Doughnut Economics/Youtube

Complexity

Seven Ways to Transform 21st-Century Economics — and Economists

Economics matters enormously for the future, but its fundamental ideas are centuries out of date.

KATE RAWORTH

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By *Kate Raworth*

No one can deny it: economics matters. Its theories are the mother tongue of public policy, the rationale for multi-billion-dollar investments, and the tools used to tackle global poverty and manage our planetary home. Pity then that its fundamental ideas are centuries out of date yet still dominate decision-making for the future.

Today's economics students will be among the influential citizens and policymakers shaping human societies in 2050. But the economic mindset that they are being taught is rooted in the textbooks of 1950 which, in turn, are grounded in the theories of 1850. Given the challenges of the 21st century—from climate change and extreme inequalities to recurring financial crises—this is shaping up to be a disaster. We stand little chance of writing a new economic story that is fit for our times if we keep falling back on last-century's economic storybooks.

When I studied economics at university 25 years ago I believed it would empower me to help tackle humanity's social and environmental challenges. But like many of today's disillusioned students its disconnect from relevance and reality left me deeply frustrated. So I walked away from its theories and immersed myself in real-world economic challenges, from the villages of Zanzibar to the headquarters of the United Nations, and on to the campaign frontlines of Oxfam.

In the process I realized the obvious: that you can't walk away from economics because it frames the world we inhabit, so I decided to walk back towards it and flip it on its head. What if we started economics with humanity's goals for the 21st century, and then asked what economic mindset would give us half a chance of achieving them?

Spurred on by this question, I pushed aside my old economics textbooks and sought out the best emerging ideas that I could find, drawing on diverse schools of thought including complexity, ecological, feminist, behavioural and institutional economics, and set out to discover what happens when they all dance on the same page. The insights that I drew out imply that the economic future will be fascinating, but wildly unlike the past, so long as we equip ourselves with the mindset needed to take it on. So here are seven ways in which I believe we can all start to think like 21st century economists:

1. Change the goal: from GDP growth to the Doughnut.

For over half a century, economists have fixated on GDP as the first measure of economic progress, but GDP is a false goal waiting to be ousted. The 21st century calls for a far more ambitious and global economic goal: *meeting the needs of all within the means of the planet*. Draw that goal on the page and – odd though it sounds – it comes out looking like a doughnut. The challenge now is to create local to global economies that ensure that no one falls short on life's essentials – from food and housing to healthcare and political voice – while safeguarding Earth's life-giving systems, from a stable climate and fertile soils to healthy oceans and a protective ozone layer. This single switch of purpose transforms the meaning and shape of economic progress: from endless growth to thriving in balance.

2. See the big picture: from self-contained market to embedded economy.

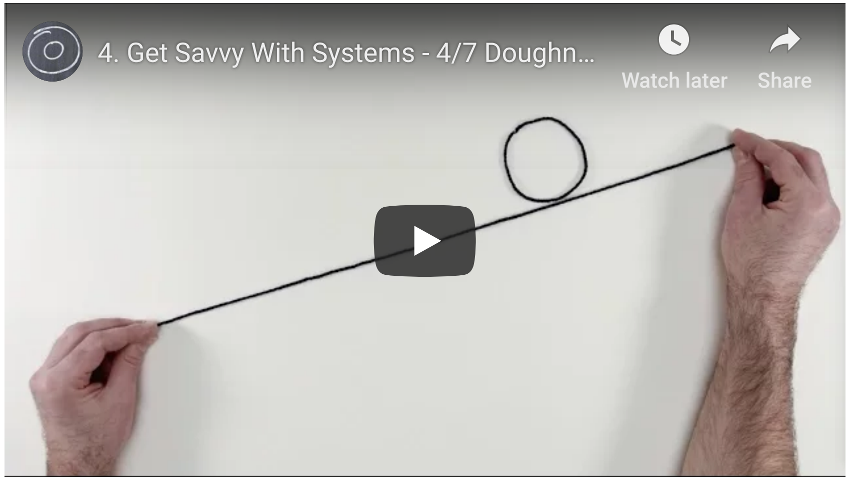
Exactly 70 years ago in April 1947, an ambitious band of economists crafted a neoliberal story of the economy and, since Thatcher and Reagan came to power in the 1980s, it has dominated the international stage. Its narrative about the efficiency of the market, the incompetence of the state, the domesticity of the household and the tragedy of the commons, has helped to push many societies towards social and ecological collapse. It's time to write a new economic story fit for this century – one that sees the economy's dependence upon society and the living world. This story must recognize the power of the market—so let's embed it wisely; the partnership of the state—so let's hold it to account; the core role of the household—so let's value its contribution; and the creativity of the commons—so let's unleash their potential.

