

How Economics Failed the Economy

The Difficult Art of Reckoning With the Human Good



When, in the 1930s, the great economist Simon Kuznets created GDP, he deliberately left two industries out of this then novel, revolutionary idea of a “national income”: finance and advertising. Don’t worry, this essay isn’t going to be a jeremiad against them, that would be too easy, and too shallow, but that is where the story of how modern economics failed the economy—and how to understand how to undo it—should begin. Kuznets’ logic was simple, and it was not mere opinion, but analytical fact: finance and advertising don’t create new value, they only allocate, or distribute existing value—in the same way that a loan to buy a television isn’t the television, or an ad for healthcare isn’t healthcare. They are only means to goods, not goods themselves.

Now we come to two tragedies of history. What happened next is that Congress laughed, as Congresses do, ignored Kuznets, and included advertising and finance anyways for political reasons—after all, bigger, to the politicians’ mind, has always been better, and therefore, a bigger national income must have been better. Right? Let’s think about it.

Today, something very curious has taken place. If we do what Kuznets originally suggested, and subtract finance and advertising from GDP, what does that picture—a picture of the economy as it actually is—reveal? Well, since the lion’s share of growth,

more than 50% every year, comes from finance and advertising—whether via Facebook or Google or Wall St and hedge funds and so on—we would immediately see that the economic “growth” that the US has chased so desperately, so furiously, never actually existed at all. Growth itself has only been an illusion, a trick of numbers, generated by including what should have been left out in the first place. If we subtracted allocative industries from GDP, we’d see that economic growth is in fact below population growth, and has been for a very long time now, probably since the 1980s— and in that way, the US economy has been stagnant, which is (surprise) what everyday life feels like.

Feels like. Economic indicators do not anymore tell us a realistic, worthwhile, and accurate story about the truth of the economy, and they never did—only, for a while, the trick convinced us that reality wasn’t. Today, that trick is over, and economies “grow”, but people’s lives, their well-being, incomes, and wealth, do not, and that, of course, is why extremism is sweeping the globe. Perhaps now you begin to see why the two have grown divorced from one another: economics failed the economy.

Now let us go one step, then two steps, further. Finance and advertising are no longer merely allocative industries today. They are now extractive industries. That is, they internalize value from society, and shift costs onto society, all the while, creating no value themselves. The story is easiest to understand via Facebook’s example: it makes its users sadder, lonelier, and unhappier, and also corrodes democracy in spectacular and catastrophic ways. There is not a single upside of any kind that is discernible—and yet, all the above is counted as a benefit, not a cost, in national income, so the economy can thus grow, even while a society of miserable people are being manipulated by foreign actors into destroying their own democracy. Pretty neat, huh?

It was because finance and advertising were counted as creative, productive, when they were only allocative, distributive that they soon became extractive. After all, if we had said from the beginning that these industries do not count, perhaps they would not have needed to maximize profits (or for VCs to pour money into them, and so on) endlessly to count more. But we didn’t. And so soon, they had no choice but to become extractive: chasing more and more profits, to juice up the illusion of growth, and soon enough, these industries began to eat the economy whole, because of course, as Kuznets observed, they allocate everything else in the economy, and therefore, they control it. Thus, the truly creative, productive, life-giving parts of the economy shrank in relative, and even in absolute terms, as they were taken apart, strip-mined, and consumed in order to feed the predatory parts of the economy, which do not expand human potential. The economy did eat itself, just as Marx had supposed—only the reason was not something inherent in it, but a choice, a mistake, a tragedy.

Again, that is just a story—so let us extract the key principle, which is the main mistake, the way in which economics failed the economy. *Economics—let me be careful here, and say American economics—made the grave mistake of supposing that whatever could be traded should be traded, and then counted as a benefit, always, to the economy.* But that is patently foolish. You and I can buy guns, and while guns might

help a few people hunt for food, mostly, they only help people kill. One only has to take a cursory glance at America's off-the-charts murder rates and killing sprees. And so the net cost of guns is life itself. What can be traded isn't always what should be traded, and even less so should what should be traded be counted only and always as a pure benefit to the economy.

