

Steve Keen: A Manifesto

Ross: Welcome to Renegade Inc. After spending so much of his academic career systematically disproving the many myths peddled by mainstream economists, Professor Steve Keen has written a manifesto. In it, he provides a blueprint that allows us to reboot our relationship with the economy, each other and with the plundered planet on which we all entirely depend.

Ross: Steve Keen, friend of the programme, welcome to Renegade Inc.

Steve Keen: Good to be here again, mate. It's been too long.

Ross: Arguably, the busiest man on the planet, but finds the time to knock out another book - The New Economics: A Manifesto. It's a follow up, really, isn't it, to Debunking Economics where you eviscerate the neoclassical school of economics? And now what you're saying is actually, you're putting something down so we can debate it. We can talk about it. You're not just knocking down the old, you're building the new?

Steve Keen: Yeah, this is what's necessary because you can criticise a dominant paradigm for as long as you bloody like, if you can't bring about an alternative paradigm, it's still going to stand there no matter how rotten its edifice might be. So the whole idea of this is to say there is an alternative. We can build macroeconomics. We can make comments about how the economy functions, give advice to politicians. We don't need anything in neoclassical economics, just like astronomers don't need anything from Ptolemy and the crazy vision that the earth is the centre of the universe.

Ross: When you say we don't need anything, that is a total and utter anathema to the average mainstream economist. They'll hear that and think, Oh gosh, here we go, Keen's on it again. Are you sure that we don't need anything?

Steve Keen: Yes, I am. We might need some mathematical techniques we could get from statisticians anyway. That's really about it. Because if you look like, for example, at the analysis of money, they have analysis of money which says you don't need to have money to macroeconomics. You can leave money out, you can leave that out, you can leave banks out. I take a look and say, if you leave any of those out, you're not analysing capitalism. So what can I take from what they've done about money? Bugger all. And that just ends up being the basis all the way through. And just as my comparison so frequently - and I was coming back to the astronomers at the time of Copernicus. And what did Copernicus learn for Ptolemy? Nothing.

Ross: Money Matters is by far the biggest chapter in the book. If you listen to the neoclassical economist or the mainstream economist, as you say - and people would have heard what you just said, which is that if you're modelling the capitalist society, these neoclassical's they leave out bank's debt and money - and they'll hear that and think that is absolutely absurd. You've written 55 pages on it. Why have you given it so much focus?

Steve Keen: Part two reasons. One is that I've built a software package that lets people actually do the analysis that neoclassicals can't do, which is I call Minsky. And in a large way, the book is written around saying, here's a tool for an alternative approach to macroeconomics. So it's unusual. People haven't actually been used to modelling in monetary terms at all. Even my own post- Keynesian school of economics, which has built stock low, consistent modelling and the idea of modern monetary theory, to actually properly be able to model money in a dynamic sense is still foreign, even in my own circles. So I want to get it expanded that way. And it's also something which once you go through it and you say what the neoclassicals argue, what they missed because of it, like, for example, missing little things like the global financial crisis, you know. And then you say, well, know, this is what you've left out, here's how you do it. So they've been saying for two and a half centuries, not only you not need to model money in macroeconomics, you shouldn't do it and also say, well, you're wrong. And it took me 55 pages to finish saying why.

Ross: David Graeber, the late, great David Graeber, you reference him in the notes about the barter myth. Can you just myth-bust the barter myth?

Steve Keen: Yeah, this starts actually from Adam Smith and Adam Smith, if you read The Wealth of Nations at one point says that the defining feature of humanity is the propensity to truck and barter. He actually has a line saying no one ever saw a dog make a rational and deliberate exchange of a bone with another dog. And so he said what we do is we exchange objects with each other. So you might hand me a microphone. I might hand you a....

Ross: A rice cooker.

