

TRANSFORMING THE SYSTEM

“An economic system is not only an institutional device for satisfying existing wants and needs but a way of fashioning wants in the future.”

John Rawls¹

Principles

Today’s economic system must be transformed into a 21st-century economy “as if people and the Earth matter”.² Many people see this transformation as one aspect of a larger historical change—the end of the modern age and the transition to a post-modern age, marked by a new awareness of our common humanity and our kinship with the rest of creation.

The principles underlying it will contrast with the principles of conventional economics today. They will include the following:

- systematic empowerment of people, as opposed to making and keeping them dependent;
- systematic conservation of resources and environment;
- evolution from a ‘wealth of nations’ model of economic life to a one-world model, and from today’s international economy to a decentralising multi-level one-world economic system;
- restoration of political and ethical choice to a central place in economic life and thought, based on respect for qualitative values, not just quantitative ones; and
- respect for feminine values, not just masculine ones.

Our approach must be based on action—to create a better future for people and the Earth. Economics cannot avoid being normative. Nature abhors a vacuum, and the vacuum created by the pretensions of conventional economics to be an objective, value-free science has been filled by values of power and greed.

In contrast to 20th-century economic orthodoxy, the 21st-century

1. Rawls, J. (1971), *A Theory of Justice*, Oxford University Press.

2. “Economics as if people mattered” was the subtitle of E.F. Schumacher’s best-known book *Small Is Beautiful*

economy must be based on a realistic view of human nature. People are altruistic as well as selfish, co-operative as well as competitive. R.H. Tawney's argument, that economic institutions should reward socially benign activities and so make the better choice the easier choice, makes sense. (But we should not dream, in Gandhi's words, of systems so perfect that no-one will need to be good.)

Our perspective should be dynamic and developmental, not static. Our task is to change the direction of progress, not to achieve a permanent destination or lay out a blueprint for a once-for-all 21st-century Utopia.

The State, the Market and the Citizen

There is not, never has been, nor ever could be, a completely free market economy. If an economy started by being wholly unregulated, some people would soon become powerful enough to destroy the freedom of others, and the free market would quickly become unfree. On the other hand, economies subject to detailed intervention by government soon become inefficient and corrupt. What is needed is a market economy operating freely within a well-designed framework of government, law and money (including taxes and public spending). By that framework, and how it influences prices throughout the economy, the state should aim to bring economic activity into harmony with society's values.

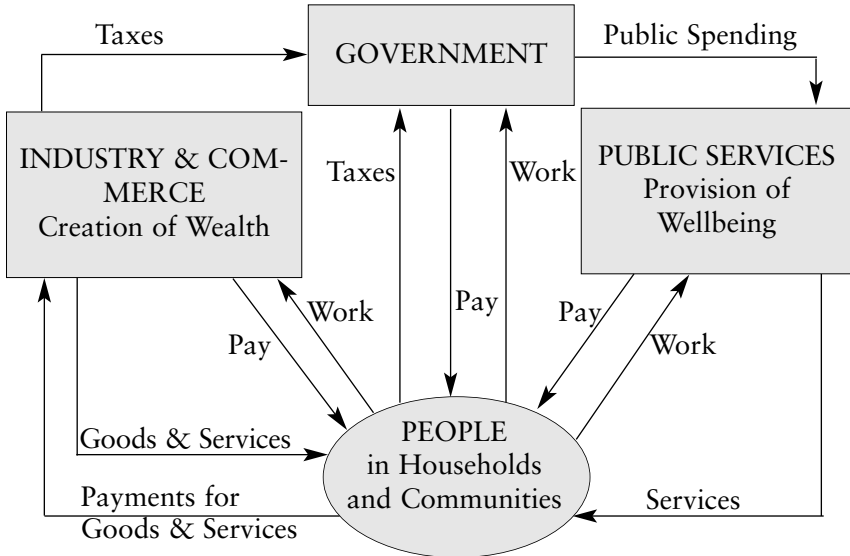
So, what should the framework be designed to achieve? The answer is: it should empower and encourage people, communities, and nations to take more control over their own economic destinies, to become more economically self-reliant, and to live in ways that are environmentally benign. The changes this requires include changes of relationship between state, market and citizen.

