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Raw materials

The revenge of Malthus

A famous bet recalculated

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THE surge in commodity prices over the past decade has revived an old debate. Will mankind's insatiable demands exhaust the planet's finite resources? Or will human ingenuity lead to the more efficient use of existing raw materials and the discovery of new sources of supply?

The last, big commodity boom occurred in the 1970s. That coincided with the rise of the ecological movement, many of whose members saw the rise in prices as a sign that growth in the developed world was unsustainable. This led in 1980 to a bet between a prominent ecologist, Paul Ehrlich, author of "The Population Bomb", and Julian Simon, an economist at the Cato Institute, a free market think-tank. The two camps were dubbed the Malthusians (after a British economist who forecast that population would outstrip food supply) and the Cornucopians, thanks to their belief in endless abundance.

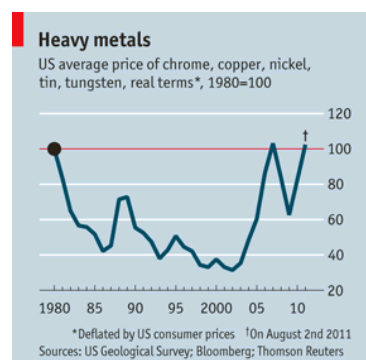
Faced with a challenge from Mr Simon, Mr Ehrlich selected five metals—copper, chromium, nickel, tin and tungsten—whose prices he thought would rise in real terms over the following ten years. Mr Simon bet that prices would fall. It is clear in retrospect that Mr Ehrlich showed bad timing, since the late 1970s saw a cyclical zenith for commodity prices. But Mr Simon also had history on his side: real commodity prices fell steadily throughout the 20th century.

Mr Simon duly won the bet. The economic boom of the 1980s and 1990s also contradicted Mr Ehrlich's wilder claims—that a billion people would starve to death and that, by 1985, America would be trapped in an "age of scarcity".

But what if Mr Ehrlich had taken up Mr Simon's 1990 offer to go "double or quits" for any future date? All five have risen in price since the rematch was proposed. Furthermore, Jeremy Grantham of GMO, a fund-management group, points out that Mr Ehrlich would have won the original bet were it recalculated today (he is still alive; Mr Simon died in 1998). An equally weighted portfolio of the five commodities is now higher in real terms than the average of their prices back in 1980 (see chart).

The Cornucopians might argue that today's metals prices are due to the buoyancy of demand in the developing world rather than any cataclysmic shortages in supply. But the Malthusians might retort that man's famed ingenuity has not stopped prices from rising in real terms over an extended period. Place your bets.

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