



Hollow Men of Economics

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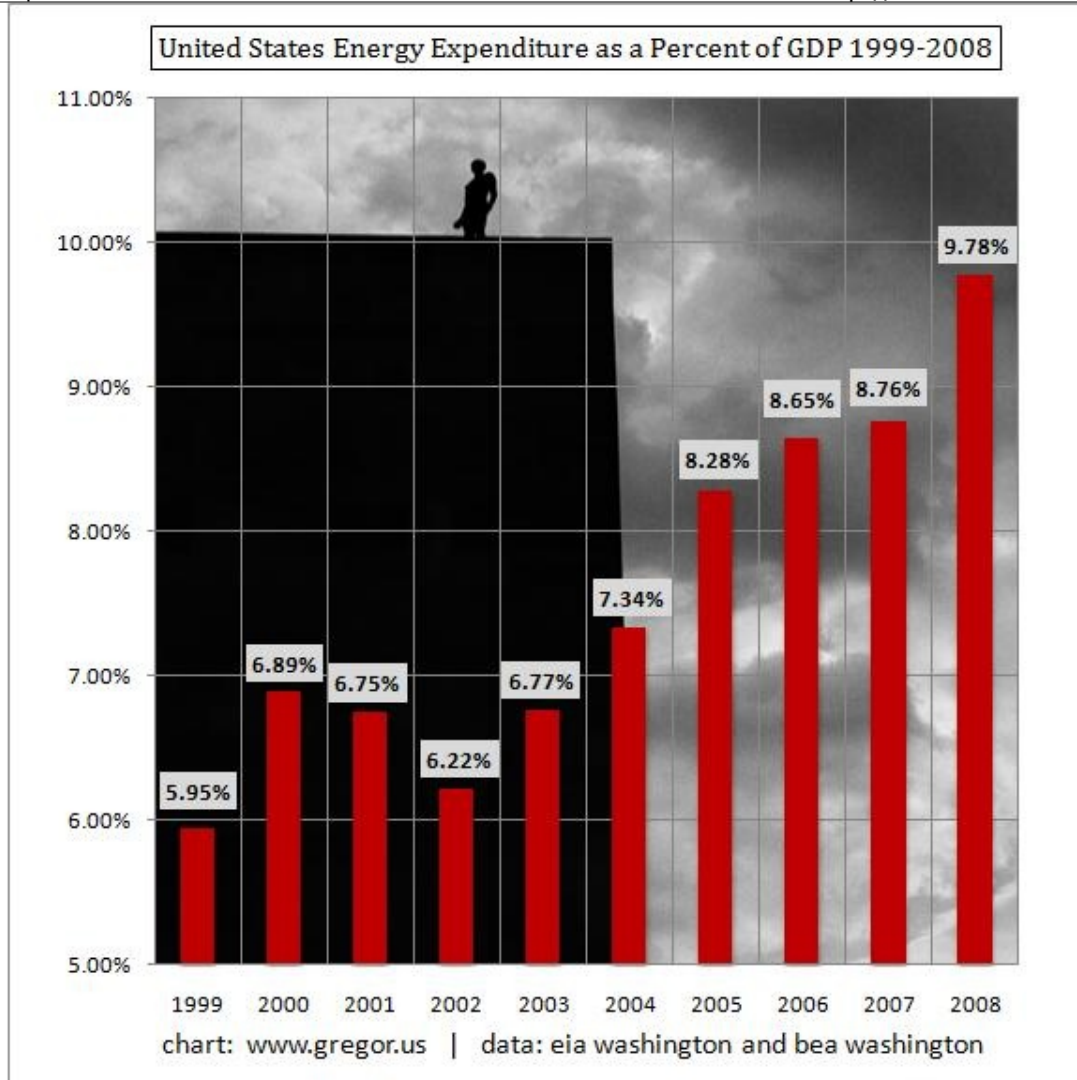
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This is a guest post by Gregor MacDonald. Gregor is an oil analyst and energy sector investor, who, in his words, "also focuses on the coming transition to alternatives". This post was previously published on [Gregor.us](#)

Left unaddressed during the past 3 years in most of the debates between economists has been the problem of energy. The reason is simple: post-war economists *don't do energy*, except as an ever-expanding resource that the credit system and technology makes available. For the post-war economist, the supply curve of energy—save for brief lags—is always coming back into rough equilibrium with the economy.

Accordingly, the ongoing dispute between Keynesians and Austrians (or *Austerians* if you like) is exceedingly boring in this regard. As late as 2008, for example, economist Paul Krugman was at least an infrastructure-and-engineering Keynesian. However, Paul quickly converted to becoming just a *throw lots of money at the existing system* Keynesian. The hollow nature of Krugman's debate with Niall Ferguson meanwhile comes via their shared belief that the system will self-organize, if you follow their respective prescriptions. They are indeed the inheritors of Adam Smith.

However, neither allowing the economy to deflate further from here via austerity, nor throwing more debt-marked stimulus will solve the present day problem. For the United States, along with the rest of the developed world, has reached a boundary in energy.



Only an economist could wonder in their leisure now, whether energy played a significant role in our current crisis. Indeed the public remarks of Ben Bernanke on the matter of energy, during the 2005-2010 period, were at least as clueless as his embarrassing commentary on the historic bubble in housing and credit. As the nation's chief economist, Bernanke saw no problem with credit, with derivatives, with the fast inflation in housing prices, or with energy prices. And as an American economist, he was not alone.

As state's see their budgets collapse and start a new round of layoffs, we should consider the fact that house price inflation masked the lack of wage growth in the United States. And now that house prices continue their descent for a 5th year, American workers are more fully exposed to the decade-long march higher in energy costs. They can experience this individually through energy prices, or more generally through the overall energy cost to the economy. Hence, the chart above.

Unlike many who were either shocked or angered at the ridiculous paper released by Richmond Fed Economist Kartik Athreya, [Economics is Hard](#), I was delighted. For, the paper confirms that at the Federal Reserve, just as in the post-war economics profession, competency has been replaced with authority. Indeed, this was in fact Athreya's central point: that only a PhD in economics conferred the proper access to discuss economic issues. The most beautiful rebuttal came from [Ambrose Evans-Pritchard](#), who made a point dear to me and one that I have made for years: *economics is a social science*, not a science. In other words, economists are working down

here, alongside the rest of us humanists. History, literature, psychology, and anthropology to mention a few disciplines are all equally competitive fields of knowledge to understand the system of behavior known as an *economy*. Accordingly, it behooves post-war economists to dislodge themselves of the view that their discipline neatly explains energy and energy supply. Lose the attitude. The problem of energy limits awaits you.

-Gregor

Chart: *United States Energy Expenditure as a Percent of GDP 1999-2008*. Data used is the latest available. GDP series comes from the US Department of Commerce, [Bureau of Economic Analysis](#). Energy Expenditure data comes via [EIA Washington's SEDS series](#), for all states and also the country as a whole. I put these two data series together on my own, but, checked it against EIA Washington's own [calculation of Total Energy Expenditures vs GDP](#). 2009 is not omitted from the chart by choice, but rather, because expenditure data is not easily available yet for that year. Background photo is of a rooftop sculpture by Antony Gormley from his project [Event Horizon](#), which was displayed in both London and New York.



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