Twentieth-century political debate and conflict has focused around three types of economy:

- a state-centred command economy;
- a business-centred free-market economy; and
- a mixed economy, in which economic power and influence are shared between government, business and trade unions—the 'social partners', in the idiom of continental Europe.

As suggested in Diagrams 1 and 2, all these have been based on a

Diagram 1
THE BIG BROTHER ECONOMY

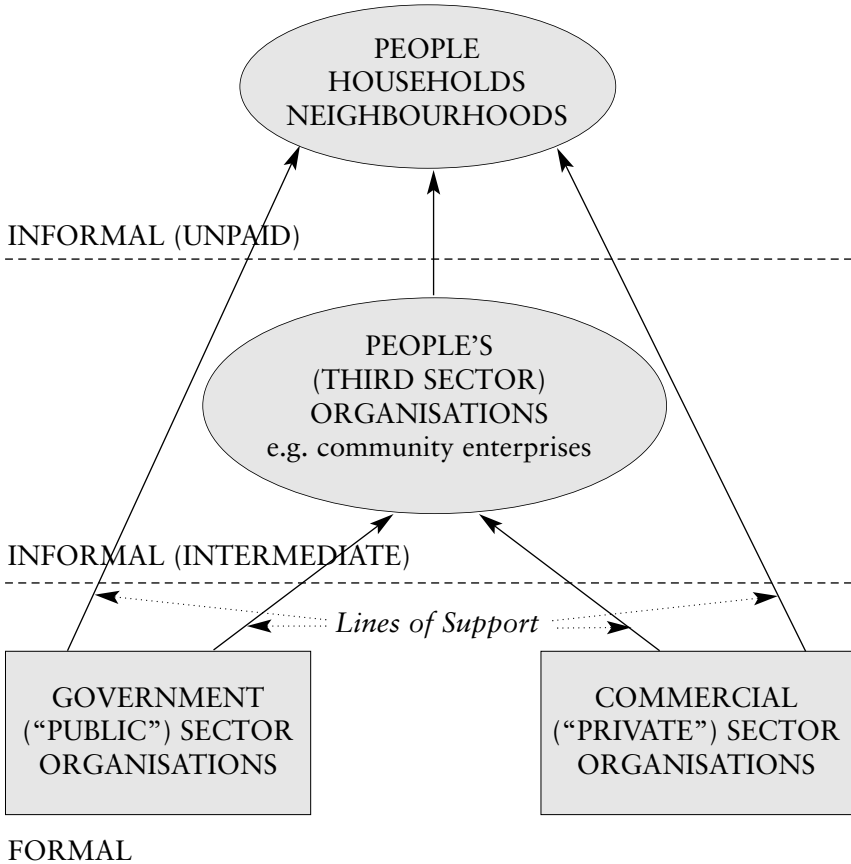


producer-centred, employer-centred model of the economic system, which differs crucially from the people-centred (or citizen-centred) model needed for the 21st century.

The collapse of communism is not “the end of history” and the start of permanent rule by conventional free-market capitalism. The reverse is true. Removal of the threat of Soviet state-dominated communism means that the non-communist world need no longer, in Hilaire Belloc’s words, “keep a-hold of Nurse for fear of finding something worse”. Future historians will see the collapse of communism as the first of two major changes that brought the producer-orientated economic development of the late modern era to an end. It opens the way to the transformation of Western business-dominated capitalism too.

Market and state will both continue to play vital parts in a people-centred economy. But activities carried out neither for profit in the market nor by employees of the state will also help to shape eco-

Diagram 2
A PEOPLE-CENTRED
ECONOMY



conomic and social progress in the 21st century. A growing informal economy, based on unpaid, interpersonal co-operative self-reliance, will be supported by a growing third sector of non-profit, non-state organisations distinct from the conventional "public" and "private" sectors. The province of citizen activity, free from the impersonal constraints of the state and the market under conventional communism/socialism and capitalism, will grow. The 20th-century economy

has given priority to the interests of business and finance, employers and trade unions, government and other organisations, assuming that people must depend on them as consumers and employees in a production-centred dependency culture (“I shop, therefore I am”, “I have a job, therefore I am”). 21st-century economic and social debate will go beyond the dependency culture. It will focus on the needs and rights and responsibilities of people as persons and citizens. Hence the significance of the proposed Citizen’s Income.

