

# **How economics broke the climate — and how we fix it**

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**[The Limits to Growth] is most certainly wrong, but even in the very unlikely case the team were even remotely right, the prescription would *still* be wrong. The problems of levelling off growth are not for our century nor the next. And if the environment can't take that much growth, there will be plenty of time for adjustment. The limitations imposed by the environment make themselves felt long before the ultimate limits are reached."**

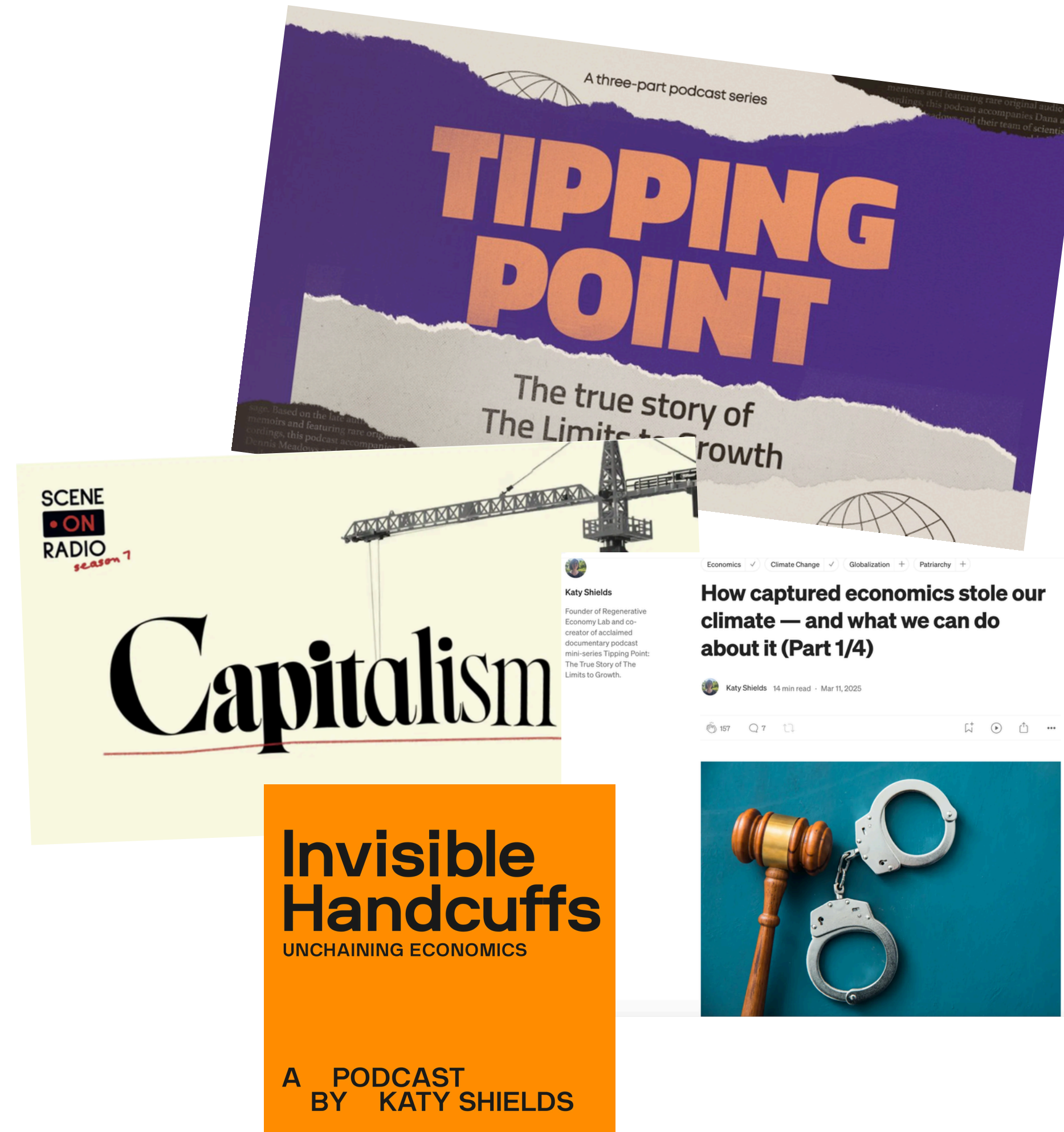
Henry Wallich, Yale economist and former Treasury advisor speaking at a conference of US newspaper editors on the publication of the MIT study *The Limits to Growth* (Meadows et al, 1972)

