

## Economic Evolution

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We have all been taught the story of evolution, from single cell organisms to sea creatures to land animals to mammals and eventually Homo sapiens. Along the evolutionary way, all manner of things emerged and then died. If history has taught us anything, it is that nothing lives forever.

Everything has a birth, a life and then a death, which is really a rebirth. As our current understanding of physics suggests, there really is no final end. Energy is neither created nor destroyed. It just changes from one form to another. Death is just a rebirth into another form of energy.

There is no static anything, just different lifecycles playing themselves out over different periods of time. So if stars, planets, oceans, continents, plants, animals and humans can evolve, can possess a lifecycle, then why not also an economy? If so, then how might economy evolve?

Up to now, asking how economy evolves has been of little value because over most of history, virtually nothing changed in one lifetime. But today, dramatic change happens every decade, if not every day, so we may want to pay more attention to the question. How might economy evolve?

In its current form, our economy is a derivative of the Industrial Revolution, which began in English textile mills some five hundred years ago. This technological advancement resulted in the death of the rural agrarian order and the birth of the industrial ecosystem. It remains mankind's most significant economic rebirth.

As the Industrial Revolution gained early momentum, Adam Smith suggested economy would operate most effectively for the greater good when individuals pursued their own self-interests. Not long after, David Ricardo proposed that if countries focused on their core strengths and traded with other countries also focused on their own core strengths, all economic participants would achieve the greatest value. Smith and Ricardo were observers of the early stages of industrialization, believing that the best overall policy was to let economy develop out of the strengths and self-interests of individual economic units.

Generally following these perspectives on free will and free markets, America's nascent economy gradually produced some very strong monopolies. Those monopolies created more value for the few rather than the many, so government carved them up to make industries of more value to the whole of society.

Thus began the modern era of government regulation. The wild west of capitalism had to be somewhat restrained. Government had a new role, no longer just protector of a new nation, but now referee over its commerce. The free markets advocated by Smith and Ricardo became a bit less free. Commerce evolved. It had to as the early robber barons' grab for power and wealth eclipsed the overall benefit to society.

After several banking crises, in the early 1900s government stepped in once again not just to referee, but also to set up a system that would better manage money. The Federal Reserve was created to improve confidence in currency, banking and credit, such that commerce could be conducted more

productively. Government's role in private enterprise increased significantly. It now controlled all money.

Another expansion in government oversight also occurred in the early 1900s. Concern had been growing over the safety of products being sold to consumers. Snake oil salesman commonly sold all manner of nothing to people who were led to believe it was really something. And after Upton Sinclair's book, *The Jungle*, was published and widely read, support grew such that in 1906 we created the Pure Foods and Drug Act, which would serve as the foundation to the Food and Drug Administration.

This growing government oversight didn't save our world from economic cycles. Impressive innovations, the growth of global trade and our natural animal spirits created an investment bubble that burst in 1929. A long period of economic malaise followed. Out of the Great Depression came the next important economist, John Maynard Keynes.

Keynes suggested that during periods of economic malaise, government should borrow and spend more to keep an economy afloat. This government spending would theoretically keep the economy from developing contraction contagion, as well as serve as catalyst for the next expansion cycle. Keynes gave government even more reason to exert control over economy. Once government grasped the benefits of Keynesian policy, it became easy to appease voters during periods of economic weakness. The process of "buying" votes became institutional.

Then in 1962, Rachel Carlson's book, *Silent Spring*, chronicled growing toxicity as commerce failed to consider its effect on environment. Lake Erie was almost a toxic waste dump. Pittsburgh was covered in a fog of smoke and soot. Ordinary citizens regularly threw trash on the highways as they drove around. For the sins of our inattention to environment, we were given even more government oversight through the Environmental Protection Agency.

As economy grew, as our industrial society grew, so grew government's influence. It was only natural, as it has been government's responsibility to protect its citizens. In order to maintain stability and safety, more order had to be created, overseen and ruled upon. Government became a need of industrial society, maybe just as much a consequence of the growing complexity of economy and society as it was as a grab for power.

This is how economy has evolved. Today we see little of the Adam Smith version of economy and a lot of the John Maynard Keynes' version. Economy today is less about individuals pursuing their self-interests, and more about government influencing economy to happen within the boundaries of government's interests. We are a long way from the early days of free markets and free will.

Are we economically better off today than we were in Adam Smith's day? Absolutely, but the nature of economy has obviously evolved. So where are the current forces of evolution taking us from here?

In pondering this question, it may be helpful to step back to the lifecycle concept. Where are we in the industrial economy lifecycle? Are we close to its birth, brimming with youthful energy? Are we powering diligently through adulthood? Or are we struggling to keep up as we reach a natural end, a rebirth to something new?

The answer appears pretty obvious. Our economy can't seem to operate properly without government being the most important influence, the most important economic input. No longer referee, government has become what makes economy. Our current president even recently suggested that none of us would have achieved anything without the support of government.

There is logic to this perspective. Over time, the evolutionary forces behind our industrial economy required more and more government influence. But these evolutionary forces have not ceased. Change continues, more dramatic today than at any time during human history. What does this portend for our future?

Clues can be found from another well-regarded economist, Joseph Schumpeter. Schumpeter gave us the concept of *creative destruction*. Schumpeter understood the lifecycle. He understood the process of birth, life, death and rebirth. Creativity's innovation initiates a birth that leads to the destruction of less productive legacy products and/or systems.

But in a world where government is focused on protecting its citizens from monopolies, unstable money, economic decline, harmful products, environmental damage and much more, we seem to work very hard at preventing the destruction process from playing out. Because we wish to protect, maybe now too much, we reduce the natural forces that historically moved economy forward. As we prevent natural economic destruction, are we only positioning ourselves for greater pain down the road?

In just the last twenty-five years, enormous, hugely transformative innovation has been unleashed in just about every industry. It has also led to the creation of brand new industries. Per Schumpeter, this could very well mean we're living amid the thrashing death of the industrial lifecycle, and the wobbly birth of something different.

Even if we have entered a new economic lifecycle, whatever it may be, our self-preservation instinct manifested through the role of government will enable the legacy industrial and institutionalized period to endure a bit longer. Evolution happens while we are living day to day. It's like the earth spinning around. It continues without our conscious awareness. And so it goes and goes and goes.



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