Steve Keen: A rice cooker, there you go. A rice cooker. Mm-Hmm, yeah. And it's a swap of one for the other. And that's the basis of society. That was just accepted by neoclassical economists that that was how money actually evolved as a way of making barter easier. But when anthropologists went back in history and David, both his own research and also reporting on the work of people like Michael Hudson and so on, went back and tried to find this world of barter, they found no society anywhere had ever functioned using barter. And David gives a wonderful example in the middle of the 19th century of detailed discoveries of the actual mechanisms by which goods were distributed in Indian societies, American Indian. And it was women in particular, I think of the Iroquois nation, the goods were distributed by women's councils. And despite the fact that this was actually documented, when you see people like late 19th century economists writing about how the exchange occurred in primitive societies and pre-industrial societies, they continue the myth of barter - no mention of women's councils. So in that sense, it's a mythical model of how money came about. It doesn't apply in any functioning society anywhere on the planet. It never has in the past history. So if that's the basis of you deciding to reject money as part of your analysis, you've got to find a different planet on which this might actually be the social system. It certainly ain't earth.

Ross: When when you begin to fix money, when you fix the money problem, i.e. the people's knowledge of money, how it's created, where it's directed, flows, debt, we can go on. When you begin to address that central issue, what then begins to happen to the rest of the economics discipline?

Steve Keen: Well, for a start, one thing which is dominant in neoclassical economics is the idea they call money illusion. And that's anybody who worries about the actual nominal value of anything is being deceived and what actually matters is the real value, the value after you take out the price affects. Now that pretty much says that what the banks do is therefore irrelevant, because that's just changing the flow of money and that's just the the nominal rather than the real economy. But when you look at how banks create money, banks create money by lending out more than they get back in repayments. So bank loans create money. Equally on the government side, a government deficit creates money. Now what that means is, lending is adding to aggregate demand and deficits also add to aggregate demand. Now, if you're trying to analyse aggregate demand, if you don't have either of those mechanisms in your model, you're not going to understand how it's created. And since in the case of credit, new bank loans generate about 20 per cent of demand in the economy and can go negative, which of course, you can't have a negative rate of turnover of money, but you can have negative credit. The volatility of credit by far dominates macroeconomics. So they're leaving out the most important thing in what drives the economy by leaving out money and the creation of money.

Ross: I want to talk in a practical way about reforming your discipline. It's very difficult, isn't it? Your good friend Yanis Varoufakis, when he was then the Greek finance minister, Greece was teetering on the brink and he was sitting with Larry Summers, no less in Washington. And Larry Summers said to him, Yanis, what you've got to understand is there are two types of people in this world - insiders and outsiders. If you're an insider, you get a seat at the table. If you're an outsider, you don't get a seat at the table. My suggestion to you is you become an insider. And there's only one rule about insiders, it's we never criticise another insider. You're trying to reform economics as an outsider. I doubt very much that you'd get a seat at the table - certainly not in Washington, certainly not in the moment with the prevailing economic thinking that's going on. How difficult is it to reform this discipline as an outsider?

Steve Keen: Frankly, I think it's impossible. I'm conceding defeat on that front. I don't think you reform it, I think you abolish it. And on that front, what I'm trying to do as well is to work with scientists and say, look, you guys have by professional courtesy, you haven't criticised economists in your work. You know, you basically think that economists do their work as well as physicists or chemists or engineers do their work. You're wrong. They are a pretty scientific discipline. They are working from the great books, though authors not Aristotle. In this case, it's Paul Samuelson.

Ross: Who incidentally, was Larry Summers uncle.

Steve Keen: Yeah, I could hold that against him as well. So yeah, you've got a great bookstore of attitude. You don't rock the boat, don't criticise internal, et cetera, et cetera. And yet they maintain a vision of the economy, which is about as accurate as Ptolemy's model of the universe was. Now, that model with very intricate, complicated mathematical models, could easily predict where the planets are going to be in two or 300 years was completely strong about the structure of the Solar System. So you have to have a paradigm shift, a revolution, and that often does come from outsiders. When you look at the work of Thomas Kuhn on the what he called the structure of scientific revolutions. He said you get an anomaly which the dominant paradigm can't explain, struggles over indefinitely and finally, a new

paradigm comes along and replaces it. And often that comes from outside the discipline. So I'm hoping to elevate the importance of system dynamics, which is an alternative intellectual paradigm that knows that mainstream economics is wrong. And I'm trying to persuade physicists and engineers to get in there as well and basically boot the economists out of the universities.