## My “priors”

“Recovering” mainstream economist (ca. 15 years; Masters environmental econ)

Four years researching why the world ignored *The Limits to Growth*

=> advocate for reforming and reclaiming the economics discipline



*"The ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else."*

- John Maynard Keynes (1936)

## **For today:**

How we got here

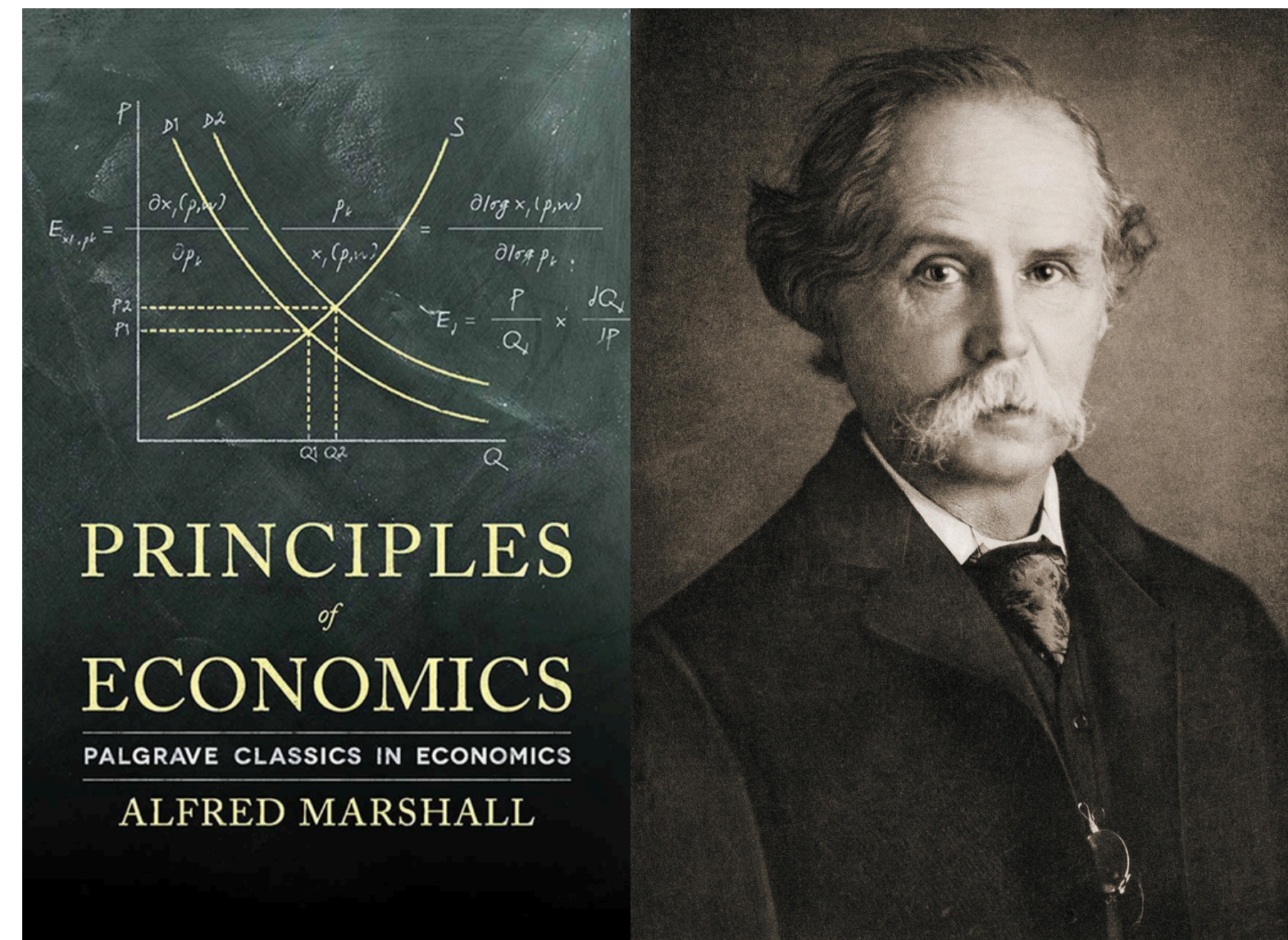
Why we are stuck

What we can do

## How we got here: Neoclassical economics

Evolved from Classical economists who were *political economists* => economy as shaped by political and societal forces

