

PATH TO A JUST AND SUSTAINABLE NEW ECONOMY

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It is always a delight to visit Europe. I love your strong intellectual tradition of thinking deeply about human societies and possibilities. I am particularly pleased to meet so many Europeans seriously engaged in the search for a path through and beyond the economic, social, and environmental crises that pose a potentially terminal threat to the human future. It seems particularly appropriate to engage this discussion this evening under the auspices of the EU Club of Rome.

I first encountered the Club of Rome in 1973, when I was teaching at the Harvard Business School and was invited to participate in a faculty seminar on the Club of Rome's *Limits to Growth* report hosted by the System Dynamics Group at MIT that developed the computer models for the study. I was greatly impressed that such a group of influential thinkers had stepped forward to challenge the defining premise of modern economics.

I am pleased to see recent signs that the Club of Rome may be reclaiming something of its courageous legacy. A paragraph from a January 15, 2010 statement on climate change circulated to the membership provides a particularly strong frame for the work at hand.

“We cannot manage the scale, complexity and dynamics of the 21st Century with the tools of the 20th. We are at a turning point in world history where new ideas, new values, new strategies and new institutional arrangements are needed. We have learned that we cannot rely solely on “the magic of the market place.” Nor can we rely on technological solutions to save us from ourselves. We know that business as usual will lead to disaster. We must find the vision, the leadership and the creativity to collaborate in developing constructive solutions to offer a decent future to present and succeeding generations. We have the capabilities: we must find the will.”

It's the Institutions

It would be wonderful to see the Club of Rome provide serious leadership in articulating and popularizing such a vision with the same uncompromising courage it displayed in drawing global attention to the reality and implications of planetary limits.

The needed vision will look for solutions beyond the market place, beyond technology, and beyond 20th century institutions that by their very structures lock human societies into a perpetual growth dynamic sharply at odds with human reality. If we humans are to adapt to 21st century reality, we must restructure these institutions or replace them with institutions designed to support ecological balance, shared prosperity, and deep democracy—terms I will define in a few minutes.

It is an epic challenge that requires a coherent whole system vision of the institutional systems of a New Economy that define and implement resource allocation priorities responsive to the ecological realities of the 21st century.

Economists look at flows of money, which are simply numbers of no material substance, and they see a world of perpetual growth. Ecologists look at flows of real resources and see a depletion of real wealth and ultimate collapse of Earth's vital biological systems. In its Limits to Growth report, the Club of Rome took the view of the ecologist and exposed a fatal flaw in the prevailing economic models. As economists defined the institution of the 20th century economy, we properly turn to ecologists to design the institutions of the 21st century economy.

My presentation this evening centers on framing a 21st century institutional vision. The more conscious we become of the world we seek, the more effective we can be in framing and implementing a vision of an economic system that offers all people the opportunity for a secure, creative, and fulfilling life within the constraint of a finite planet.

A New Vision

The current economic debate is commonly framed as a choice between a neoliberal free market economy and a social welfare state economy. Neoliberals often evoke the name of Adam Smith, who wrote eloquently of the benefits of self-organizing village markets. Local markets have an essential role in the new 21st century economy. Unfortunately, what “free” market neoliberal ideologues have in mind is a unified global market organized by gigantic transnational corporations devoted to maximizing their short-term profits and executive bonuses. This is a privatized model of global central planning that is sharply at odds with Adam Smith's market vision and any reasonable concept of the human interest.

Here in Europe, your much-admired public welfare state economic model is threatened by processes of European political and economic integration that are moving decision-making power ever further from people and community to a level more easily manipulated by professional lobbyists on the payroll of transnational corporations. This puts you at grave risk of becoming ever more like the United States, where neoliberals have created a *corporate* welfare state in which corporations pay few or no taxes, while public services deteriorate and the rest of us pay high taxes to pay for corporate subsidies and bailouts.

The classic argument about whether we should prefer rule by big government or by big corporations defines a false choice. The real question is whether government will be held accountable for serving the interests of transnational corporations or the living interests of people, community, and nature.

