

Interview - Harry Shutt

Written by E-International Relations

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Harry Shutt is a freelance economist and consultant who has worked on more than 100 assignments over the last 30+ years, mainly for international development agencies such as the World Bank, United Nations Development Programme and European Commission. Harry is the author of numerous highly-acclaimed books including *Beyond the Profits System* (2010), *The Decline of Capitalism* (2005), *A New Democracy* (2001), and *The Trouble with Capitalism* (1998). His most recent articles and further information can be found at his blog, harryshutt.com.

Where do you see the most exciting research and debates occurring in your field?

Increasingly the most important areas of debate are concerned with the related issues of technological change, income distribution and alternatives to growth and “trickle-down”. Global economic trends over the past 40 years have utterly discredited traditional theories of economic development concerned with ways of managing market capitalism, be they “neo-classical” or “Keynesian”; yet these outmoded ideas remain the limits of the ideological spectrum that are considered acceptable in the mainstream media and academia (even including the British Labour Party under Jeremy Corbyn, it seems).

How has the way you understand the world changed over time, and what (or who) prompted the most significant shifts in your thinking?

As a student (mainly of history) in the 1960s I developed a rather naïve belief in the possibility—and indeed the reality—of human progress. Although clearly the world was then still scarred by the catastrophe of WWII, it seemed it might have learned from its mistakes sufficiently to avoid repeating such folly, particularly in the shadow of the bomb. At the same time the rising prosperity of the West in the post-war period and the continued seeming advance of rationalism based on the ideas of the Enlightenment appeared to hold out the prospect of spreading the benefits of material progress to the less developed regions of the world, particularly as they were then emerging from colonial domination.

What has changed since then is that the seemingly rising prosperity of the post-war era rapidly proved a delusion in the 70s, although it took a while for me to understand why. Even more disillusioning was the discovery that the notion that most of our rulers were fundamentally progressive in attitude and capable of learning from their mistakes proved to be hopelessly misplaced. Linked to this has been a growing recognition that the leadership of the West has become just as ruthlessly committed as their counterparts in the East to the preservation of their own wealth and power. Most worryingly, this tendency is now manifest in total lawlessness at the highest level, such that blatant fraudsters—e.g. manipulators of LIBOR and other markets, VW emissions testers—as well as those manifestly guilty of war crimes, can seemingly enjoy almost total impunity.

In many of your publications you express a scepticism that the world economy can recover from its most recent crisis and question the longevity of capitalism. Given that previous crises have come and gone, what makes the current period qualitatively different?

As I have pointed out in my work—and as I think is generally recognised by the minority of analysts who have troubled to study the historical record—the reign of capitalism as the dominant form of socio-economic organisation

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is relatively short-lived, since it only clearly displaced feudalism in Europe by around the mid 19th century. It is also quite widely accepted that its subsequent period of dominance has been a) marked by periodic upheavals and chronic instability, and b) increasingly threatened by disruptive technological change—much as Marxist analysis might have foreseen. Indeed given the historical tendency of all economic and social structures to be superseded in the long run, one might turn the question round and ask why, given the record, capitalism should be seen as an exception. Moreover, such is the intensity of the disruption now being unleashed by rapid technological change and the associated social and economic pressures that are emerging, perhaps the wonder is rather that there is not more recognition of the need for fundamental adjustments to the existing global order.

In *Beyond the Profits System* you stress the need for our obsession with growth to be abandoned, not least due to ecological limitations. Given the profound global inequalities that characterise our world, is this call to de-prioritise economic growth a universal prescription?

In the 50 years since I first got involved in applied economics, with particular emphasis on finding ways to close the gap between poor and rich nations, official policy has always and everywhere been based on the need to prioritise maximum growth – even though, as I first noted back in the 60s, there was little prospect of closing this gap (of at least 20:1) unless developing countries could be enabled to grow much faster than developed ones. In the event there has been no closing of the gap—rather the opposite—despite periodic vague and unsubstantiated claims from the World Bank, such as that “1 billion have been lifted out of poverty”.