Later, Alfred Marshall, influenced by Smith and Newtonian physics, wanted to make economics a “hard” (read influential) science => the “marginal revolution”



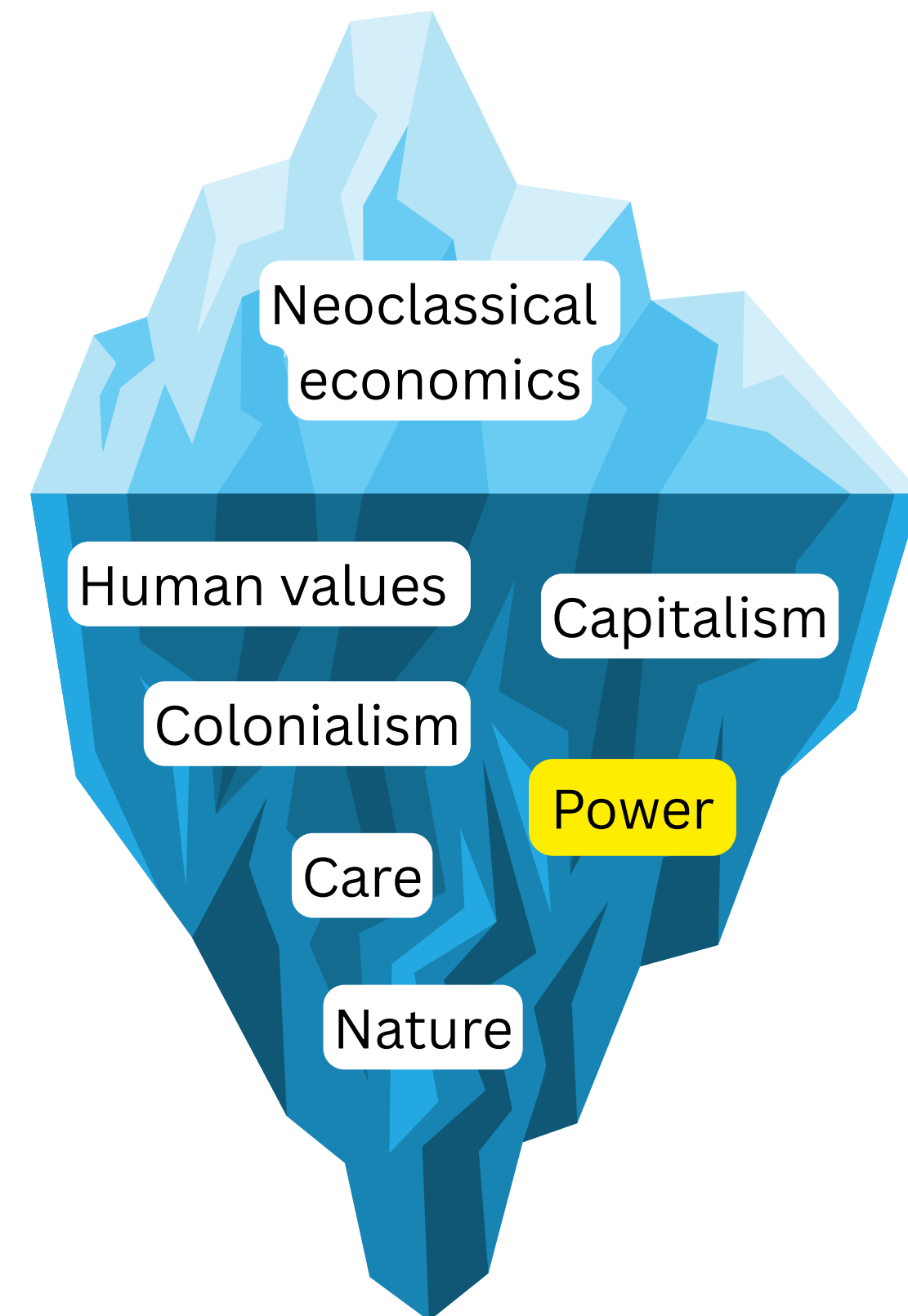
## Neoclassical economics: conceived by European men during the industrial revolution