Ross: Famously, you always say economics evolves one funeral at a time. When you look at some of the decision makers - Janet Yellen, if look at Ben Bernanke, if we look at Alan Greenspan - all of these people have been at the helm, whether it's a financial crisis that has evolved or some kind of, you know, car crash, basically, economic car crash. Do they not have the self-awareness necessary to be able to say, actually, we've got to do some introspection here because this isn't working, especially at a time, if you look at the US, so-called free market capitalist economy, you've got 50 million un-banked people, inequalities at all time highs, environmental degradation off the charts. What type of person can't look out and say, actually, don't think this is working?

Steve Keen: Unfortunately, the average person, the average intellectual does that. They get so committed to their own way of thinking, their own framework, that they simply try to reprocess the shocking event through the lens of that paradigm. So like Ben Bernanke's a great example on that front because he was somebody championing what he called the great moderation and saying what a fabulous thing it was that there was a decline in the volatility of economic growth over the 90s to the noughties. And then the mind model of Minsky, that was a prelude to a crisis, which is one reason I came out warning against it. Now, after the crisis, he said, Oh, it isn't the science that's wrong. It's the engineering that's wrong. So he got some of the concepts wrong. We should go back to the science of economics without changing it at all and just fiddle it a bit so that what we build looks more like the science rather than less. And that was the end total of his attempt to revise his understanding.

Ross: Ben Bernanke famously wrote a book called Courage to Act. Do you think he has the courage to think?

Steve Keen: I think he acted very well, but not in the way that he meant.

Ross: Steve Keen, welcome back to Renegade Inc. Steve, your new book, The New Economics: A Manifesto. Pitch it to us and tell us why we should all read it.

Steve Keen: Well, I think the basic reason is that you're all always told when you criticise an existing way of doing things, you say, well, what's your alternative? And if we know the famous phrase from Margaret Thatcher, there is no alternative, TINA. Well, there is an alternative. Do it the other way around. Rather than trying to build everything up from micro, you can build economics from the macro down. The structure of the economy largely determines what happens in it, not the behaviour of atomistic individuals, which is the way the mainstream thinks. So I've shown a way to think about the economy that means you can abandon mainstream economics without abandoning thinking about the economy. In fact, you can think far more clearly by banning the mainstream and doing what I'd advise in that book.

Ross: The New Economics: A Manifesto by Steve Keen. It's our book of the week. I've read it and I really recommend it. Steve, it's no secret that you think the neo classical economists, the mainstream economist, is one of, if not the, most dangerous person on this planet. Do you still stand by that?

Steve Keen: I do, in fact, even more so, particularly when looking at the work on climate change. I thought back when I was looking at the financial crisis back in 2008 that they were dangerous for the financial health of the economy and the performance of the economy in terms of economic growth and so on. Once I did the work on climate change, I thought they're dangerous for the continued existence, not just of capitalism, but human society in general. So they're well-meaning. They actually, genuinely, mean good. They genuinely think they're helping. But with their analysis and their advice on what to do about climate change, they're likely to lead to the collapse of capitalism and maybe even the collapse of human civilisation. They've got to go. It's either us or them.

Ross: It's all very well, isn't it, for the neoclassical economist to get finance a bit wrong, which they have, admittedly. But when it comes to the environment - and this is something that I know is very close to your heart - it's a different argument. It's a different conversation, isn't it? William Nordhaus made a bunch of assumptions using neoclassical modelling, and you went through those assumptions and demolished them. What happened when you realised that those assumptions, that economic modelling, was all false. Based on falsehoods, what was your first reaction when you realised that?

Steve Keen: Was actually quite an amazing emotional reaction because the point that I realised was actually reading a paper bag I call Richard Tol called The Economics of Climate Change or something of that title. It was written in 2009, and he had a line there saying that they were assuming that the relationship that holds between temperature and GDP today in one country. So say gross state product relationship with temperature in America, and it was a very weak relationship, of course, Florida's slightly poorer than New York. North Dakota's slightly poorer than New York. So you can draw a sort of inverted parabola. And that's literally what they did. They said, well, therefore, if, you know, if temperature rises by 10 degrees, the GDP will fall by 20 percent. And I thought, this is so incredibly ridiculous. This is like surveying a mountain north-south, finding it. It's very flat and then advising people to walk across it east-west at night without glasses. And I thought, you lunatics. You have set the world up for a catastrophe. And I literally I had my hand in my head and I was on the desk just in shock thinking about it. And my wife is Thai and Buddhist, as I think, you know, walked inside to give me some fruit and said, what's wrong? And I said, I'm just doing this work on climate change, and she doesn't follow my work at all. But she said, Oh, that's crazy. Nobody wants to know about that stuff. You can't change anything. If we die, we die.