If we believe that the proper purpose of the economy is to build and support a wealthy ruling class free from the burdens of doing useful work, then the values and institutions of the current corporate-dominated, growth-driven global economy favored by neoliberal ideologues serve well.

If, however, we believe the proper purpose of the economy is to build and support prosperous democratic communities that meet the needs of all people in sustainable balance with nature, we need economic institutions designed to optimize well-being rather than growth. The institutions of such an economy must be accountable to people who are rooted in strong, caring communities of place and have a natural interest in the health of their community and their place on Earth.

The Big Picture

My perspective on the difference between economies designed to make money for rich people and economies designed to build equitably shared, sustainable, community wealth is shaped in part by my experience many years ago as a business school student.

Our professors constantly reminded us that whenever something goes wrong in the organization we manage, we should always look upstream to identify its source in a failure of the organization's rules and reporting relationships. They called it looking at the big picture. It is a simple, but profound, idea. Unless you identify and correct the source of failure, the symptom will continually reproduce.

Rather than pursuing the career in corporate management for which I had been trained, I served for some 30 years as a member of the U.S. foreign aid establishment. For 21 of these years I resided outside the United States in Ethiopia, Nicaragua, Philippines, and Indonesia engaged in implementing the Western development model.

With the passing of time, I became increasingly alarmed by evidence that the lives of the majority of people in these and other so called "developing countries" were growing ever more desperate, the social fabric of family and community was unraveling, and environmental devastation was spreading. Eventually, I looked upstream and discovered to my horror that the devastation was a consequence of neoliberal economic policies aggressively promoted by the United States that shifted resource allocation decisions from people and community to global corporations and financiers with disastrous consequences for people and nature.

Eventually, I came to realize that the same dynamic was playing out not only in the countries I had gone abroad to serve, but in the Western industrial nations these countries sought to emulate as well.

As I looked ever further upstream, I eventually came to see the extent to which the systemic failure originates in the institutions to which we humans have given the power to create and allocate money.

The Power of Money

Modern money is perhaps the most mysterious of human inventions. It is nothing but a number of no substance or intrinsic worth. Yet in contemporary societies, money determines our access to virtually every essential of life. The decisions of those who control the creation and allocation of money determine the fate of nations and shape the boom and bust cycles of economic life. They determine who among Earth's people will have food, shelter, education, and health care and who will not.

Creative Accounting

It is all just numbers and creative accounting, but the system that generates and allocates these special numbers is the most effective and undemocratic of tyrannies. It survives popular wrath, because its inner workings are largely invisible and therefore difficult for people to challenge. We may express outrage against the bankers who abuse the power the system gives them, but we generally take the system itself for granted.

The money system largely defies understanding, because it is based on illusions, beginning with the illusion that money itself is wealth and that people who make money are thereby creating wealth.

Economist John Kenneth Galbraith once famously observed that the process by which money is created is “so simple it repels the mind.” When you take out a loan from a bank, the bank opens an account in your name and enters the amount of the loan in its ledger. That becomes a liability on the bank’s accounts, offset by the corresponding asset of your promise to repay with interest.

Two simple accounting entries and money magically appears from nowhere. This simple fact makes banking a very profitable business and is the key to the ability of the institutions of global finance to rule the world.

Mayer Amschel Rothschild, founder of the Rothschild banking dynasty once famously said, "Permit me to issue and control the money of a nation and I care not who makes its laws."

Phantom Wealth vs. Real Wealth

Money created out of nothing unrelated to the creation of anything of corresponding value, is phantom wealth. In the United States, Wall Street has built a whole industry devoted to creating phantom wealth. They call it financial innovation. It is a form of theft and should be treated accordingly. Wall Street gets away with it in part because of the rarely discussed distinction between phantom wealth and real wealth.