The Need For A Systemic Approach

A comprehensive transformation of economic life and thought will involve:

- every sector, such as farming and food, travel and transport, and others discussed in Chapter 2;
- every level: personal and household, neighbourhood and local community, district and city, regional (sub-national), national, continental and global; and
- every feature—such as lifestyle choices and values, technological innovation, governmental and other organisational goals and policies, methods of measurement and valuation such as accounting, and the theoretical basis for economic teaching and research.

The web of interconnections, relationships and interactions between all of these can be understood as an ‘ecology of change’ and, conversely, an ‘ecology of inertia’. Change achieved in one area (e.g. energy use, or how economic success is measured) will help to ease change in others (e.g. agriculture, or transport), and change frustrated in one will help to frustrate it in others. So a synergistic approach is called for. The conventional departmental structure of governments and government agencies, and the departmentalisation of faculties and disciplines in universities and research institutes, are obstacles to this. The creative changes, on which the shift to a people-centred, environmentally sustainable economy will depend, must continue to come largely from NGOs, citizens’ groups and other outsiders, and not from governmental, professional and academic establishments.

The need, then, is not just to tackle a multitude of separate economic problems, but to change the way the economic system works

Diagram 3
THE ECONOMIC SYSTEM: LINEAR MODE

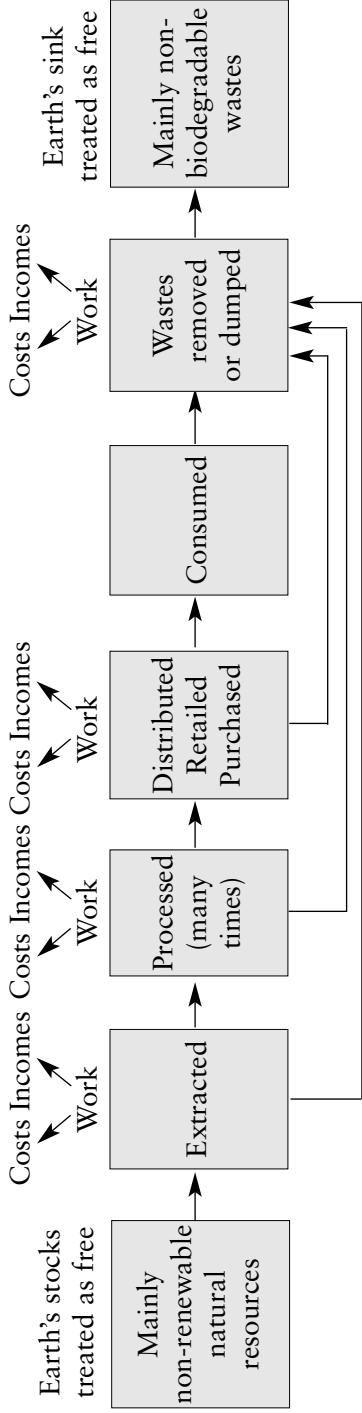
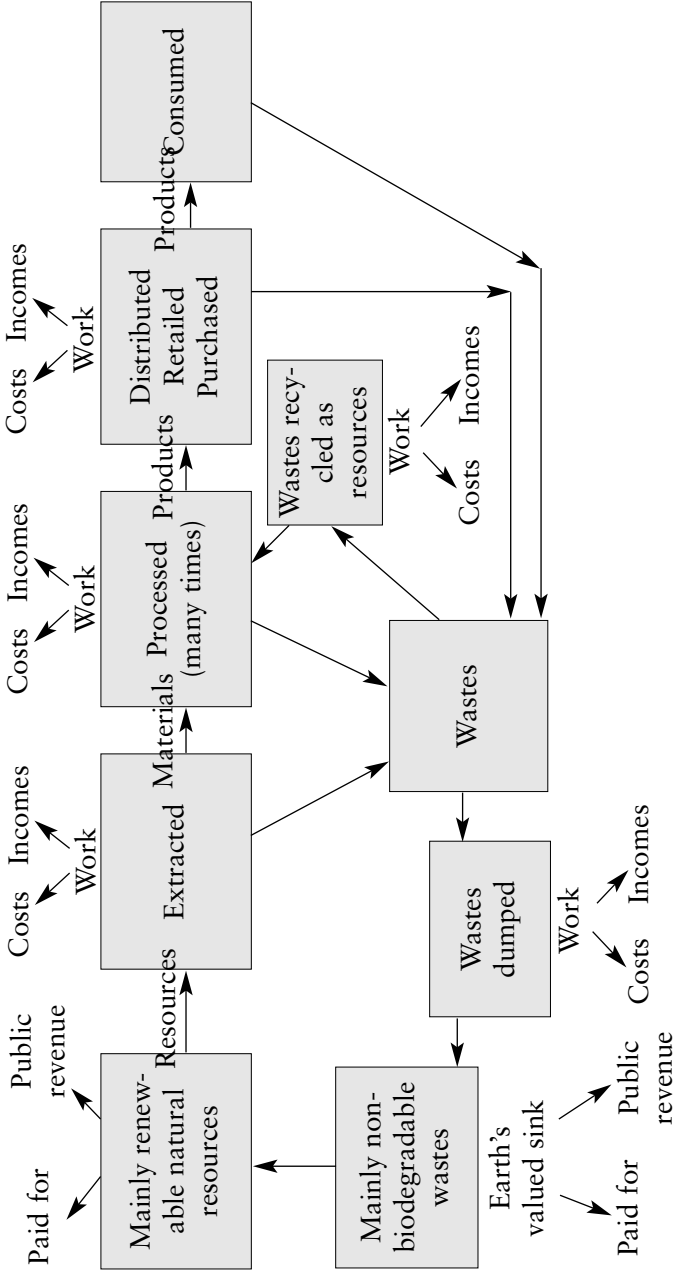


