

The Oil Drum: Campfire

Discussions about Energy and Our Future

Right Sizing the Economy: Can Herman Daly's Prescription for a Steady State Economy Accomplish this Task?

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This is a guest post from RogerK, a hardware engineer from San Jose California who thinks and writes about the finite world paradigms which will be needed to replace the 'no limits' paradigm which exists as the cultural norm of modern industrial society. Tonights post expands on a comment he made in last weeks guest essay from Herman Daly on a Steady State Economy. Roger previously has written a related essay on TOD [here](#), and a follow up [here](#).

Right Sizing the Economy: Can Herman Daly's Prescription for a Steady State Economy Accomplish this Task?

TOD recently published the [text of a speech](#) delivered by economist Herman Daly at the United States Society for Ecological Economics bi-annual conference (at American University near Washington DC). About half of this speech was dedicated to making the case for limits to economic growth, a subject on which Daly has written eloquently for years, most notably in his book *Steady State Economics*[1]. The second half of the speech was dedicated to presenting proposals for economic reforms which would keep in check the destructive tendencies of an economic system which is always trying to maximize short term income.

I am glad to see an economist with Herman Daly's credentials banging the drum for limits to growth. I read *Steady State Economics* several years ago, and I very much enjoyed Daly's debunking of the "growth men" as he refers to the conventional economists who insist that neither supplies of natural resources or of ecosystem services will put any limits on human economic expansion in the foreseeable future. I particularly like his description of "*the myth of the angelized GDP*"[2] in which it is claimed that the flow of dollars will increase exponentially forever, purchasing a continually increasing quality of life without requiring any increase in the throughput of materials and energy.

However, I found his proposed fixes to the growth problem to be less than convincing. It is clear that Daly has not stood still in the years since the original publication of *Steady State Economics*, and the reform proposals presented in his recent speech are more sophisticated and more well thought out than those presented in the earlier book. Nevertheless I am still unconvinced that the proposed reforms would be effective even if the political will to carry them out came into existence.

Daly presents a vision of a regulated, controlled, rationalized version of private finance capitalism. In my view this prescription for a steady state economy is addressed to the symptom of our problem rather than to the underlying fundamental cause. The symptom is that we strongly desire to use resources in a way that will maximize our current exchange income in dollars. The

underlying cause is the structural emphasis of our economic system on the atomized accumulation of private financial wealth as the primary route to security and status for individuals and nuclear families.

Daly's vision of a steady state economy leaves in place the primary structures of our current economic system (e.g. capital markets, interest based banking, private savings, etc) and then proposes to control their destructive and depletionary tendencies by a series of rules and regulations. I am extremely skeptical about the potential for success of such a strategy. Yes, a cap and trade system and ecological taxes will work against the destructive tendencies of private finance capitalism, but the political pressure to let us go hammer and tongs after whatever resources will maximize our dollar income in the short term will be enormous and unrelenting. Conservative banking will prevent financial bubbles, but it will not alleviate the desire to squeeze as much short term growth out of the system as current resource flows allow.

I think that much more radical changes than those envisioned by Daly are required in order to create an ecologically sane economic system. I think that we should create an economic system in which we are attempting to minimize our current exchange income in dollars, consistent with the constraint of producing adequate levels of total income including psychic components. The psychic component of our income needs to be largely decoupled from the formal economy as measured by transactions in large scale exchange media like dollars.

The question of how to accomplish such a goal is a complex one. Maybe the often repeated claim that it is not culturally/genetically possible to create such a society is correct. However, I think that some structural features required to make such a society work are clear whether or not one believes that they can be implemented in practice.

First of all community finance is required. Clearly we need to go on investing in infrastructure. But if we wish to avoid a growth orientation, then the purpose of building such infrastructure should be to preserve the long term productivity of society and not to increase the stash of private financial investors. The return on such investment should be the goods and services produced and not excess purchasing power for people who already have excess purchasing power.