The truth, as I gradually discovered over subsequent decades, is that (GDP) growth is an objective that serves the ends of investors and capitalists more than anyone else and is by now widely recognised as a very poor indicator of human welfare, especially where income distribution is heavily skewed. Rather GDP provides an indicator of trends in purchasing power and thus of the potential for commercial market expansion and contraction. These are of course the areas of most interest to those seeking profitable investment opportunities, but tend to exclude activities—such as those associated with health and welfare enhancement—which do not have such commercial appeal. The latter are, however, of far more vital importance to the well-being of the community as a whole, whereas a continued focus on growth in the “tradable” sectors increasingly means investing in activities that are wasteful (such as building Olympic stadiums) or socially damaging (e.g. pornography, drugs), while more traditional consumer markets have become permanently saturated and unprofitable.

At the same time, however, it is vital for any given country—or other economic entity—to ensure it has a) the productive capacity and b) sources of revenue to give it a minimum acceptable level of autonomy vis-à-vis potentially inimical external forces, whether states or private corporations.

As an economist who has advocated the need to look beyond economic growth, what is your opinion of measures that account for both social and economic dimensions such as the Human Development Index and the Happy Planet Index?

First it is important to state that it is probably both futile and dangerous to try to establish a single indicator of economic or social performance that can be used to measure and easily compare the relative success of particular models or national economies, given that any such single index may lack objectivity or clarity in the eyes of the general public. A good example of the scope for bias is provided by the UN's Millennium Development Goals, which may be said to represent a certain bias on the part of those who compiled them, so that arguably they overemphasise such indicators as low perinatal mortality at the expense of those of reduced child poverty.

Hence I would prefer to focus on a selection of key social and health indicators which can be clearly understood rather than such single indices as the HDI. These might encompass such phenomena as life expectancy, income inequality, suicide rates etc. as identified by Pickett and Wilkinson in *The Spirit Level*. At the same time, however, we should retain GDP or something similar as an indicator of the level of productive capacity and commercial (and therefore taxable) activity within a given economic space. This is obviously because any government needs to be concerned to ensure that an adequate level of value added is produced within its jurisdiction so as to maintain—or if need be enhance—its capacity to support the community without resorting to excessive debt.

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Karl Marx envisioned that a unified working class would be the grave-digger of capitalism. Yet today the working classes are profoundly fragmented, and the potential for socialist revolution seems distant. In the contemporary world, who will be the agents of change towards a post-capitalist era?

Given his 19th century perspective, it is perhaps unsurprising that Marx had a rather romanticised view of work and the working class, reflected also in his attachment to the primitive Labour Theory of Value. However, the Marx-Engels insight on the key role of changing technology in determining economic and social structures should prevent us from being too surprised by the fact that the essence of the latest industrial revolution is not so much a conflict between capital and labour as a technological revolution in which both these factors of production are being by-passed as they become super-abundant and consequently lose market power. It thus becomes hard to visualise the process of future change in terms of any kind of traditional class struggle, whether in pursuit of a “socialist revolution” or any other collective goal.

Sadly, what seems far more imaginable is a dénouement of the present crisis in which a) the global financial system finally collapses under the weight of an ever more massive burden of debt that can never be repaid, and b) the existing powers that be create and incite conflict of various kinds (including outright war) in the hope this will create conditions in which the ruling élite can retain or recover control of a substantial share of wealth and power at whatever cost.

The dynamics of such a dark but multi-faceted and anarchic scenario are impossible to foresee. Arguably the best hope lies with those disparate groups—often very small—who have both the technical expertise and the motivation to challenge the power of both big government and big business to control our lives. A number of these, such as the developers of Linux open-source software, have demonstrated an admirable contempt for the bloodsucking ways of profit-maximising monopolists such as Microsoft. It may seem utopian to hope such enlightened attitudes will necessarily become the norm. On the other hand, the much greater difficulty now faced by would-be tycoons in imposing control on markets—by means of financial power and control of “intellectual property”—encourages one to believe that independent economic agents and communities will have space to operate in relative freedom.

In *The Trouble With Capitalism* you criticised the idea that countries of the Third World could catch-up with the countries of the OECD, and stressed their continuing dependence on the corporations and states of the rich industrialised world. As such, what is your perception of the supposed rise of the BRICs?