Real wealth has real intrinsic value: land, labor, knowledge, food, and knowledge are all examples. The most valuable of all forms of wealth are those that are beyond price: love, a healthy happy child, a job that provides a sense of self-worth and contribution, membership in a strong, caring community, a healthy, vibrant natural environment, peace. None of these has any place on corporate balance sheets or in our calculations of Gross Domestic Product. Therefore, they rarely receive explicit consideration in most institutional resource allocation decisions.

From the standpoint of society, money is properly treated as a means, not an end. Rather than directing money to financial speculators and scam artists devoted to creating phantom wealth for personal gain, we must create proper official money systems designed to effectively link underutilized resources to unmet needs to improve the health of our children, families, communities, and the natural environment. Such systems will necessarily be publicly accountable to local people and communities and therefore highly decentralized.

Institutional Systems Design for a New Economy

Although I'm sometimes called an economist, I view the economy through the lens of an organizational systems designer. As a Harvard Business School professor in the early 1970s, I taught the art of structuring human relationships in corporations to maximize profit. Partly, it involved getting the incentives right; it was also about culture, authority, communication flows, and a host of other influences subject to management intervention.

The same intellectual tools can be used to design the institutional structures of societies either to consolidate the power and privilege of ruling elites or to share power and facilitate creative, democratic, self-organization directed to enhance community well-being. Think of it as a branch of applied ecology.

Agenda for a Phantom Wealth Economy

To help us see where our existing economic system goes wrong, I want to take you through a mental exercise. Let's assume that our goal is to design an economic system intended to maximize corporate profits by maximizing material consumption in order to create a powerful hereditary ruling class, reduce the majority of the population to serfdom, and render democracy meaningless for all but the very rich. To avoid arousing public resistance, we must be able to explain the system to the public in terms that hide its real purpose, convince working people it is for their benefit, and make them eager accomplices in their own enslavement.

Before I list some of the things we might do, I'll let you in on a secret. This is not a hypothetical exercise. Every item on the list I'm about to share with you is already in place in the United States. I leave it to you to identify which of these features are in place here in Europe or are on the neoliberal agenda for future implementation.

1. Adopt gross domestic product (GDP) and share price indices as the primary indicators of economic performance. Then give priority to public policies that grow GDP and the price of corporate shares.
2. Shape monetary and fiscal policies to prevent wage "inflation" so productivity gains go exclusively to corporate owners.
3. Tax the capital gains of owners at a lower rate than the wages of workers.
4. Create a debt-based money system that assures a private for-profit bank is receiving interest on every dollar in circulation.
5. Give monopoly control of the official money system to a few very large private banks that trade in share and bond markets for their own accounts and profit from financing financial speculation, asset bubbles, loan pyramids, and corporate buyouts.
6. Organize the economy under the control of global mega-corporations that manage internal economies larger than the economies of most countries to maximize financial returns to owners.
7. Aggregate the savings and retirement accounts of working people into investment pools, mutual funds or retirement annuities, managed by professional portfolio managers who are evaluated and compensated on the basis of short-term financial results. Make retirement income dependent on the performance of these funds.

8. Use corporate media to glamorize highly consumptive lifestyles as a cultural ideal and build individual identification with global corporate brands.
9. Cultivate the idea that the individual's highest obligation to society is to maximize personal financial gain.
10. Make university students dependent on borrowing to finance their education so they leave school with debts they can repay only by working for big corporations.
11. Implement a money-driven election system that makes politicians dependent on funding from wealthy financiers.
12. Instead of taxing the rich, fund government programs by borrowing from the rich at interest and taxing the poor and middle class to repay the loans.
13. Use the power of government to enforce corporate monopoly ownership of information, knowledge and technology.
14. Implement international agreements that eliminate economic borders as a barrier to corporate expansion, place upper limits on social and environmental regulations, and favor foreign ownership and imported products over local ownership and locally produce goods.

These policies, which are all presently in place in the United States:

1. Reduce all values to financial values.
2. Make money creation and allocation an unregulated private monopoly operated by private bankers and financiers for their private benefit.
3. Concentrate and centralize ownership detached from public accountability, shift the negative consequences of ownership decisions to others, and shield owners from liability.