Ross: Wow! But you put in the book that she keeps you in the present moment?

Steve Keen: Because they basically said, Look, let's live for the moment. And it actually broke me out of potentially getting seriously depressed because this is like a captain saying, I believe that icebergs are fluffy clouds on the horizon and if we drive through them fast enough, we'll clean off all the barnacles from the bottom of the ship. And then you find yourself on a boat which is on a collision course for a mountain of ice. And the captain

doesn't see anything wrong with that. And that is literally what was the case in reading Nordhaus and seeing and the other assumptions. Like like the other crazy assumption was that anything that happens indoors or underground is unaffected by the climate. And that is juvenile. When a guy who's got the imprimatur of a professor at Yale and ends up getting a bloody Nobel prize for it says that, and then is advising people on climate change on the assumption that the roof will protect you from climate change and that climate change is no worse than changing the temperature between New York and Florida. That is criminal. Criminally negligent, frankly. And you might know that there are lawyers developing a crime of ecocide which they intend applying to fossil fuel companies and so on. I believe that these economists are actually responsible for ecocide because their total distortion of the actual factual nature of climate change means they're being blasé about a six degree increase in temperature and blasé about tipping all the various dramatic elements of the climate that we take for granted. So, for example, what's called the Gulf Stream, colloquially, the AMOC technically - Atlantic Meridional Overturning Circulation. One of those economists, Richard Tol, said if the AMOC fails so the Gulf Stream breaks down and therefore Europe gets much colder, that's a good thing that'll improve the economy. The scientists have now been making as loud a noise as they can that two degrees has to be a line in the sand. Anything more than two degrees you can pretty much write off human civilisation. Not that it'll collapse at two degrees, but it will set in a series of processes which mean we'll be dealing with such enormous climatic forces that trying to maintain a production system will be almost impossible. And the economists are saying a six degree increase in temperature will reduce future GDP by 8.5 percent compared to what it would have been in the absence of climate change. And if we throw in losing all these tipping points, so West Antarctic goes, Greenland goes, AMOC goes, Arctic goes, all the methane hydrates on the ocean floor, they all go. That'll cause an extra 1.4 percent fall in GDP.

Video clip: I'm Jojo Mehta, co-founder of Stop Ecocide International. We're an organisation that's been around since 2017 with one very simple purpose, to make ecocide, or mass destruction of nature, an international crime. Ecocide is a term that's been around for about 50 years, but it's only come into prominence in the last few years. Generally speaking, it's understood to mean mass damage and destruction of ecosystems, and there have been various working definitions over the years. But recently, just earlier this year, our foundation convened a panel of top international, criminal and environmental lawyers from all around the world, to draw up a definition, a legal definition, that could actually be proposed by governments at the international level of the International Criminal Court as a potential amendment to international crimes, adding it alongside genocide, war crimes and crimes against humanity. The definition that emerged from this drafting process this year was very concise. It's just one sentence: 'Ecocide means unlawful or wanton acts committed with knowledge that there is the substantial likelihood of severe and either widespread or long term damage to the environment being caused by those acts'. While criminalising ecocide is a very precise strategic legal intervention, we believe the ramifications are actually really very broad because part of the problem at the moment is that our current economic system is built on hundreds of years of a particular attitude, which is that human beings have the right to dominate the environment and use it as a bank of resources. And it's kind of ironic that the indigenous of the world who steward much of the world's biodiversity and religious leaders such as Pope Francis, for example, are actually pointing us out the facts. We are deeply interconnected with the natural world and we have to be. We're totally dependent, whereas our secular leaders who are supposedly fact-based in their analysis are basing their actions on

faith in an economic system that clearly cannot function logically. We cannot continue to extract indefinitely from a finite resource. The other thing that a criminal does, is creating that individual level of responsibility. There is a tendency in the corporate world to hide behind the corporate veil to know that decisions will not ultimately come down to individuals. And when those in key positions of responsibility have to think about the fact that their personal freedom could be at stake, there's a level of genuine deterrence there before the fact that is very important because ultimately criminal law is protective law. Your right to life is protected because murder is a crime. Effectively, criminal law is all about protection, and that works when it prevents things from happening and individual responsibility will do that like nothing else can.

