

Jonathan Schechter – “Corpus Callosum” Column
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Schechter’s maxim: Economies change faster than perceptions; perceptions change faster than politics.

There are 86,400 seconds in a day.

For one million seconds to pass takes about 12 days.

For a billion seconds to pass takes about 32 years.

For a trillion seconds to pass takes about 32,000 years. 32,000 years ago, humans were just inventing the bow and arrow.

Within the next few weeks – within 1-2 million seconds – an economic stimulus package of around \$1 trillion will become law. This will come on top of the \$1 trillion or so approved last year for the various Wall Street bail-out programs, and last summer’s \$150 billion economic stimulus package.

Add them all together, and in under one year, the federal government will pump over \$2 trillion – all of it borrowed – into bail-out and stimulus programs. To put that figure in perspective, in FY 2002, George Bush’s first full year in office, the entire federal budget was \$2 trillion.

That’s a lot of money, especially given the stimulus may not work.

Last year’s stimulus was supposed to jumpstart the economy. It didn’t. The many different Wall Street bailouts were supposed to stabilize and revitalize the banking system. They haven’t. By extension, why believe the upcoming stimulus package will work?

During the last couple of decades, the world’s economy has changed so fast and become so complex and inter-related that no one really understands how it works. These are, of course, parts one and two of Schechter’s maxim. Part three suggests the political realm is not the place to address the problem. Yet things are so bad that even the most devout free-marketers are turning to the government, hoping that luck and throwing money at the problem will somehow turn things around.

Right now, any proposed solution – from deficit spending to tax cuts, from socialism to objectivism – is at best informed guess-work; at worst, it’s an expression of ideology. Anyone who tells you otherwise is simply not credible.

That noted, the economy is such a mess and the alternatives so grim that we need to hold our noses and do something. I hope we get lucky. I also hope my son and future generations can forgive us our profligacy: Since President Reagan first got us addicted to deficit spending, we’ve been living in an economic Neverland that will markedly burden at least the next two generations.

Equally concerning is how the \$1 trillion stimulus will be spent.

Grossly over-simplified, since the Reagan era, America's economy has boomed for two reasons: we've lived beyond our means, and we've consumed our brains out. Similarly over-simplified, the current Bush-cession is occurring because we've stopped consuming. As a result, the economy's in the tank, and getting worse by the day. Hence the need for the stimulus.

But how will we judge the success of the stimulus? No one in government is saying, and the only metric I've heard is from academics who point to unemployment. Today it's at 7 percent (and rising); they fear it will reach double digits; they hope the stimulus plan will get it down to 5 percent. Other than that, no one seems to be talking about how we will determine success, nor over what time frame. As a result, the only thing you can say for sure about the stimulus package is that, in 2010 and every election thereafter, politicians will argue over whether it succeeded.

So how will we know if it succeeded? Absent a clear definition, we'll probably end up looking in the rearview mirror and saying something squishy like "we got back to how things were in 2006." But is that really what we want?

As noted, for years our economy has been based on consuming and living beyond our means. We could do this for two reasons. First, George W. Bush was history's greatest spendthrift. With a profligacy exceeding even Reagan's, during Bush's presidency the federal government spent roughly \$5 trillion more than it took in. Second, record levels of government debt were complemented by record levels of personal debt, created by Wall Street playing hot potato with junk assets. Combined, these two forces allowed Americans to borrow and consume at levels exceeding mere gluttony. The world, too, benefitted: Our consumption allowed the world's economy to soar. But now that the credit markets have imploded, deficit spending is the only tool we have for stimulating the economy.

But how will that stimulus money be spent? Republicans are bloviating about the problems with government spending. They are right to a point, but when it comes to fiscal responsibility, the GOP lacks both credibility and shame. My concern is different: Do we really want the economy to return to what it's been? If not, what do we want it to be?

Given the magnitude of our economic problems, intellectual integrity requires us to ask whether our current economic model is sound. Unfortunately, the answer is not at all clear.