At one level the BRICs should probably be seen as figments of the global establishment's (and particularly Goldman Sachs') imagination, developed in the minds of the financial establishment as plausible justification for the buying and selling of securities of doubtful value. In the real world their supposed importance as models of how relatively poor countries can enrich themselves and advance to developed status within the globalised market economy has been brutally exposed by the unfolding global financial crisis (GFC) from which the world has predictably failed to recover since 2008. Ironically China has until very recently been seen as the new economic super-power that was going lift not only the developing world but the entire global economy out of continuing recession into a prolonged cycle of self-sustaining growth. This delusion, which has only been made possible by an uncritical media acceptance of the fantasy statistics generated by the Chinese authorities and an apparent failure to notice that it was fostered by a historically unprecedented rise in borrowing, is now being dispelled by a recognition that China now has a level of (unpayable) debt comparable to that of the already over-indebted Western economies and massive excess capacity resulting from over-investment (reportedly including at least 50 million empty dwellings).

At the same time it needs to be recognised that the world economic environment has moved on since the 1990s when the capacity of the “Asian Tigers” and others to transform their economies was similarly oversold by advocates of neo-liberal globalisation. Thus, as noted above (under point 6), the technological revolution has advanced in the subsequent 20 years to the point where it is no longer possible for large corporations based in the developed world to control the global pattern of investment and production as much as was the case in the past. On the other hand this still leaves unresolved (indeed barely addressed) the issue of how value added is to be equitably distributed in this more fragmented world.

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For many years you have been a vocal supporter of the Basic Income. However, there are many proposed variants of this policy emanating from both the political left and right. As such, what are the key tenets of the specific Basic Income policy that you advocate?

1. The most essential feature is that it must be a payment made to all qualifying (resident) adults within a defined jurisdiction at a flat rate regardless of other sources of income (i.e. universal and unconditional) at a level close to or above subsistence (the poverty line) – but see b) below.
2. The appropriate level of the Universal Basic Income (UBI) would partly depend on access to other publicly provided essential services / benefits in kind (e.g. health and social care, education, housing). In addition access to benefits for those with special needs would have to be assured on a non-means-tested basis.
3. While a UBI would initially be funded mainly by existing forms of taxation—which would need to be far more progressive and subject to effective restrictions on capital flight and tax avoidance (thus reversing aspects of globalisation)—in the long run it should be financed on the basis of a wholly different structure of allocating value added within the economy, bearing in mind that in a post-capitalist economy there would be no need to allocate a large share of GDP (typically 10-15 per cent) to servicing now redundant capital.
4. A key justification for a UBI is that paid employment no longer offers a mechanism for income distribution that is both equitable and efficient, due to a) technological change and b) reduced scope for economic growth (see 4 above). Given this limitation there would need to be an implicit recognition that earning opportunities over and above UBI should in principle be equitably allocated; this principle should be enshrined in a steeply progressive structure of income tax.

Although you define yourself as an economist, most of your works combine economic analysis with political and social analysis. Do you consider an interdisciplinary approach essential, or is there still a basis for the separation of the social sciences into separate disciplines?

I certainly do consider an interdisciplinary approach essential, particularly with a view to making economic analysis more relevant and less one-dimensional. This could, for example, help economists to give a better rationalisation of the anomalous behaviour of market prices and prevent them adopting such mechanistic theories as the “Phillips Curve” (purporting to explain inflation levels in terms of a more or less fixed mathematical relationship with the rate of unemployment). At the same time greater knowledge of economics among other social scientists should improve their analytical capability. Equally giving economics a greater prominence in the curriculum at secondary level should help to demystify this vital subject among a wider section of the public.

The fact that in reality the discipline of economics has arguably been developed in isolation from other branches of social science probably accounts for its failure to evolve beyond a rather primitive stage. Thus a 200-year old dogma such as Ricardo’s trade theory based on the so-called Law of Comparative Advantage—which has seldom if ever had much connection with the real world—is still viewed by many as the rightful corner-stone of trade policy.

What is the most important advice you could give to young scholars of economics?

- Recognise that economics as a discipline is even less “value-free” than other social sciences—and that it tends to be taught in a way that reflects the ideology of the ruling élite and favours the status quo;
- Explore and discuss alternative approaches through groups, such as The Post-Crash Economics Society, which have emerged in response to the failure of conventional (neo-classical) economics teachings to predict or explain the GFC;
- Always think for yourself.
- Read my blog – harryshutt.com.

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