

# The rise of the imaginary economy

**Author and business owner Mario Fabbri proposes a new way of looking at economics, focusing on knowledge acquired by sociologists and psychologists instead of mathematics or modelling**



**Caption:** How can technological innovations and industry investment decisions produce a steady growth rate?

With the exception of temporary irregularities – the Great Depression of the 1930s and the famous 19th century economic cycles – average US income has grown at an incredibly stable rate of 1.9% per year for 170 years.

Over this long time-span everything has fluctuated in the American economy: import-

export policies – protectionism/free market – interest rates, foreign exchange rates, the political climate, the amount and destination of investments.

What are we to think of the adamant statements of economists and politicians that the adoption of this or that policy, dear or odious to their hearts, had or would have really changed the situation of the country? What are we to think if the American economy, apart from some limited fluctuations, from which it has always recovered perfectly, continued to grow undeterred at the same rate for longer than a century and a half?

I was not the first to see this, but so far it has remained one of those curiosities that economists pay little attention to, in keeping with their tradition of ignoring what they are unable to explain. Finding an explanation was impossible for them, because the trend of average US income is at irreparable variance with the ideas developed by economic theory along the road it took two and a half centuries ago.

In fact, its extraordinary linearity clashes with the idea proposed by Adam Smith in 1776 and basically upheld by most until today, that a country's economic growth is the simple outcome of the expansion of its production sector.

However, let's ask ourselves: how could the combination of the somewhat random sequence of inventions and technological innovations and the ever-changing investment decisions of industrialists produce such a steady growth rate over such a long period of time?

Such linearity also suggests what a different road theory might have taken, because the remarkable stability of this 1.9% leads us to suspect that there is some "physiological limit", different and more stringent than mere production capacity, that has put a cap on the growth rate of per capita income. The most logical explanation is that the speed at which American society – or any society, for that matter – assimilates new forms of consumption has precise and very stable limits.

In fact, if one looks with some attention, it is easy to find many elements supporting the existence of a speed cap for assimilating new forms of consumption, and consequently for the possible pace of economic growth.

So let's begin by pointing out that in society every form of consumption corresponds to a habit, a part of everyone's normal way of life, or to a novelty that is finding a place among pre-existing habits. And this finding a place is usually the result of a typical process: from its first introduction in innovative social environments to its subsequent wider adoption that changes the habits of a large part of the population. And here we must consider that changing one's ways of life, even for the better, always entails a certain amount of stress and therefore, even if the flow of attractive available novelties were extremely rapid, some limit in the speed of their possible adoption must surely exist.

Novelties and changes can be useful and fascinating but they also engender a psychological cost; and if the cost is too high we just stick to our old habits. This must put a cap on the growth speed of living standards and so of economic development.

Could this resistance to change be the factor that for nearly two centuries has kept the growth in American society anchored so precisely to 1.9% whereas – we have to think – technical and productive factors might have allowed a faster growth?

Most of the first 19th century economists, living at the beginning of the industrial revolution, were euphoric about the impressive advances of the manufacturing system and championed its unconditional expansion: it was their absolute conviction that the human desire to consume is insatiable and so any increase in production – unless 'wrongly aimed at unwanted goods' – could always be profitably sold to the public.

They did not clearly understand the new situations created by the productivity boost of the industrial revolution, as is proven by their inability to find an explanation for the recurring commercial crises. These were repeating with amazing regularity: one per decade: 1818, 1825, 1836, 1847, 1857, 1864, 1873, 1882, 1890. At a certain point it was

suggested that they could be linked to the 11- year sunspot cycle, but the explanation did not hold water, like so many other theories produced in more than a century of futile brainstorming.

Today, economists speak a much more complex language than their 19th century predecessors, but the general logic remains the same: the only economic problem is to increase production 'optimising the use of scarce resources', and consumption will never pose problems. On the last point the demand-side economists rightly object, but afterwards they fail to develop a clear and simple conception of the economic system.

The aim of my research is to provide that missing 'clear and simple conception' investigating what happens when productivity increases 'too quickly' and production cannot keep its pace because consumption can only grow more slowly. The outcome is not unemployment but the pathological growth of the service sector, which becomes a conglomeration of confusing activities claiming to be 'productive' but which cannot be. This is what I call the imaginary economy.

**Mario Fabbri is co-founder of Directa SIMpA - a world pioneer of online trading in financial markets - and the author of three books on economics and history, including *The Imaginary Economy*, which has just been translated into English by La fabbrica delle illusioni**

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