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Jeremy and Jeremiah? – reactions to Perfect Storm

by Tim Morgan on February 4, 2013

When we published *Perfect Storm: Energy, Finance and the End of Growth* a couple of weeks ago, I didn't exactly anticipate universal approbation. After all, an analysis which tells economists to spend less time watching money, and to concentrate instead on the economy as an energy system, was always going to ruffle some dovecotes. Likewise, pointing out that a system predicated entirely on growth might have been undermined – already – by a dramatic slowing in the energy growth engine was bound to create discomfiture.

My hope was that the report would be judged on its merits, to which end we provided copious detail in an analysis running to 84 pages. For the most part, this hope has been borne out, with the vast majority of blog comments, and of emails to me, arguing the case on the basis of the facts. I must apologise for how long it is likely to take me to respond to these, and thank everyone who has contributed.

Whilst I welcome all contributions to this important debate, I was a little disappointed by a recent *Daily Telegraph* article in which Jeremy Warner takes issue with our report. I have the greatest admiration for Jeremy as a columnist whose articles are almost always firmly founded on facts. Unfortunately, his criticism of *Perfect Storm* seems to be based, in large part, on vague concepts such as "the irrepressible nature of the human spirit". I'm sure the Medes, the Persians and the Romans, too, had plenty of this spirit, but it did not make their economic and social systems eternal. More than one academic writer has traced the decline of Rome, in particular, to a slump in surplus energy. The era of Roman supremacy was far longer than our industrial age. Neither longevity nor "human spirit" preserved it from change.

Jeremy is right to point out that *Perfect Storm* does not provide solutions. The purpose of the report was to set out the challenges in a connected, reasoned and fact-supported way. As many readers will know, I'm writing a book, provisionally entitled "Life after Growth" and that, I believe, is the right setting for what will be 'strategies' even if they are not exactly 'solutions'.

Where debt is concerned, my belief is that the absolute quantum of indebtedness is far less important than the ability to service it. If we could rely on continuous future growth of, say, 3% – obtained genuinely, that is, without printed money and fiddled figures – then we might be able to manage our current burdens of debt and quasi-debt. My point is that, with the energy driver deteriorating, we simply cannot make such rosy assumptions. If you believe official figures, the Western world has been ex-growth for five years. If, like me and many others, you are sceptical about reported inflation, it is even longer.

Again, the idea that "the creditor will always eventually take a haircut" might be true, but will it incline them to carry on lending to those who have failed to make full repayment in the past? One of the problems faced by America and Britain (in particular) is that their economies have become dependent on a constant drip-feed of *incremental* borrowing. If America had indeed gone over the "fiscal cliff", the economy would have been pitched into sharp recession even though *barely half* of the fiscal deficit would have been eliminated. As for quasi-debt liabilities, soft default (through inflation) won't help here at all, as commitments such as pensions tend to be linked directly to inflation.

On the central energy issue, it is hardly the act of a Jeremiah to point out that shales have low EROEIs, or that converting shale gas into liquid fuels would lower returns even further.

Ultimately, we need to debate these issues on their merits, and on the facts. Here in Britain, for instance, we have pulled almost all of the traditional economic levers – including huge deficit stimulus, enormous amounts of quantitative easing, sharp devaluation and prolonged near-zero interest rates – without creating any growth at all. Before the advocates of 'business as usual' (and of 'assumptions as usual') become too scathing about new analyses, surely it behoves them to explain why 'policies as usual' haven't worked.

Three decades of Friedmanite economics may have failed, and Keynes probably isn't coming back, but whistling a happy tune and hoping for the best isn't the solution either. A new interpretation, which understands the economy as an energy system, could be our best hope of managing the future.