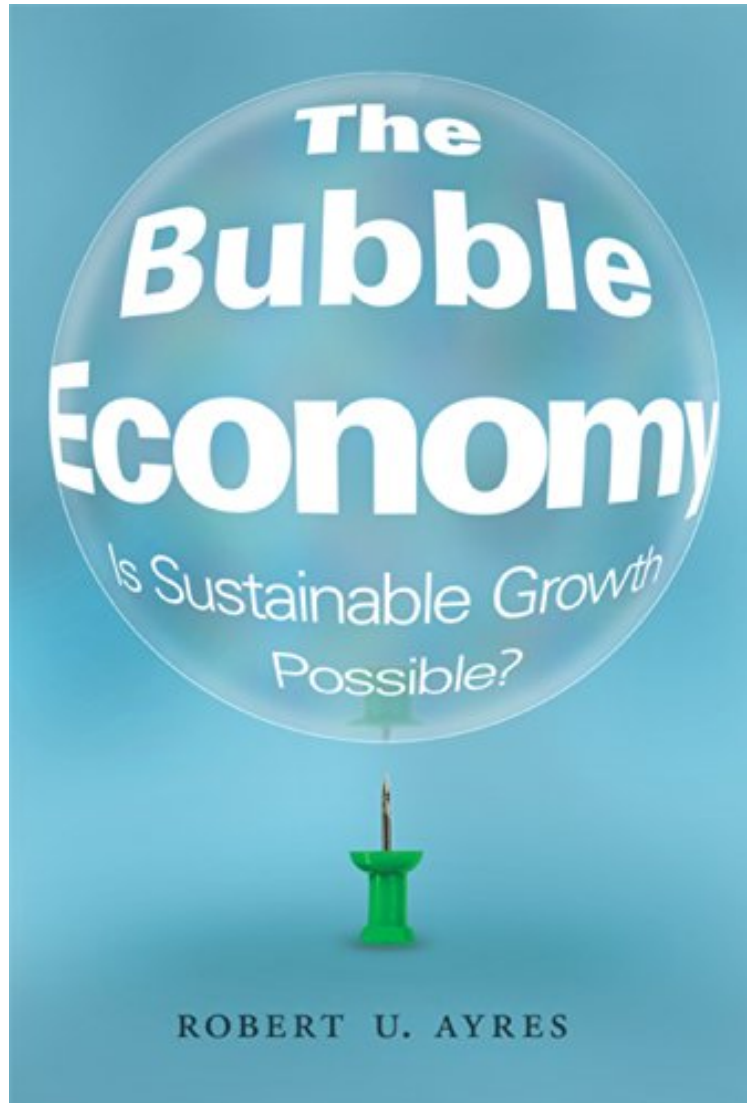


(Free) The Bubble Economy: Is Sustainable Growth Possible? (MIT Press)

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Robert U. Ayres

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Robert U. Ayres : The Bubble Economy: Is Sustainable Growth Possible? (MIT Press) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Bubble Economy: Is Sustainable Growth Possible? (MIT Press):

0 of 2 people found the following review helpful. Popping Robert Ayres' bubbleBy AbacusRobert Ayres is a physicist whose lifelong purpose has been to attempt transferring physics principles to economic system. As a result, much of his economic theories, included in this book, and earlier works are founded upon the principle that energy is everything. Along those lines, he further considers that a fossil fuel based economic system is both unsustainable (we'll run out of oil pretty soon) and dangerous (climate change). And, instead we should redirect our fiscal