Diagram 4
THE ECONOMIC SYSTEM: CIRCULAR MODE



as a whole. The three following examples illustrate this.

The Ecological Economy As A Circular System

Conventional economics has been based on a linear model of economic activities (as in Diagram 3). Material resources are extracted from Nature's supposedly unlimited pool, outside the economic system; they are then processed stage by stage into the eventual manufacture of consumer goods; those are then distributed and consumed, and the final wastes are dumped in Nature's unlimited sink, again outside the economic system. The capacity of Nature's resource pool and the capacity of Nature's waste sink have been treated as free goods, of no value. Values and costs, it has been assumed (the labour theory of value), arise only from the human work and enterprise involved in extracting the resources, processing them into goods, distributing them to consumers, and disposing of the wastes. Paradoxically, in the course of time it has been the fruits of human work and enterprise that have come to bear the main burden of taxation.

Land is one of the most important natural resources. From time to time past thinkers like Thomas Paine at the end of the 18th century and Henry George at the end of the 19th have argued that land does have a value and that landowners should pay rent to the community for it. But this has so far been successfully resisted by the rich and powerful, whose wealth and power has been based on their having 'enclosed' the value of land and other natural resources in their own countries—and as colonial and post-colonial powers in the world economy. Their resistance has had the backing of political theorists like John Locke, and by most professional economists—the great majority of whom have been directly or indirectly in their employment. But now, as taxation of energy, resources and pollution climbs higher up the agenda of sustainable development, and as pressure grows for greater economic democracy and social inclusion alongside conventional political democracy, the case for taxing land along with other resources will become stronger.

The economic system will look very different when understood as a circular system, as Diagram 4 suggests. It will then be seen, no longer as a machine attached externally to the natural world, but as an integral part of it, consisting of countless interrelated circular sub-