For starters, if the stimulus package returns the economy to where it's been, we'll be trading our current woes for those afflicting us as recently as spring, when gasoline and other commodities reached record-high prices. Is that really what we want?

Then consider another basic reality. Over the last several decades, our economy has created great and widespread wealth, a truly a wonderful thing. Today, though, it's wiping out that wealth even faster than it created it. Again, is that really what we want?

Most disturbing of all is an even more fundamental question: What has been the cost of producing our phenomenal wealth?

To answer that question, let's look at how we've consumed. Table 1 shows how the world uses three basic resources: oil, natural gas, and water. Per capita, Americans use six times as much oil, five times as much natural gas, and three times as much water as the rest of the world. By extension, if our consumption patterns become the world's standard, the planet's current known reserves of oil will be depleted within 8 years (as opposed to the current 43 years' supply); its current known reserves of natural gas will be depleted within 12 years (as opposed to the current 55 years' supply); and humans will use roughly three times as much potable water each year as they do today.

Is this sustainable? Clearly not. As a result, if the stimulus package returns us to how things were, one consequence will be that we'll once again start using resources so quickly that, barring some extraordinary luck and/or technological breakthroughs, our kids will be far more concerned about resource scarcity than budget deficits. And if the rest of the world continues to move toward American standards of consumption, it's not just our kids who will be dealing with such scarcity.

Roughly 100 years ago, physics underwent a profound revolution. As classical physics proved increasingly unable to explain atoms and space, it became supplanted by quantum physics. With that came a profound change in how we understand and deal with the world.

Economics is ripe for a similar revolution. The foundation of classical economics is "economic man," the belief that humans act rationally. This parallels classical physics, in that both are mechanistic: In classical physics, a given force produces a predictable action; in classical economics, a given incentive produces a predictable behavior. Both are right to a point, but neither fully explains the world.

What economics needs is an equivalent of quantum theory, something which takes account of the uncertainty and complexity inherent in the world. Until "quantum economics" is developed, though, we will continue to try to control our increasingly-complex economies without really understanding how they actually work. That, of course, is a recipe for disaster; that, of course, is why the economy is in so much trouble.

In its way, this ignorance-based approach to economics makes us similar to the alchemists who tried to turn dross into gold, or the barbers who tried to heal patients by bleeding them: We're well-intentioned, but our actions reflect a fundamental misunderstanding of how the world works.

My fear about the stimulus is that, absent a better alternative, we'll settle for re-creating the consumption-based economy that not only got us into this mess, but offers no clear solutions to the even-larger problems it will create for coming generations. Until such "quantum economics" problems can be understood and addressed, economics will indeed remain the dismal science.

Table 1
WORLD RESOURCE CONSUMPTION

	US	Rest of World	Total World
Population			
Total (<i>millions</i>)	305	6,449	6,754
Income (gross domestic product)			
Total (<i>trillions</i>)	\$14.58	\$56.07	\$70.65
Per capita	\$47,803	\$8,694	\$10,460
Oil (barrels)			
Estimated reserves (<i>billions</i>)			1,332
Annual consumption (<i>billions</i>)	7.5	23.6	31.1
Annual consumption as percent of total consumption	24%	76%	
Annual per capita consumption	25	4	5
Years of supply (given annual per capita consumption)	8	54	43
Gas (cubic feet)			
Estimated reserves (<i>billions</i>)			175,400
Annual consumption (<i>billions</i>)	653	2,545	3,198
Annual consumption as percent of total consumption	20%	80%	
Annual per capita consumption	2,141	395	473
Years of supply (given annual per capita consumption)	12	66	55
Water (cubic meters or kilometers)			
Total Renewable Freshwater Supply (<i>kilometers</i>)	3,069	52,028	55,097
Annual consumption (<i>kilometers</i>)	477	3,237	3,714
Annual consumption as percent of available water supply	16%	6%	7%
Annual per capita consumption (<i>meters</i>)	1,564	502	550
Annual consumption, if consumed at respective per capita rates (<i>kilometers</i>)	10,563	3,390	3,714