Focus on individual => who is rational, motivated by financial incentives, has unlimited wants and needs

The economy => “the market”, which tends to equilibrium — states should only fix “market failures”, protect property

Care, colonialism => missing; non-waged work is “leisure”, countries follow a homogenous development path

Growth is necessary => driven by technology, which overcomes limits; environmental costs are “externalities”



## But neoclassical economics failed to explain the Great Depression

*“The difficulty lies, not in the new ideas, but in escaping from the old ones.”*

— John Maynard Keynes, *The General Theory of Employment, Interest and Money*



## So what happened?

Post-war Keynesian (*Les trente glorieuses* )

But also the Red Scare and Marxist “purges”

1970s crisis => the Neoliberal rise (backed e.g. by Mont Pelerin Society)

Neoclassical economics – apolitical, “positive”, pro-market – provided the intellectual foundation for neoliberalism (against the threat of socialism)



**“Neoclassicism did not emerge as the dominant school of thought after a spirited scholarly debate. We did not sift carefully through all the non-mainstream approaches and incorporate whatever was deemed helpful while dropping the rest. Rather, historical developments were responsible for putting Neoclassicism at the top of the food chain and institutional inertia and path dependence have kept it there.”**

— Professor John T Harvey, *Contending Perspectives in Economics: A Guide to Contemporary Thought*  
(2nd Edition, 2021, Edward Elgar Publishing)

## What *are* some “non-mainstream” approaches?

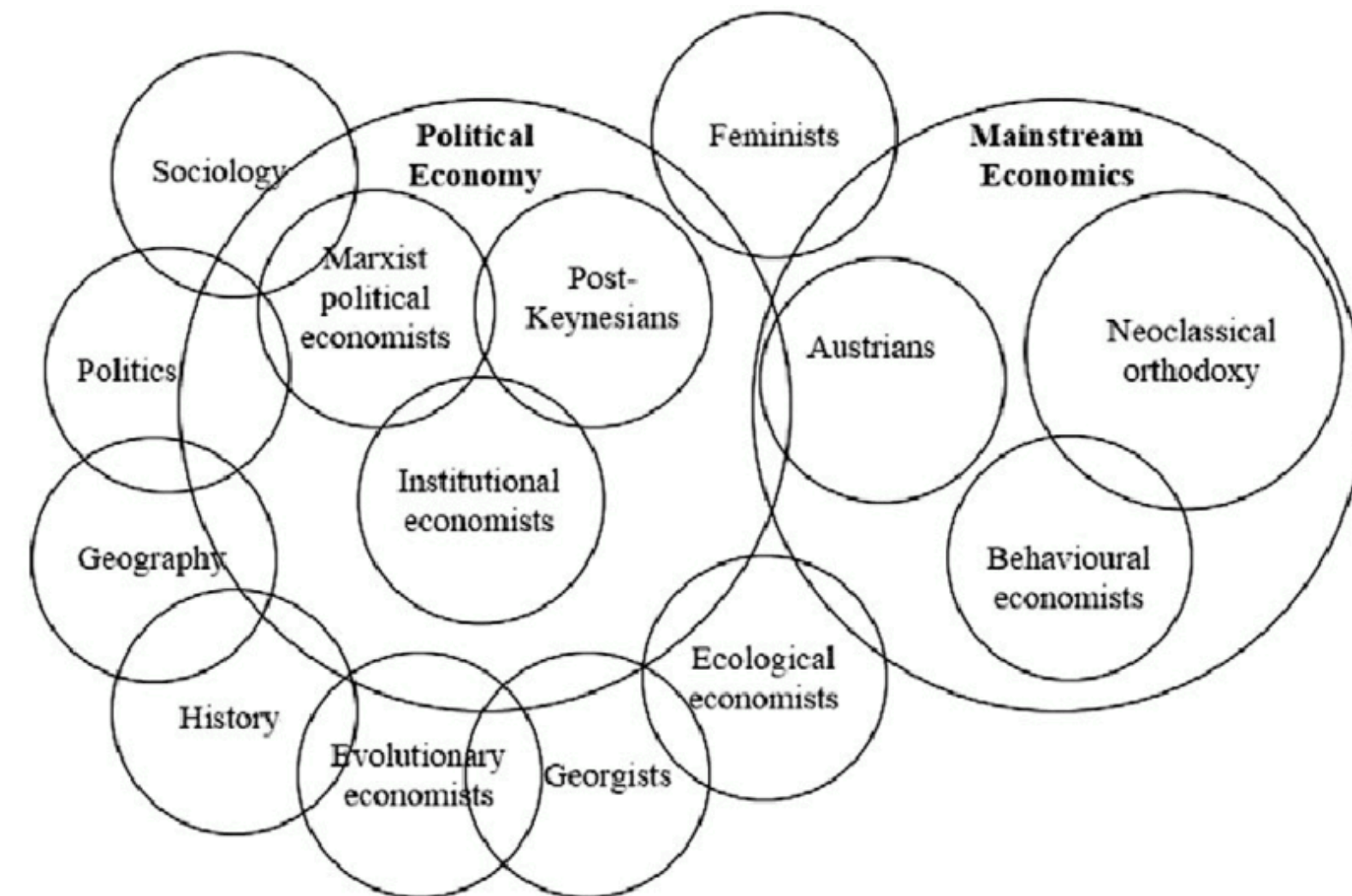
**Marxist political economy:** capitalism requires continued extraction and accumulation