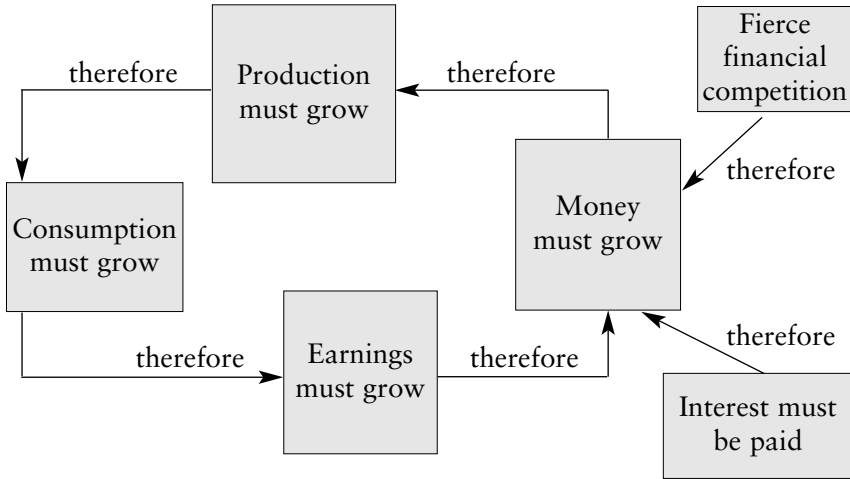
processes so designed that wastes provide resources for other sub-processes and are reduced to a minimum. Value will be attributed to natural resources, including the environment's capacity to absorb waste and pollution. People and organisations using them or monopolising them will pay for the value they subtract by doing so, instead of being taxed on the values they add by their work and enterprise. The resulting higher costs of resource use and pollution (and lower costs of employing human effort and skills) will stimulate greater technical efficiency in the use of resources, and greater attention to reducing demand for them. Today's levels of resource use, wastage and pollution need to be reduced by 90%—"factor 10"—in countries like Britain before the end of the 21st century (Sachs 1998, p40).

Consumption, Production, Finance—An Interlocking System

Much attention, from the UN Development Programme downwards, is currently being given to 'sustainable consumption'. But preaching to consumers to mend their ways verges on 'blaming the victim'. Some of us have some power to consume less than we now do. But the present economic system makes this difficult for most people. Sustainable consumption cannot be treated as a self-contained goal.

As Diagram 5 suggests, so long as consumers remain trapped, along with producers and financial institutions, in today's system of imperatives (consumption-must-grow, because production-must-grow, because money-must-grow and jobs-must-be-provided), the continuing catastrophic growth of consumption is inevitable. Non-stop commercial advertising to maximise consumer spending on goods and services, reinforced by propaganda from government, business, the media, professional economists and economic commentators continually ramming it home that economic growth and rising high street sales are a 'good thing', reflects the production-must-grow imperative. That, in its turn, reflects the money-must-grow pressures on business managers from their shareholders, employees, and competitors and potential predators in the increasingly ruthless global financial jungle. In its turn, the money-must-grow imperative, articulated by the financial services industry, financial commentators and journalists, together with the government's emphasis on national Income (GDP) growth, is reinforced by the central role of interest and

Diagram 5
THE GROWTH TRAP



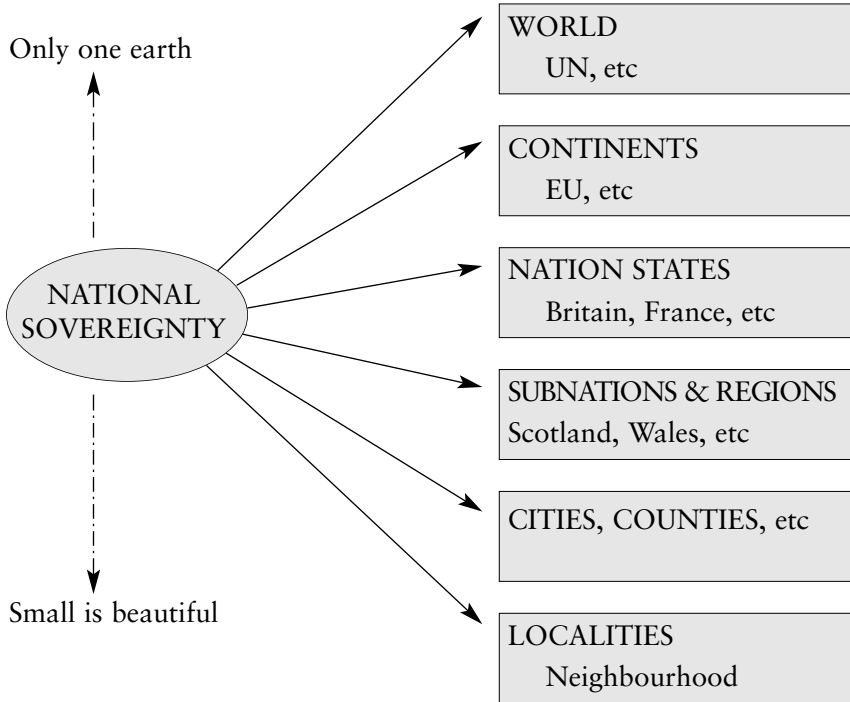
debt in the existing money and finance system (and scoring high money-numbers is a game that grabs the masculine mind).