The result is an economic system of interlocking and mutually reinforcing institutional, cultural, and political elements that:

1. Creates an imperative for growth in consumption to grow profits, cover interest payments, and maintain full employment.
2. Assures a perpetual transfer of wealth from the many to the few.
3. Strips all but the very rich of a meaningful political voice.
4. Readily absorbs political assaults by progressive groups on individual issues, and
5. Produces outcomes exactly the opposite of what we need to secure a viable human future.

This system has made the United States the #1 world leader in the compensation of bankers and hedge fund managers. It has also made us #1 in foreign debt, military expenditures, per capita CO₂ emissions, percentage of the population in prison, and out of control health care costs. We lead the industrial nations in inequality, unemployment, homelessness, big money politics, job outsourcing, and loss of technological competence. This is Europe's future if the advocates of neoliberal market fundamentalism carry the day here.

Economic instability, environmental destruction, and social disintegration may be only unintended consequences of the neoliberal agenda, but they are nearly guaranteed results of a neoliberal economic system. The connection is easier to see in the United States than in Europe, because you have softened the system's edges with progressive rules, tax policies, and social programs. The underlying structure of your economic system is much the same as ours, however, and the policies and programs that soften the results are all under assault.

Agenda for a Real Wealth Economy

Progressive civil society can respond in any one of three ways.

1. Accept the status quo and get on with business as usual.
2. Introduce additional rules, taxes, and public services to temporarily moderate the underlying systems self-destructive tendencies, or
3. Restructure the entire system so that its natural internal tendency is to support Ecological Balance, Shared Prosperity, and Living Democracy.

The latter option is the only rational choice. Let me elaborate on the three defining conditions of the required new system.

Ecological Balance: The defining human imperative of our time is to bring ourselves into balance with Earth's biosphere. This requires shrinking global GDP, starting with the most profligate nations, while creating a planetary scale economic system that mimics the biosphere's structure and behavior. Listen closely, because the following is key. *Earth's biosphere is segmented into countless self-organizing local ecosystems, each locally rooted, locally self-reliant, and exquisitely adapted to its particular place on earth to optimize the use of locally available resources in service to life. We must similarly organize our human economies as subsystems of their local ecosystems. To the extent that each local economy is in balance with its local ecosystem, the biosphere itself will be in balance.*

Shared Prosperity: As we act to reduce aggregate consumption and rebuild local economies that integrate with local ecosystems, we need to recognize that Earth's bounty is the shared birthright of all living beings and learn to share it equitably for the benefit of all. It is the right thing to do and essential to our survival. It is also a necessary path to increasing human health and happiness. According to a massive body of public health research, societies that share wealth equally are healthier, have stronger families and communities, less crime and violence, and healthier natural environments than do less equal societies. Inequality creates psychological and emotional stress, including for those at the top, discourages sharing, and increases insecurity. Societies that distribute wealth equitably also tend to be more democratic and more resilient in the face of crisis.

Living Democracy means exactly what it says: living democracy as a daily practice of civic engagement. In living democracies, popular sovereignty is integral to the fabric of community life. Living democracies celebrate and affirm diversity within a framework of individual rights, community responsibility, and mutual accountability. Their political

and economic institutions support local decision making within a framework of cooperation and mutually agreed rules. Shared power, shared resources, and shared prosperity go hand in hand.

Ecological Balance, Shared Prosperity, and Living Democracy are defining qualities of the new living economies we must now bring into being. Their defining structural characteristics will be near mirror opposites of the economy we have.

- Healthy people, communities, and natural systems rather than money will be the defining value. Decisions will be in the hands of people who love their place on Earth rather than in the hands of global financiers who love only the numbers on their asset statements.
- Official money systems will be decentralized, managed as a public utility and be democratically accountable to communities of place.
- The rights and responsibilities of ownership will be broadly shared and locally rooted. Owners will be accountable for the consequences of their decisions.

