations in climate and income over space will occur over time. It's like you're in a mountain and they're assuming we've got data about the slope of the mountain going north to south. We don't have data going east to west. So we assume the slope is the same in both directions. What could be wrong with that? If you're an El Capitan, you'll break your neck finding out the answer, And that's what they've done. Now, it's an insanely bad assumption. It's a stupid assumption.

Ross This is an incredibly important paper that reflects the Dasgupta Review here in the U.K., which concludes: 'To detach nature from economic reasoning is to imply that we consider ourselves to be external to nature. The fault is not in economics. It lies in the way we have chosen to practice it. Transformative change is possible. We and our descendants deserve nothing less'. In a sense, that's what you're saying here, isn't it?

Steve Keen Yeah. I mean, I'm a bit critical of parts of the Dasgupta Review that I've seen so far because they're trying to put a monetary value on nature at the same time as a way of getting us to value it properly. We really need to get away from monetary valuation and say some things should not be valued monetarily.

Ross Right?

Steve Keen That's the opposing approach I would take. We should be allowing a substantial slab of the planet to be off limits to humans, because if we don't have that, we use all the resources and more and we end up in the situation, which you described at the beginning using 1.6 earths per year.

Ross So in the first half, you were in charge of the UK economy. You sorted that out. Now I'm going to make you global climate breakdown tsar. What are you going to start marginalising and putting out of bounds so us humans can't go and ride roughshod over this environment?

Steve Keen Well, the first thing I'd actually bring in is carbon rationing, because economists are trying to say it's all about getting the price right for carbon - get the price right and the market will pick the right quantity. That's been a total failure, mainly because economists have slowed us down doing anything sensible for so long. But if we realise it's like a wartime situation where there's a limited amount of carbon that is available, then you could use universal carbon credits, as I call them, to give everybody an equal amount of carbon to consume per year as well as money. And when you bought anything, you pay the money price as well as the carbon price. You and I may well get away without actually exhausting our carbon budgets, but the ultra rich would not. And that would mean the ultra rich would need to buy carbon credits off the poor. And rather than carbon taxes and carbon prices, which hit the poor so badly that you get events like the gilets jaunes in France as a result, this would hit the people wearing gold lamé jackets. They'd be the ones screaming about it, but they are maybe 2 to 5 percent of the population. So I'd do something which makes climate change a positive for people at the bottom end of the social spectrum, and then we might get a chance to get some change before it all hits us as badly as I think it's going to do in the next decade.

Ross Are you surprised that whenever we talk about climate change, one of the first subjects to come up is monetisation?

Steve Keen Our entire way of life has been infected by thinking about things in a monetary way. I'm no spiritual person, as you know. I'm an agnostic and an atheist when pressed. But fundamentally, I believe we need to have a spiritual attitude towards life on this planet to give it the reverence it should have. And to reduce it all to a monetary calculation is what gets us into disasters like we are in now, including with Covid, and exceeding our bounds and

exceeding the planet's bounds and not even thinking about it until it's too late. And then, of course, in that situation, we pay the price.

Ross Maybe you're the wrong person to ask this, but do you think a spiritual renaissance, a spiritual revival, when people, post-Covid, have worked out what is important to them and what is fundamental? Do you think that is one way of starting to rethink the global climate breakdown?

Steve Keen It could be. I mean, if you look back at what people were like after the Second World War, the belief then was we were not going to allow anything like that to happen again. And the emphasis was on upon providing a decent living for the mass of the population, rather than letting the Wall Street speculators takeover as they did back in the 1920s with the roaring twenties. So that philosophical shift occurred, but we then pushed ourselves back into the monetary realm afterwards. So it isn't enough. It has to be something which I think scars us, not just for our own lives, but for the future life of this species on the planet. And even though Covid has been disturbing, by no means as it pushed people to re-evaluate the type of society we should have on this planet. And there are plenty of people who are, you know, still arguing for herd mentality. Herd mentality, that'll do.

Ross Well, it's herd mentality driving herd immunity, isn't it?

Steve Keen Indeed. Don't mention the Donald. But, yeah, it's something which has to be really, really deep to change our psyche indefinitely and Covid hasn't done it. I think, hopefully, if we do actually go through some of the crisis I expect us to see in the climate and then realise how we got ourselves into the situation by not realising our planetary boundaries, then in the aftermath, we have to put those first and foremost and capitalism comes second.

Ross If you go back to the etymology of economics, the Greek, is good housekeeping thinking that nature is the house and the way we've interacted with it has been absolutely, woefully, short of the mark. How do you then start talking about land, land use, energy, to undergrad economics students and have them understand that when they come out, they should really be taking a hippocratic oath because they shouldn't be doing any harm? At the moment, they're doing plenty of harm with this neo liberal stuff.

Steve Keen I think that's very correct. I mean, I want to take economists back to the 17th and 18th century with the physiocrats because they were the ones who realised that land is the source of all value. By land they, in effect, meant energy, free energy coming in from outside. And once you have energy which you are exploiting, it means you're relying upon resources, free resources, you get from the planet to be able to produce capitalism in the first place. And waste becomes an essential part of that. And you have to manage the waste and not let it overwhelm your household, which we have done in spades by not having that wisdom. So I think we need to get a complete reorientation of economics and take it back to the physiocrats into a physical-bio, physical world before we are going to be able to cope with what's going to come our way.

Ross French aristocracy didn't like the physiocrats, Steve.

Steve Keen True, true. And I don't think American capitalism will like them either. But American capitalism has signed its own termination date. I think with over-using the resources, what will survive this is not going to be Western capitalism.

Ross So carbon credits, return to the physiocrats, re-teaching economics from the ground up. Anything else on the list?

Steve Keen That'll do. Maybe teaching you how to do a good spin bowling.

Ross Well, game on - a challenge. A great place to stop. Steve Keen, always great to have you on the programme. Thank you very much for your time.

Steve Keen Thank you, mate.