**Institutionalists:** economies are driven by culture and societal (power) dynamics, not individuals

**Post-Keynesians:** capitalism prone to crisis, states must constantly intervene for full employment

**Ecological economics:** economy is wholly dependent on nature, must respect ecological limits

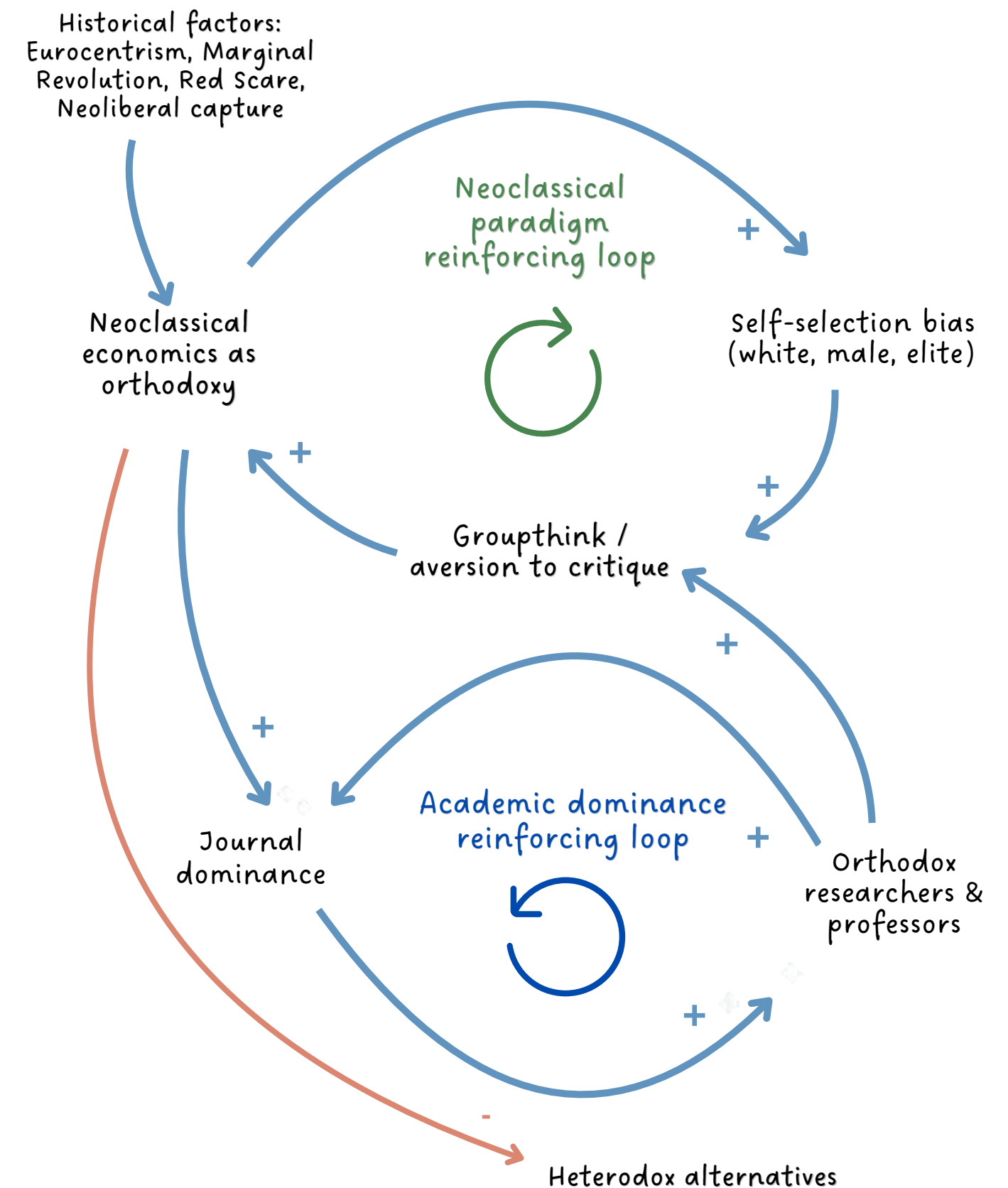
**Feminist economists:** care/social reproduction basis of economies, need alternatives to markets and growth