Secondly, mutual support has to be clearly and explicitly recognized as the normal path to long term material security. Of course mutual support is already an objective fact. Aside from some bags of flour or rice in your basement, private savings are largely a delusion. Land is sometimes referred as the most substantial and secure of all stores of value. But in point of fact land, in and of itself, is not a store of value. Suppose that you were a feudal land owner with vast estates, warehouses full of grain, fields full of sheep and cattle, dense woodlands, etc. One day you wake up and every human being besides yourself has vanished from the face of the earth. You are rich no longer. Within a comparatively short time your grain stores will be depleted by rodents and rot, and even in the meantime you will have to chop your own wood, haul your own water, grow and harvest your own vegetables, clean and repair your own dwelling etc. So called private stores of value are merely claims against the output of the economic community.

The only real store of value is the built up infrastructure of society, including, crucially, the skill and knowledge of the men and women who are the brains and hands of that society, and in the sustainable resource base which supports that infrastructure. In your prime working years you are supporting the aged and the sick, and when sickness or age reduces your productivity you will be supported in your turn by those who are still in the prime of their productivity (again I am speaking of objective physical fact, not of religious or political ideology). We need to create a

society in which people who put their shoulder to the wheel, in however humble a capacity, and help to maintain the productivity of the community can have confidence that they will be supported in their hour of need independent of the size of their private financial stash. If such mutual trust cannot be achieved outside of groups of a hundred or so people, then it is hard to see how large scale civilization can attain to long term stability in finite world.

Obviously I am not presenting a practical political program for achieving such objectives, but here are some questions to be considered by anyone hoping that new economic paradigms can ultimately be established.

1. What mechanism(s) should be used for community finance?

One possible answer, of course, is the Politburo and the five year plan. The often made claim that no other possible mechanisms exist strikes me as displaying an incredible poverty of imagination. The Chilean state copper company CODELCO has existed as a highly profitable enterprise for three decades, and I see no reason for comparing its operation to that of a Stalinist tractor factory.

2. What levels of organization of community finance should exist (e.g. village, bioregion, province, nation-state, international, global)?

In giving the example of the Chilean state copper company I did not mean to imply that I think that economic organization should all be concentrated at the level of the nation state. However, if we are not going to return all the way to neolithic technology some amount of specialized large scale manufacturing will be required and the financing decisions concerning such infrastructure should be made by the larger communities that are being served by these forms of manufacturing.

3. What specific mechanisms should be used to make it clear to everyone that a stable, right sized economic community is the real source of our long term security rather than private financial stashes? I have discussed this issue in more detail [here](#).

4. If atomized wealth accumulation by individuals and families is abandoned as the driving force behind economic activity how can efficiency and productivity be encouraged and rewarded?

This discussion of this question would lead into a long and complex essay by itself, but I would like to point out one aspect of a possible answer. In a world in which continuous wealth accumulation has been abandoned as a goal one reward of greater efficiency/productivity is greater freedom. In your personal life the less time you spend cleaning, painting, repairing your personal property the more time you have to engage in more fulfilling activities. In our collective economic life the more efficiently we provide ourselves with essential products and services, the more toys we have to manufacture in order to make sure that everyone has a job. Long before I had any particular worries about peak oil this feature of private finance capitalism struck me as colossally stupid.

The task we are faced with is intelligently right sizing the economy. Today this task is virtually impossible because the perception of individual economic actors is: *The more my business/ salary/ bank account/ investment portfolio grows, the better off I am*. This simple perception is the driving engine behind the growth machine. We need to replace this perception with a new one: *If I do my part to create and support a right sized economy (in however humble a role) I know that I will receive the wherewithal for a decent quality of life, and I can have confidence*

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that in an hour of need the right sized economy that I helped to create and support will support me.

This task may appear impossibly difficult, but it is really the only game in town. If we cannot accomplish it then we are stuck with the doomer/cornucopian dichotomy.

[1] Daly, Herman. *Steady State Economics*. Washington D.C.: Island Press 1991.

[2] *A Catechism of Growth Fallacies* (Chapter 5 of *Steady State Economics*) can be found on line at: <http://www.dieoff.org/page88.htm>



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