This agenda puts us at odds with the most powerful and ruthless interests on the planet. It requires effective citizen action on many fronts, including efforts to:

1. Replace GDP and stock price indices with indicators of the health of people, community, and nature as the basis for evaluating economic performance.
2. Organize a new economy from the bottom up around locally-owned living enterprises that root economic decision making in the community, treat profit as a means rather than an end, and define their purpose in terms of meeting community needs.
3. Promote universal participation in ownership with a goal to achieve a society in which every worker shares in the rights and responsibilities of ownership and every able-bodied owner contributes to society through productive work.
4. Break up big corporations, including banks, and restructure the useful pieces as worker or community owned businesses.
5. Decentralize and localize the official money system and operate it as a public utility comprised primarily of locally rooted non-profit or publicly owned community banks and credit unions providing basic financial services and funding productive local investment. Continuously recycle interest in the community.
6. Eliminate financial speculation either by legal prohibition or through the imposition of confiscatory taxes.
7. Require that corporate advertising and lobbying expenses be paid from after-tax income.
8. Build capacities for local self-reliance in the production and consumption of food, energy, water, and other basic essentials,
9. Build closed-loop production systems that eliminate waste and the need to mine nonrenewable resources.

10. Keep trade balanced, favor local ownership and production, and prohibit use of overseas tax havens.
11. Share beneficial information, knowledge, and technology freely.
12. Use media and education to cultivate a life-affirming culture of cooperation, material sufficiency, and service.

A decentralized economic system establishes a natural link between decisions and consequences, creating a self-correcting dynamic internal to the system. This minimizes the need for regulations and service fees to discourage irresponsible behavior.

A Three Part Strategy

Such a dramatic transformation of an institutional system so powerful and so deeply entrenched as the complex of economic power that is driving the neoliberal agenda would be unimaginable, except for the fact that millions of people are already engaged in making it happen. YES! Magazine, for which I serve as board chair, is devoted to telling the stories of these people and their initiatives. You can find us at yesmagazine.org. Their work frames a powerful emerging three-part change strategy.

1. **Change the defining stories** of the mainstream culture. It is a simple, but rarely noted truth. Every transformational social movement begins with a conversation that challenges a prevailing cultural story with a new story of unrealized possibility and ultimately displaces the old story through media and education outreach. The civil rights movement changed the story on race. The environmental movement changed the story about the human relationship to nature. The women's movement changed the story on gender. Our current task is to change the prevailing stories about the nature of wealth, the purpose of the economy, and our human nature.
2. **Create a new economic reality from the bottom up**, as millions of people the world over are doing in their efforts to rebuild their local economies and communities. They are supporting locally owned human-scale businesses and family farms, developing local financial institutions, reclaiming farm and forest lands, changing land use policies to concentrate population in compact communities that reduce automobile dependence, retrofitting their buildings for energy conservation, and otherwise working toward local self reliance in food, energy, and other basic essentials. This is the work for example of the Transition Towns Movement. In the United States, I serve on the board of the Business Alliance for Local Living Economies (BALLE), which is building a national support system for such efforts. Check it out at www.livingeconomies.org.
3. **Change the rules:** Current law and public policy largely favor the self-serving and deeply destructive corporate-led global economy. Many groups are mobilizing in support of rules and policies that support the efforts of the people who are rebuilding their local economies and communities and restoring the caring relationships that are the foundation of human security, happiness, and well-being.

We humans are engaged in a monumental work of reinventing our societies and ourselves. You and I are privileged to live at the most exciting moment of creative

opportunity in the whole of the human experience. We have the power to turn this world around for the sake of our children and ourselves for generations to come. We are the ones we have been waiting for. Thank you.

David Korten is the author *Agenda for a New Economy: From Phantom Wealth to Real Wealth*, *The Great Turning: From Empire to Earth Community*, and *When Corporations Rule the World*. He serves as Board chair of *YES!* magazine, a board member of the Business Alliance for Local Living Economies, and co-chair of the New Economy Working Group. He is a member of the Club of Rome.