**Rather than incorporate alternative perspectives to respond to emerging challenges (such as climate change), economics has narrowed**

Neoclassicalism dominates teaching (80-99%), research and journals, which dictate academic progression (*“Tyranny of the top five”*)

Abstract high math and models leads to self-selection bias and groupthink — strands that question markets/growth, “just not economics”

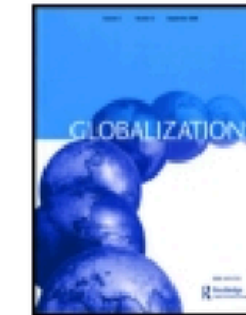


# This explains the “appallingly bad” neoclassical climate economics

William Nordhaus found 4°C of warming would be “optimal”

The maths look good, but assumptions are awful

Still, Nordhaus’ models are used by the IPCC



Globalizations

Routledge  
Taylor & Francis Group

ISSN: (Print) (Online) Journal homepage: <https://www.tandfonline.com/loi/rglo20>

## The appallingly bad neoclassical economics of climate change

Steve Keen

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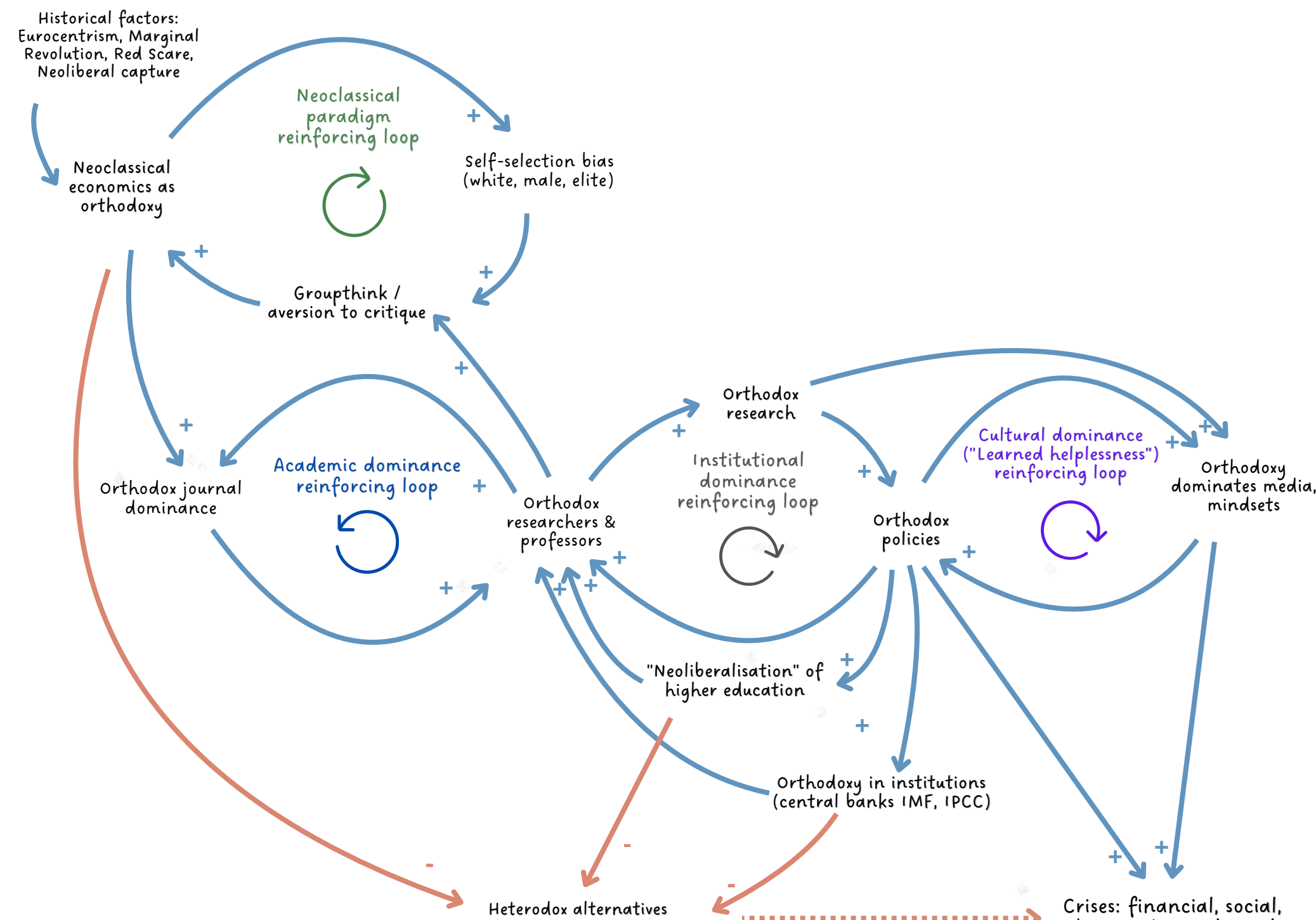
### ABSTRACT

Forecasts by economists of the economic damage from climate change have been notably sanguine, compared to warnings by scientists about damage to the biosphere. This is because economists made their own predictions of damages, using three spurious methods: assuming that about 90% of GDP will be unaffected by climate change, because it happens indoors; using the relationship between temperature and GDP today as a proxy for the impact of global warming over time; and using surveys that diluted extreme warnings from scientists with optimistic expectations from economists. Nordhaus has misrepresented the scientific literature to justify the using a smooth function to describe the damage to GDP from climate change. Correcting for these errors makes it feasible that the economic damages from climate change are at least an order of magnitude worse than forecast by economists, and may be so great as to threaten the survival of human civilization.

# The problem is not limited to climate-economic models

Academic dominance  
=> policy and institutional dominance  
=> cultural dominance (“learned helplessness”)

Neoclassical economists macro models failed to foresee the financial crash, justify austerity, fuelling social and democratic crises (in turn undermining climate goals).