3. Nurture human nature: from rational economic man to social adaptable humans.

The character at the heart of 20th century economics—‘rational economic man’—presents a pitiful portrait of humanity: he stands alone, with money in his hand, a calculator in his head, ego in his heart, and nature at his feet. Worse, when we are told that he is like us, we actually start to become more like him, to the detriment of our communities and the planet. But human nature is far richer than this, as emerging sketches of our new self-portrait reveal: we are reciprocating, interdependent, approximating people deeply embedded within the living world. It’s time to put this new portrait of humanity at the heart of economic theory so that economics can start to nurture the best of human nature. Doing so will give us—all ten billion of us to come—a far greater chance of thriving together.

4. Get savvy with systems: from mechanical equilibrium to dynamic complexity.

Economics has long suffered from physics envy: awed by the genius of Isaac Newton and his insights into the physical laws of motion, 19th century economists became fixated on discovering economic laws of motion. But these simply don't exist: they are mere models, just like the theory of market equilibrium which blinded economists to the looming financial crash of 2008. That's why 21st-century economists embrace complexity and evolutionary thinking instead. Putting dynamic thinking at the heart of economics opens up new insights for understanding the rise of the one percent and the boom and bust of financial markets. It's time to stop searching for the economy's elusive control levers (they don't exist), and instead start stewarding the economy as an ever-evolving system.



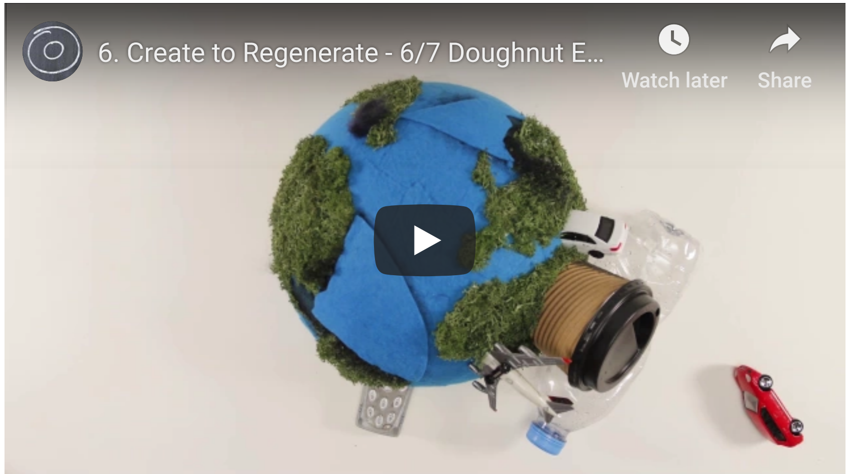
5. Design to distribute: from 'growth will even it up again' to distributive by design.

In the 20th century economic theory whispered a powerful message when it comes to inequality: it has to get worse before it can get better, and growth will eventually even things up. But extreme inequality, as it turns out, is not an economic law or necessity: it is a design failure. Twenty-first century economists recognize that there are many ways to design economies to be far more distributive of value among those who help to generate it. And that means going beyond redistributing income to pre-distributing wealth, such as the wealth that lies in controlling land, enterprise, and the power to create money.

6. Create to regenerate: from ‘growth will clean it up again’ to regenerative by design.

Economic theory has long portrayed a clean environment as a luxury good, affordable only for the well-off—a view that says that pollution has to increase before it can decline, and (guess what), growth will eventually clean it up. But as with inequality there is no such economic law: environmental degradation is the result of degenerative industrial design. This century calls for economic thinking that unleashes the potential of regenerative design in order to create a circular, not linear, economy—and to restore ourselves as full participants in

Earth's cyclical processes of life.



7. Be Agnostic about Growth: from growth-addicted to growth-agnostic.

To the alarm of governments and financiers, forecasts for GDP growth in many high-income countries are flat-lining, opening up a crisis in growth-based economics. Mainstream economics views endless GDP growth as a must, but nothing in nature grows forever, and the economic attempt to buck that trend is raising tough questions in high-income but low-growth countries. That's because today we have economies that need to grow, whether or not they make us thrive. What we need are economies that make us thrive, whether or not they grow. That radical flip in perspective invites us to become agnostic about growth and to explore how our economies—which are currently financially, politically and socially addicted to growth—could learn to live with or without it.

I am convinced that these seven ways to think like a 21st-century economist are fundamental to the new economic mindset this century demands. Their principles and patterns will equip new economic thinkers—and the inner economist in us all—to start creating an economy that enables everyone to prosper. Given the speed, scale and uncertainty of change that we face in coming years—and the diversity of contexts from Beijing to Birmingham to Bamako—it would be foolhardy to attempt to prescribe now all the policies and institutions that will be fit for the future. The coming generation of thinkers and doers will be far better placed to experiment and discover what works as the context continually changes.

What we can do now—and must do well—is to bring together the best ideas to create a new economic mindset that is never fixed but always evolving. The task for economic thinkers in the decades ahead will be to bring these seven ways of thinking together in practice, and to add to them. We have barely set out on this adventure in rethinking economics. Please join the crew.

Kate Raworth's new book is Doughnut Economics: seven ways to think like a 21st century economist.