Towards A One-World Economic System

We now need to see the world economy as a single world economic system. As suggested in Diagram 6, it must be purposefully designed as a multi-level system which is decentralising as well as globalising—more self-reliant but more co-operative, more diverse but more unified, freer but more orderly, than today's free-for-all (free-for-some!) globalising economy. This new model reflects the emerging demand for new economic and monetary institutions (such as taxes and currencies) both at local and at supranational (e.g. European and global) levels. Those should no longer be seen as exceptional bells and whistles on the familiar 'wealth of nations' model of the economic world (like the Ptolemaic epicycles piled on epicycles of medieval astronomy). The 21st-century world economy must reflect the emerging consciousness of people as citizens of the world and of the locality where they live, as well as of their nation.

Its institutional structure must be designed to facilitate self-

Diagram 6
**THE REDISTRIBUTION OF POLITICAL
 & ECONOMIC POWER**



reliance for people and localities and nations. It should provide them with a degree of built-in protection and insulation from external economic instabilities outside their control. If it were a question of mechanical or electrical design, we would talk of buffering or insulating mechanisms, recognising that “coupled sub-systems are most stable when the coupling is rather weak. When the degree of coupling exceeds a certain level, the whole system can become violently unstable” (Roberts, 1985). In biological systems, devices like membranes filter and buffer the exchanges between subsystems, enabling them to function quasi-autonomously—being parts of larger wholes and at the same time having component subsystems of their own. We need not pursue these mechanical and biological analogies and metaphors too far. The point is that stable, well-functioning systems,

including economic systems, allow their sub-systems enough autonomy and insulation from turbulence elsewhere in the system to enable them to continue functioning satisfactorily in troubled times.

From Commanding Heights To System Change

The 20th-century capitalist/socialist struggle has revolved around who shall control the 'commanding heights' of the economy—big finance and big business, or big government. The challenge of the 21st-century is to evolve an economic system which cannot be 'commanded' by any interest group, but is designed to secure economic freedom, self-reliance and democracy for all.

Linked with changes in culture and values, and laws and regulations, three key types of change affecting economic behaviour will help to transform today's economic system. The first is changes in financial instruments such as taxes and public subsidies which, by changing the streams of money between government and the rest of society, will help to change relative prices throughout the economy. The second is changes in how money itself works, and how this affects economic behaviour and outcomes. The third is changes in institutions—at local, national and supranational levels.

These changes are explored further in later chapters. They should be designed to reverse the effects of 'enclosure'. The exclusion of most people in the world from their share of the value of common resources developed by nature and society at large, and the enjoyment of that value by a privileged minority (including the writer and most readers of this Briefing) who have played no part in creating them, is the underlying cause of much of today's poverty and inequality, and an important cause of much environmental destruction.

They should also provide people, localities and nations with built-in levels of protection and insulation from instabilities in the national and global economy outside their control, enabling them to maintain their livelihoods when times are bad elsewhere.

Finally, they should apply universally and be transparent and simple. In other words, they should apply to everyone, and not be targeted at particular groups or interests. They should not result in a proliferation of overlapping regulations, taxes, benefits and subsidies. Ad hoc government interventions should be reduced to a min-

imum. How the economy's institutional framework operates, and how it affects prices and costs throughout the economy, should be clear to all.

A simpler and better designed regulatory and financial framework on those lines will allow the market economy to operate more fairly and freely and flexibly than today. As, in John Rawls' words, "an institutional device for fashioning wants", the economic system will then provide a more humane basis for human life, and encourage greater respect for the rest of the living world.