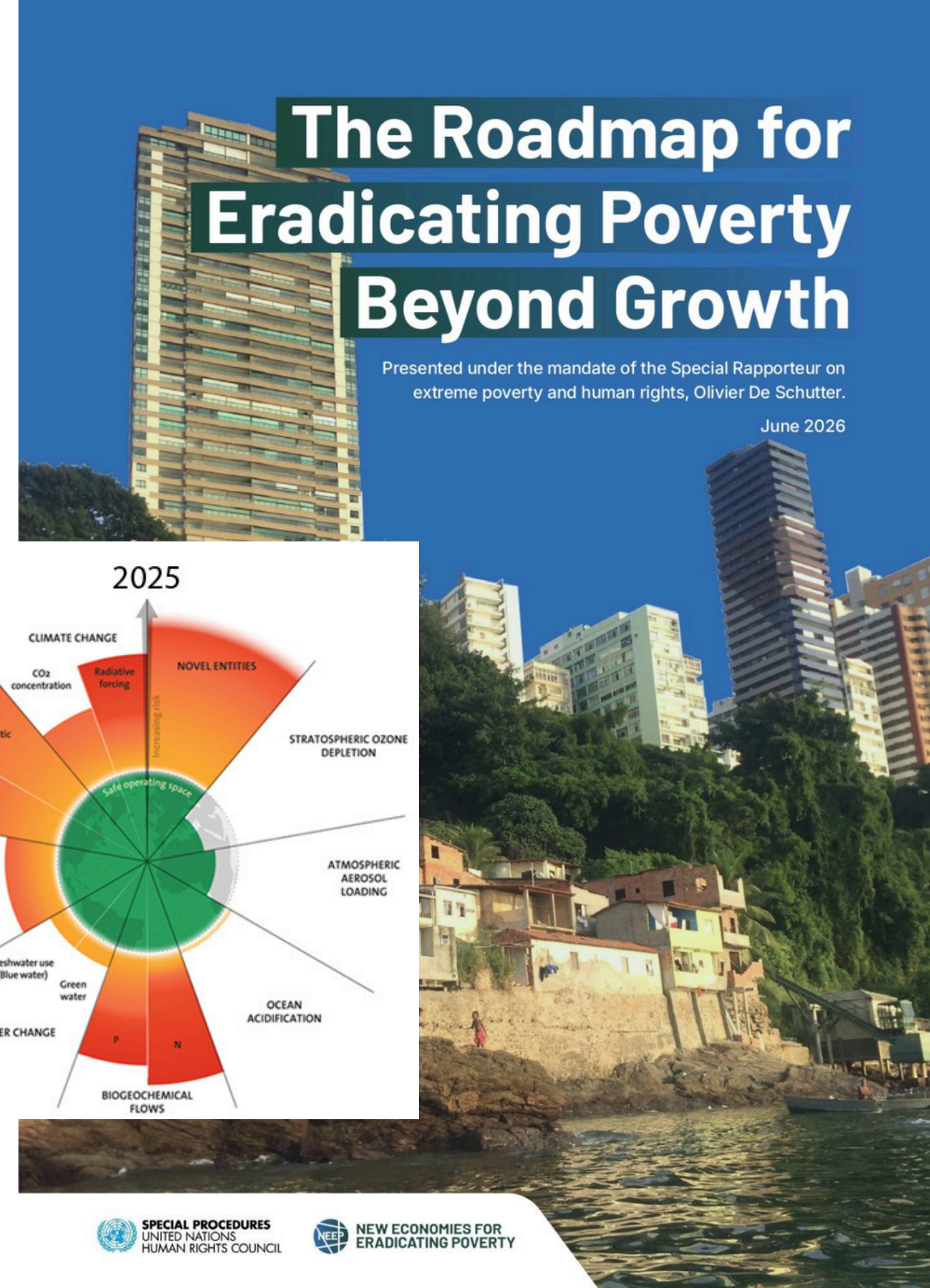


## We've reached the limits to growth — now what?

We cannot “grow” our way out of our crises when wealth and power are just being funnelled to the top

We need to put the “political” back in economics, *democratise* => e.g. ownership, monetary and fiscal rules, rights (for people, nature, commons)

Solutions are there => pathways (to overcome *power*) are missing



# Seeds of change

Student movements

Curriculum reform movement

New economy movement

Media influencers

Communities of practice

Mainstream “dissenters”

But much still small/disjointed, while the vast majority of teaching, research and funding still goes to neoclassical economics and related “solutions”



**It is like the church, trying to do good in the world according to what its clergy learned in seminary. But the "seminaries" are teaching bad theology. I have suggested to [activists] that in addition to protesting Bank projects, they should at least once a year go hang a black shroud on the building that houses the MIT economics department (or that of Chicago, Stanford, Oxford, Cambridge, etc.)."**

Herman Daly (1928 - 2022)

founder of Ecological Economics and former World Bank  
economist

Links:

[www.linkedin.com/in/katy-shields-postgrowth-economist/](http://www.linkedin.com/in/katy-shields-postgrowth-economist/)

[www.invisiblehandcuffs.com](http://www.invisiblehandcuffs.com); [www.youtube.com/@invisible-handcuffs](http://www.youtube.com/@invisible-handcuffs)

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