resources towards alternative energy subsidies to promote a post-fossil fuel economy that is both sustainable and benign. The author's views on climate change are consistent with the consensus. Thus, I will not debate this aspect of his theory. However, much of his other cornerstones of his theory fall apart among closer examination. Even though "The Bubble Economy" was released in 2014, he apparently has never heard of shale oil natural gas. This renders his whole concept of Peak Oil obsolete. Also, alternative energies have benefitted from massive subsidies in both Europe and the U.S. for decades. Their market share of the overall effective energy mix still remains minuscule. This is for several reasons. Those sources of energies are often very challenging to scale up on a material enough level to displace traditional sources of energy. They are also often extremely intensive in terms of either water use or land use. They are most often intermittent (wind, solar). They do not generate energy either at night or when it is not windy. In such cases, they are not truly new sources of energy (even when included in an energy mix framework), but duplicative sources of energy as they need back up from traditional sources to provide energy when they can't generate energy. Robert Bryce has written several excellent books on the subject that are far better supported than "The Bubble Economy." He views oil as prone to bubbles that destabilize economic systems. Therefore, he favors alternative energy. For the reasons mentioned above this does not make as much sense as one thinks. Additionally, he does not pay much attention to the role that rising energy efficiency has played on reducing the impact of volatile oil prices on the economy. In the recent past, we have had oil prices much above \$100 a barrel without much economic implication. Thus, unlike during the two OPEC shocks (in 1974 and 1979) high oil prices shocks have lost much of their nasty punch on the Global economy over the past 15 years. It is not unlikely that such oil shocks themselves will abate further going forward. That's because the minute they perk up North American shale oil production will accelerate. In other words, shale oil puts a low cap on prospective oil prices. The author's concept that we could stimulate the world economy by subsidizing further alternative source of energy is not a feasible idea. The sector is very capital intensive. Its manufacturing is or will be increasingly robotized. In other words, such alternative energy fiscal stimulus would have very little impact on employment. It would result in an excess supply of the related energy infrastructure. The author's historical review including going back to the 18th century is not very informative, and often confusing and misinforming. When he covers modern time, his analysis does not get any better. He attributes the Dot.com bubble mainly to bank deregulation. It really had a lot more to do with genuine stock market speculation, a very frequent collective behavior phenomenon when faced with new technologies that are inherently nearly impossible to price. He indicates the Dot.com Bubble triggered a deep recession. No, it did not. By historical standard, the recession of the early 2000s was relatively mild. The Dot.com bubble did not have that much impact because the Dot.com bubble was not associated with financial leverage, as it was financed by equity, unlike the Housing Bubble that was financed by very highly leveraged mortgages with often near zero downpayments. When he covers the Housing Bubble, his analysis is still clumsy at best. He indicates that the real estate losses were not recovered, and unemployment remained higher than it was in 2007. However, it makes a good while that the post-crisis economy has exceeded its pre-crisis peak. Home prices have fully recovered. There are talks of a second housing bubble on the U.S. Coasts. And, employment count has grown pretty steadily for a few years now. The U.S. Unemployment rate is now very low by historical standards under 5%. He also attacks banks bail outs, like the vast majority of commentators on the subject. However, he gets it wrong. Through TARP, the Government invested about \$250 billion to shore up the U.S. banking system. Within a year or less, the banks had fully repaid this amount plus a profit of close to 5% as the Government also owned warrants on the banks they injected cash in. When it comes to recommendations, the book does not get better. Some of his tax suggestions do make sense and are rather mundane (many others have made similar recommendations for years). And, they don't have a chance in hell to pass. Some other tax proposals are less attractive including his tax on the use of the Internet. The latter is one of the main sources of free information and knowledge and facilitates innovation generated by millions of young bright minds that can readily cooperate and create new Apps and markets. Why would you ever discourage such an enterprise that does not cost anything to the user and generates great benefit for society. He also recommends that the Eurozone should boost its economic growth without understanding the devastating economic and socioeconomic constraints this system is under. For the author, just reshuffling our energy portfolio from fossil fuels to alternatives will solve all our problems and boost economic growth. As reviewed, this proposition does not hold under close scrutiny. Absent from the author's analysis are far more material causal forces of our economic future including: 1) an aging population; 2) an upcoming fiscal tsunami of fiscal costs related to social entitlements that will cause Budget Deficits and Debt level to rise everywhere; 3) a secular slow-down in labor productivity; 4) economic saturation (living standards can increase probably only so much, and result in what we call economic stagnation). The mentioned problems are all very closely interconnected. They are also prevalent throughout the OECD. Last but not least, those problems have just about nothing to do with alternative energy. The latter would not cause a dent in any of them.

The global economy has become increasingly, perhaps chronically, unstable. Since 2008, we have heard about the housing bubble, subprime mortgages, banks "too big to fail," financial regulation (or the lack of it), and the European

debt crisis. Wall Street has discovered that it is more profitable to make money from other people's money than by investing in the real economy, which has limited access to capital--resulting in slow growth and rising inequality. What we haven't heard much about is the role of natural resources--energy in particular--as drivers of economic growth, or the connection of "global warming" to the economic crisis. In *The Bubble Economy*, Robert Ayres--an economist and physicist--connects economic instability to the economics of energy. Ayres describes, among other things, the roots of our bubble economy (including the divergent influences of Senator Carter Glass--of the Glass-Steagall Law--and Ayn Rand); the role of energy in the economy, from the "oil shocks" of 1971 and 1981 through the Iraq wars; the early history of bubbles and busts; the end of Glass-Steagall; climate change; and the failures of austerity. Finally, Ayres offers a new approach to trigger economic growth. The rising price of fossil fuels (notwithstanding "fracking") suggests that renewable energy will become increasingly profitable. Ayres argues that government should redirect private savings and global finance away from home ownership and toward "de-carbonization"--investment in renewables and efficiency. Large-scale investment in sustainability will achieve a trifecta: lowering greenhouse gas emissions, stimulating innovation-based economic growth and employment, and offering long-term investment opportunities that do not depend on risky gambling strategies with derivatives.

In an era of monistic specialization, Robert U. Ayres brings us this integrative command of the variables, evidence, and remedies in one grounded and optimistic volume. Written in a personal style, interspersed with instructive stories and academic rigor, *The Bubble Economy* shows the pathways to equitable, sustainable economies. A book for everyone who wants to help shape that stable future. (Ralph Nader, author of *The Seventeen Solutions*) This is an excellent book on economics because it is not written by an academic economist--but by one of the world's most committed interdisciplinarians who has spent a lifetime of thinking and writing about the behavior of complex systems and about their fundamental (i.e., energetic) determinants. This means that it looks at the real world and that it makes inquiries into the real causes of growth, bubbles, and prosperity. For me, there is no better recommendation than this. (Vaclav Smil, Distinguished Professor Emeritus, University of Manitoba, and author of 35 books on interdisciplinary topics) This book provides an insightful account of the global financial crisis and its aftermath, placing the events of the late 2000s in a historical, political, and social context. It makes compelling reading, analyzing some very complex events and financial transactions with a clarity that makes them accessible to all readers. (Bruce Cowley, Chairman, Minter Ellison) This is a critical re-examination of the functioning of capitalism that integrates various important themes, such as financial markets, energy, and sustainable growth. The analysis of the financial crisis is nuanced and penetrating. The insights into the role of energy as a fundamental factor of economic growth will force all of us to re-think economic development and sustainability. (Lan Xue, Dean, School of Public Policy and Management, Tsinghua University, China; and Co-Chair of the Leadership Council, United Nations Sustainable Development Solutions Network) About the Author Robert U. Ayres, an American-born physicist and economist, is Emeritus Professor of Economics and Political Science at INSEAD, the international graduate business school. He is the author or coauthor of many books, including (with Benjamin Warr) *The Economic Growth Engine: How Energy and Work Drive Prosperity*.