Ross: Is there a country out there that can become the threat of a good example, become the good example, and actually truly deal with this, understanding that the mainstream economic orthodoxy in the West is flawed and has failed?

Steve Keen: It's difficult to do at a national level, but at the same time, I think paradoxically, could well be the third world - the underdeveloped parts of the planet that cope better with this because they're closer the actual food productions. We've seen with Covid, the collapse of the supply chain. The supply chain has now become a phrase. We should google it and see how often the world's supply chains have been used over time. And obviously, it's being pushed up because the supply chain has been broken in the northern hemisphere. But if I'm talking about the supply chain in Thailand here, if I want to have a chicken dinner, I mean the chickens walking around. So I'm two or three steps. I'm not joking when I buy a shrimp, we buy them. They're still alive.

Ross: It's just lovely to hear an Australian use the word shrimp. It's just fantastic.

Steve Keen: On the Barby, on the Barby, the poor bastards they get incinerated before you eat them. But the thing is, you're so close to the production system here, the brevity of the supply chain will be in favour of the underdeveloped world. So even though you see most of the hand-wringing about global warming, it's going to be so bad for the global south. It may actually be far worse for the global north because it's such a fragile system dependent upon a long supply chain. In the third world the supply chain is shorter. So the victors, such as they can be, of climate change may well be the parts we currently think are going to suffer most, the third world.

Ross: The supply chain issue is, again, perfectly neoliberal, isn't it insofar as what we're going to do is we're going to strip all the fat out of this business, we're going to bring the future forward? We're going to cannibalise the business, have just in time supply chains. And guess what? Those just in time supply chains aren't resilient. They aren't anti-fragile. And when they fall apart, it takes years and years and years to build them back up?

Steve Keen: That's right. And one of the things I've just seen in the Asian news this week is that Vietnam is causing a breakdown in America. I think that some Vietnamese will actually be quite pleased about that because the Vietnamese workers, having been screwed under Covid, are deciding to go back to the villages. And suddenly the factories, which were part of that extensive supply chain for American goods, are no longer willing to work in the

factories. And then the supply chain is breaking down literally in this case, because the workers have said I've had enough, I'm going back to the fields. So, yeah, it's the fragility of Western civilisation is something we've dramatically underplayed and we focus upon the lack of resources in the South. But in fact, it's the South, because it is a much, much shorter supply chain for the essentials of life down here, is probably more robust.

Ross: If economics does evolve one funeral at a time, I want to finish closing remarks from you directed at students. And I don't just mean students at university. I mean, 13 year old's right the way through who got an interest in this field. What would you say to them? Because when they look at the forefathers, when they look ahead, they realise that the economics discipline has got it so badly wrong. What would you say to students of this discipline today?

Steve Keen: I'd say, don't learn economics. I'd say the only thing that economics gives you a capacity to be is an economist, and that's useless. Go and learn System Dynamics, which you can apply in a wide range of fields. It's something which is a growing discipline. It involves engineering concepts rather than the waffle of economics. Go and learn that instead. Simply don't turn up at the economics faculty. Give them a zero enrolments. That's probably the best way to get even with them and let them die out on their own. Because the trouble is economics doesn't advance one funeral at a time, sciences do because the anomaly is there for any student to reproduce. And the professors try to convert people to the old paradigm. But they can't do it. They get replaced inevitably. In economics, because the crisis can be forgotten or a new crisis comes along, they can find enough students to reproduce the belief system despite the crisis. And we're seeing that now, a dozen years after the financial crisis, they're still using the same stupid models to not predict the future. So go and just study something else. Go and do System Dynamics and apply it to economics. Let the economists rot on their own vine.

Ross: Steve Keen, always a pleasure. I'm going to let you go now and chase that poor chicken around.

Steve Keen: Okay, mate.

Ross: That's it from Renegade Inc. this week. You can drop the team a mail - studio@renegadeinc.com. Join us next week for more insight from those people who are thinking differently. But until then, stay curious.