

PATH TO A JUST AND SUSTAINABLE NEW ECONOMY

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It is a delight to be here in what we in the United States view think of as the progressive heartland of Europe. It is greatly reassuring to meet so many thoughtful and engaged Europeans who are so deeply engaged in this work. And among the European nations Sweden seems very much at the forefront. I know that such an observation may be troubling, because you know so well how much remains to be done.

We are gathered here this evening, because we know that our human species is in the midst of a potentially terminal economic, social, and environmental collapse of our own making. We are fortunate that economic collapse has come first, because it has focused our attention. Yet it is only about money and therefore is easily fixed. Environmental collapse is permanent.

We humans face an imperative to reinvent ourselves and our institutions. The future of our children for generations to come hangs in the balance. I'm here to share my thoughts on what it requires.

Two nights ago I addressed a gathering in Brussels of the European Union chapter of the Club of Rome. As many of you know the Club of Rome issued an historic report in 1972 on the "Limits of Growth" that had an instrumental role in launching the environmental movement.

In that study, the Club of Rome played a central role in exposing a fatal flaw in our prevailing economic models. Economists look at flows of money, which are simply numbers of no material substance, and they see a world of endless economic growth. The limits to growth report looked at **real** resource flows and demonstrated that the economic models favored by most economists lead ultimately to the depletion of real wealth, the collapse of Earth's vital biological systems, and ultimately the collapse of the economy itself. Economists ridiculed the report, but unfortunately its projections are pretty much on target.

On January 15, 2010 the Club of Rome issued a statement on climate change that included this insightful conclusion.

"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. “

The current policy proposals for dealing with the environmental crisis center on markets and technology. We must look beyond the narrow mindset of 20th century economics. Perhaps the major barrier to doing so is the lack of a widely shared public vision of the institutional changes necessary to move us to the patterns of resource allocation appropriate to the realities of the 21st century.

The vision we now need is in essence a new institutional vision. This is my subject tonight.

We can and must create a new system of economic institutions that nurture strong families, caring communities, and sense of place and offer every person the opportunity for a secure, creative, fulfilling life. I find it profoundly significant that the changes we must now make to secure the human future are the very same changes required to create the world of which most humans have dreamed for millennia. It requires creative, visionary, bottom up citizen leadership of the type those of you here in this room are providing. The more conscious we become of the outcome we seek, the more effective we can be in this great work.

The current economic debate is commonly framed as a choice between a neoliberal free market economy and a welfare state economy. Of course, the “free” market favored by neoliberal ideologues bears no resemblance to the local village markets favored by Adam Smith. Neoliberals favor a unified global market in which gigantic transnational corporations are free to organize the economic life of the planet in whatever way maximizes their short-term profits and executive bonuses.

Here in Europe, your much admired public welfare state economic model is threatened by a process of political and economic integration that moves decision making power to a level ever further removed from people and community. The more distant this decision power becomes, the more easily it is 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 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 the powers of government will be used to serve the interests of transnational corporations or the living interests of people 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 and to put control of social and environmental decisions in the hands of people who are rooted in strong, caring communities of place.

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 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 increased the power and profits of global corporations and financiers at the expense of 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 as well in the Western industrial nations these countries sought to emulate. .

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, institutions that are poorly understood and rarely discussed outside of highly specialized circles.

When Money Rules

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 of economic life. They determine who among Earth's people will have food, shelter, education, and health care and who will not.

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, 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."

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 as such.

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 find any place on corporate balance sheets or in our calculations of Gross Domestic Product..

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 money systems designed to direct money to where it will be most effective in linking underutilized resources to unmet needs to improve the health of our children, families, communities, and the natural environment. Such system will necessarily be highly decentralized and publicly accountable to local people and communities.

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 arts of how to structure human relationships in corporations to maximize profit. Partly it involves getting the incentives right, it is 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 of a ruling elite or to share power and facilitate creative, democratic, self-organization directed to enhance community well-being. The

institutional structures required for the world we want, are nearly mirror opposites of those we have.

To help us see more clearly where our existing economic system goes wrong, I want to take you through a mental exercise. Let's us 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 it's 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. 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 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 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 with internal economies larger than those of most countries managed 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..
8. Use corporate media to glamorize high 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 that can be paid only by working for big corporations.
11. Implement a money-driven election system that creates a dependence by politicians on funding by wealthy financiers.

12. Instead of taxing the rich, fund government programs by borrowing from the rich at interest and taxing the poor to repay the loans.
13. Make retirement income dependent on the performance of individual retirement investment accounts.
14. Use the power of government to enforce corporate monopoly ownership of information, knowledge and technology.
15. 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.

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..

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.

We can concentrate on softening the consequences, as Europe has generally done through marginal changes in rules, tax policies, and public services, but a real lasting solution requires restructuring our economic institutions so that the natural internal tendency of our economic systems is to support Ecological Balance, Shared Prosperity, and Living Democracy.

I want to say a bit about each of these three essential system conditions..

Ecological Balance: I call this spaceship management 101. 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. Our human economies must be organized to function similarly everywhere 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 are more equal 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. The defining structural characteristics of the economies we must create will be near mirror opposites of the structures of power and privilege that the current economy supports. Replacing these failing structures puts us at odds with the most powerful and ruthless interests on the planet. Here are some crucial elements of the implementing agenda:

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 small and medium sized 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 the ownership of productive assets to create 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. Cultivate a life-affirming culture of cooperation, material sufficiency, and service through media and education.

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 externally imposed 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 like you and me are already engaged in making it happen. YES! Magazine, for which I serve as board chair, is devoted to telling the stories of these initiatives. You can find us at yesmagazine.org. The more intentional we are about the desired outcome and the change strategy by which we pursue it, the greater our prospect for success.

The emerging change strategy features three elements:

1. **We are changing 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. **We are creating a new economic reality from the bottom up** as millions of people the world over work 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

www.livingeconomies.org.

3. **We are changing 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. Changing the rules is a central focus of this conference.

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