I have said that the US is, ironically, the new Soviet Union, its precise mirror image. Here you see what I mean in the purest and truest way. In the Soviet Union, trade of any kind was strictly forbidden, because it was seen to always be a bad, a liability, and therefore, only the government should allocate goods. American economics made precisely the mirror image of the same mistake: trade was always assumed to always be a good, in nearly every possible circumstance and case (except those against which moral crusades were launched, like sex and drugs), and was and is always counted as a benefit, even when it shouldn't be, just as in my tiny examples of finance and advertising (and therefore, only markets can allocate resources to society's benefit).

Do you see how both are precise mirror images of one another? Here we have two forms of exactly the same kind of extremism: one assumes that trade is always bad, the other, that it is always good, but both assume, and assume similarly totalist positions. And in that way, economics went Soviet, and so now the West is trapped in an ideological bubble, just like the Soviet Union, caught fast like a helpless fly in a web of dead theories that fail utterly to explain its own decline and stagnation, and so mystified pundits and theorists prattle on, but nothing much seems to change, or even to be understood any better than it was last year, or the year before that, even though each year the toll of those very failures mounts and mounts.

Yet the truth is simply this. Reality, like life, is messier, subtler, more complicated than saying a thing is all good or all bad. To say that a thing is always good or bad is to commit the same error: to suppose that there is no room for negotiation, for investigation, for innovation, for this difficult project that we call society to need to be, to evolve, or to grow, at all. Society can only really exist when the boundaries of what is good and bad must constantly be renegotiated, rediscovered, reimagined, and understood anew. In precisely that way, the good in society grows, and the bad, perhaps, if not shrinks, then at least doesn't grow along with the good. And that is how prosperity truly happens.

The good is only, to the limited extent that we can see it, for human are always blind, whether life is flourishing, growing, and developing, or not. Yet life expectancy is falling, people don't expect the next generation to do better, there are regular mass killings, and so forth, in America. Life is not flourishing, growing, or developing in a single way that I or even you can readily identify or name. And yet, the economy appears to be growing, because purely allocative and distributive enterprises like Uber, Facebook, credit rating agencies, endless nameless hedge funds, shady personal info brokers, and so on, which fail to contribute positively to human life in any discernible way whatsoever, are all counted as beneficial. Do you see the absurdity of it?

And so. It's not a coincidence that the good has failed to grow, nor is it an act of the gods. It was a choice. A simple cause-effect relationship, of a society tricking itself into desperately pretending it was growing, versus truly growing. Remember not subtracting finance and advertising from GDP, to create the illusion of growth? Had America not done that, then perhaps it might have had to work hard to find ways to genuinely, authentically, meaningfully grow, instead of taken the easy way out, only to end up stagnating today, and unable to really even figure out why yet.

And yet, perhaps, you and I can learn from that very mistake. In the societies, economics, corporations, cities, towns that we build tomorrow, we must learn to consider the good in more sophisticated, subtle, and most important of all, more authentic ways than we did yesterday. Economics failed the economy by telling us that everything that could be traded should be traded, since trade is always beneficial to humankind, even though even a child can see that people are fleeced and hoodwinked into buying every kind of foolish device, from guns to immortality potions, every day since time itself began. They are really buying the same thing: a salve for the desperation of lives that have gone nowhere.

If we really wish to help them, the answer is not simply assuming the problem away, as both the Soviet Union and then America, ironically, following in the footsteps of its mortal enemy, did, by saying any kind of human activity is all bad, or all good—for then we have done nothing more than pretended to solve a problem, which is the most foolish blindness of all. Problems that we have pretended to solve will only have the freest license of all to grow, just as advertising and finance, by being imagined to be productive when they were only allocative, soon turned extractive, being given free rein when they should have been if not reined in, then at least set to pasture. To genuinely stretch, become, develop, and grow is the same for economies as it is for lives as it is for societies, too: doing the difficult work of reckoning imperfectly with the good, and the bad, that dwell together, somehow, in each and every human heart.