Economic progress: Reasons to be optimistic

Economists are traditionally optimists with regard to social progress, which they see as the growing production of goods, wealth and services to meet human needs. However, in recent decades, more pessimistic views have emerged, centered on, among other things, the effect this progress is having on the environment, the possible threat of new technologies and the demonstrable drain on the planet's resources. It has even been suggested that the economic paradigm is in crisis. But is it really? And more importantly, if it is, what hope is there?

September 1, 2007

In his paper, "Progress as seen by economic science" ("*El progreso: una visión desde la ciencia económica*"), IESE Prof. Antonio Argandoña notes that the economy, in itself, is neither optimistic nor pessimistic. Rather, it's the suppositions on which the science of economics is built that can be so.

Traditional or neo-classical economic science takes the optimistic view, fondly regarding the economy as an instrument for managing limited resources in the face of unlimited human demands. In this model, the economy always betters a prior situation. It has faith in people's ability to choose correctly and organize the world around them. It has its roots in the agricultural and industrial revolutions of the 18th and 19th centuries, which achieved notable improvements in the production of goods and quality of life for the developed countries.

Pessimism, on the other hand, is a symptom of postmodernism, a school of thought that arose after World War II, gathered momentum in the social revolutions of the 1960s and has come to typify late 20th and early 21st century life.

Optimism based on human nature

The optimistic viewpoint is not naïve: it acknowledges that progress is not guaranteed and there will be obstacles along the way, such as the lack of resources, injustice in the distribution of benefits and failings in the market, which can prevent the economy from carrying out proper self-regulation. To deal with such difficulties, the optimist tends to rely on people's good judgement and ingenuity, devising human (state) interventions to resolve the problems encountered.

On this latter point, even optimistic economists disagree: socialists favor state intervention, while economic liberals oppose it. However, whichever side of the debate they're on, both sides share the same optimistic notion of economic progress, considering it the highest level of well-being for the greatest number of people. They base their belief on one simple anthropological concept: that the economic agent is a rational being capable of making good decisions about the most efficient use of resources.

Argandoña says that one problem with this thinking is that it limits human activity to the purely economic sphere. Economics must consider humanity in all its dimensions: as a social creature, as a master of the world, as a spiritual being. Only treating people as economic agents is insufficient; it omits important other aspects of human activity, and deals with humankind as a well-programed machine, not truly free. It makes no room for ethics, which is necessary for achieving balance throughout the whole system, be it the family, business or society.

Argandoña gives an example, drawn from the developing world, of what can happen when this anthropological vision is not held in its entirety. Many developing countries adopted the traditional economic definition of progress - increasing production and per capita returns - but in doing so, they made a serious diagnostic error: they failed to appreciate that what was intended to resolve problems in developed countries would not work the same in their poorer contexts. They didn't have the same state support structures to fall back on, nor the same business freedoms. People thought it would simply be enough to provide financial resources or greater investment. In other words, the economy was seen more as a perfect machine without a context, than as a human community.

Therefore, Argandoña argues, it's necessary to revise these anthropological suppositions. He recommends bearing in mind the Catholic social doctrine, based solidly in anthropology, because it could help locate the principles on which to build a new economy. This option, he believes, will help to preserve the success of traditional economic science while also overcoming its limitations. The new economy should review the concept of development itself, and support not only the progress of humankind in all its dimensions, but also every individual, since without economic, social and moral development, no individual can reach his or her full potential.

A pessimistic vision of progress

Argandoña also turns his attention to the pessimistic outlook, which has gained credence in recent years, even to the point of some beginning to question the very economic paradigm. Critics point to the negative impact on the environment, the foreseeable and unforeseeable effects of new technologies, which are perceived to be a threat, and the scarcity of the planet's resources, not to mention the failure to deal with serious problems such as famine or inequality.

These criticisms, which echo Marxist ideology of the 19th century, are not new. However, the economic pessimism that has gained currency since the second half of the 20th century bears one striking difference: before, those voicing the criticisms were pessimists with regard to the past, and blamed capitalism for all the world's problems; whereas nowadays, it is the future that is seen as bleak, since it has been shown that there is no alternative to capitalism, and the state, which should lead us toward progress, is in crisis.

While Argandoña accepts some of these criticisms, he's not quite convinced. Yes, the new technology carries inherent risks, but that should not prevent us from using it. But he's more than a mere pragmatist. Argandoña truly believes in the capability of humanity to resolve its own problems. The future is bright, he says, if the economy is able to grow upon foundations that are both solid and complete.

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