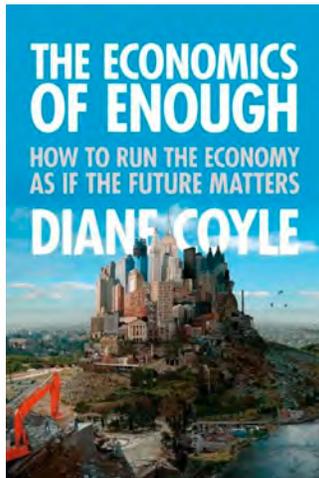


Book Review



The Economics of Enough: How to Run the Economy as if the Future Matters

by Diane Coyle
Princeton University Press 2011



Reviewed by
Robin Ratliff
Executive Editor

The summer of 2011 did not inspire much confidence about the immediate future:

- Stagnant job growth and lowered GDP numbers,
- U.S. debt downgraded after a nasty debt-ceiling battle,
- Several eurozone countries in crisis and world financial markets roiling,
- London burning after deep UK budget cuts that point to a growing wealth divide, and
- Back at home, raging tropical storms in the east and catastrophic wildfires in the west.

The once-common assumption that living conditions and economic opportunities will improve for each new generation now seems dubious. It's depressing stuff with no easy solutions. Where to find some inspiration for how to move beyond current challenges and plan for a better future? British economist Diane Coyle offers some ideas on how to get started in her new book, *The Economics of Enough: How to Run the Economy as if the Future Matters*.

Despite what the title might suggest, this book is no “eco-screed” that trashes traditional economic thought in favor of some rosy, utopian worldview. Far from it: the analysis is rigorous and the arguments well informed by prior research. In fact, the first half of the book feels like a lengthy literature review, and it's a bit of a slog for a non-economist.

But the broad themes the book goes on to explore — addressing the challenges of climate change, high debt levels, income inequality, and deteriorating social capital, all while the economy undergoes technological transformation — are well worth your while. They provide a rich context to assess our present troubles and speak to realistic ideals for how to face the future.

The critical question posed in this book is what legacy we intend to leave behind — what is “enough” for us to consume today so that we don't leave an unsustainable burden of environmental, social, and economic debt to future generations. Coyle notes that “current and recent generations in the rich economies have been living beyond their means and will need to correct that by saving more and consuming less.” That reality is complicated by what she sees as a breakdown of collective trust and a lack of effective governance in today's society.

A first step in making needed changes involves measurement. Coyle dismisses the notion that a conventional focus on economic growth should be tossed aside in pursuit of a new “happiness” measure, as others have proposed. Indeed, research shows that economic growth contributes greatly to happiness. “What’s more,” she adds, “poor countries in particular need to continue growing to reduce poverty and satisfy natural aspirations to reach the living standards of the leading economies.” As a result, Coyle insists that GDP growth should remain a policy target.

The critical difference in the twenty-first century is how to adequately capture the vast changes in economic growth brought by improved productivity and technological advances. Coyle proposes a wider array of statistics beyond GDP and the existing national accounts. These new, longer-term measures would track social and economic progress, including generational accounting (to capture the burden of future pension and welfare obligations), comprehensive wealth (to bring the future impacts of current policies into decision-making), and productivity in services and other intangibles (to better capture their true economic value). She acknowledges that these measurement changes would take time to gain traction and could be especially difficult to develop in poor economies.

Institutions matter as well, as reflected in what Coyle defines as the currently dysfunctional U.S. political system. She advocates a major restructuring of the public sector in line with changes that have already been integrated into the private sector.

International economic institutions could also bear some major reforming to “embrace a public service mission, openness, and greater direct engagement with the members of the public whose lives they will ultimately affect.” Of course, putting the necessary resources and political will behind these sweeping changes would be a mammoth task.

Another daunting challenge is the current extremes of income inequality, which have destabilized large swaths of the globe and are undermining the foundations of future economic dynamism. Coyle advocates attacking this problem through legal and regulatory structures. She suggests using the tax system to drive out excessive bonuses and performance pay, and she takes a pretty hard stab at what she sees as paltry reforms in the banking industry following the financial crisis, calling for the breakup of big banks.

What her analysis lacks, though, is the obvious need for lower-skilled workers to increase their levels of education and training to compete in today’s high-tech workplace.

Coyle also calls for savings incentives to spur economic growth. Some of these are happening already—such as making people opt out of, rather than opt into, retirement savings plans. Replacing the progressive income tax with a consumption tax would discourage excessive spending, she says, and could also discourage the use of high-carbon products and services. Interestingly, where the consumption tax was once championed mostly by commentators on the right side of the political spectrum, it is now being considered by the left as a way to halt over-consumption of scarce resources. Businesses, too, would need to change their perspectives, adopting a longer time horizon than the traditional two-year investment cycle.

Cuts in entitlement spending are inevitable to halt insurmountable debt burdens, and they are bound to be painful. Coyle suggests engaging citizens more directly in public policy through the internet to improve “transparency and legitimacy in decision-making and offer a defense of policy decisions against lobbying and legal gaming.”

Still, tough changes that include longer work horizons, less time off, and reduced pensions will become a reality. Those changes are made even tougher by what Coyle perceives as a lack of collective trust that we can actually harness the measures, values, and institutions we need to avoid ripping apart the social capital that holds society together.

If market capitalism is to deliver social well-being that speaks to the welfare of future generations, the most important ingredient will be the attitudes of individuals. I am reminded of President John F. Kennedy’s remarks to the students at American University in June 1963, just a few months before his death: “Our most basic common link is that we all inhabit this small planet. We all breathe the same air. We all cherish our children’s future. And we are all mortal.”

While idealistic in its scope, Diane Coyle’s book helps us think about some specific ways to make “the economics of enough” work for both today and tomorrow. ■