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Name

M A J Jeyaseelan • a year ago

The core problem with extant economics is its objectlessness. If one searches hard enough what becomes too obvious is that it is all about making profits. Its growth model is also a profit-led one. Extant economics also suffers from another major deficiency. It came into being after money was invented and as a result looks at economics only through the eyes of money. People would never be able to understand economics correctly so long as they are viewing the economic phenomenon through the lens of money. I agree with Raworth on her diagnosis of the problems but the solutions are beyond the grasp of extant economics. We would need to start all over again.

I would invite Raworth and others who share her views to read
http://www.fundamentalecono...

I am not even suggesting that they need to agree with me. Would they be good enough to point out the deficiencies in the fundamental economics that I am proposing.

Reply • Share ›

Lady filosopher • 2 years ago

What is missing is an ethic that is going guide these choices, in economics and judicial. We only make things happen regarding the things we CARE about. #EthicsofCare allows us the right to get and give CARE about the important things in life. (V Held; Ethics of Care, Riane Eisler; The Real Wealth of Nations)

Reply • Share ›

Dan Doyle • 2 years ago

Neoliberalism starts on the simplistic assumptions that (a) people are naturally always competitive and (b) the economy is rational and self correcting.

A new economic theory must start with the assumption that (a) people are naturally competitive (greedy, selfish, aggressive) AND cooperative. The choice of competition vs cooperation is a blend of rational and IRRATIONAL (emotions, beliefs, attitude, and cultural values) behaviors. (b) markets/economic systems have no innate intelligence and do not self-correct. It functions through very complex cycles or reactionary human dynamics.

We need a theory of spiral economics that recognizes these facts.

1 ^ | v • Reply • Share ›

Ted Howard ➦ Dan Doyle • 2 years ago

Hi Dan,

Kind of.

It is more complex than that set of assumptions.

People have a vast set of possible strategies available, and what gets to express will be the result of many different levels of contextual factors, involving levels of stress, threat, opportunity, possibility, habits, social relationships, implicit boundaries, values, etc.

What does seem to be true is that for systems to maintain high order complexity, cooperation is required. And for such cooperation to exist, there must be attendant strategies to detect and remove cheating strategies - at higher levels, that is essentially what we define as morality. Ethics, morals, are an essential boundary condition for the maintenance of complex systems.

In so far as neoclassical economics tends to ignore that fact, and tends to act as what is essentially a justification strategy for cheating strategies, it has become an existential risk to the cooperative that is human society.

see more

^ | v • Reply • Share ›

Rudya • 2 years ago

Unfortunately, the article does not mention monetary reform. The debt based monetary system is the root cause of many of the SYMPTOMS targeted in this article.

http://endtheillusion.com/2...

2 ^ | v • Reply • Share ›

Rockenomics • 2 years ago

Economics is a social science. Like every other science it is about understanding how things work. Hypothesizing until the understanding fits all or nearly all situations. ie 'If X happens, then Y is the most probable outcome.'
This 'evonomics`is not economics. It is social engineering - the desire to use the force of government to achieve some people`s desired outcomes with the knowledge of well understood economic outcomes.

^ | v • Reply • Share ›

JC Wandemberg • 2 years ago

The very first time I came a cross some economic models I realized how most economists were trying to force the real world into their static models through the infamous "ceteris paribus." Economics has always been a social science and will continue to be subjected to the complexities of human behavior (e.g., somebody's trash being somebody else's treasure and vice-versa) but, above all, economics must be at the service of society and not the other way around or, even worse, at the service of some economists!

1 ^ | v • Reply • Share ›

kimock • 2 years ago

This essay is, at its heart, a strawman argument. It describes a nonexistant form of economics ("the economic mindset that they are being taught is rooted in the textbooks of 1950 which, in turn, are grounded in the theories of 1850", physics envy, homo economicus, etc.) and then proceeds to take it down. What's worse, the rest of essay relies upon platitudes and vague nonsense ("pre-distributing wealth" and regeneration). Sigh.

2 ^ | v • Reply • Share ›

Lev Shakhmundes • 2 years ago

Brian,

Your enthusiasm is infectious! The thing, however, is that the start occurred decades ago. The citations in Kate's book, page-counted in my previous comment, provide an ample proof of this assertion. Also, ten years ago I pointed to the works of economists questioning GDP growth as a necessary condition for a healthy economy in my A Better Organization,
https://www.amazon.com/s/re...
And, also there, to the disparity in income and wealth which, by that time, had been growing for 4 decades as the cited U.S. government data testified.

Why have the wheels been spinning with no end in sight? My explanation is that the average intelligence of us, homo sapiens, is quite low. To put it simpler, we are not as smart as we think we are. Want to argue? Then we have to leave this for another occasion since it's a different subject.

^ | v • Reply • Share ›

Brian H • 2 years ago

This is a fantastic start. It all makes perfect sense to those who study and try to understand the real economy, and you have made it simple and easily digestible. Awesome!

Unfortunately for the 21st Century thinkers, the 20th Century economic thinking has not been so fully and publicly discredited as it deserves. The big question is how can we move forward without first enduring the crisis that would finally raise awareness.

^ | v • Reply • Share ›

Stef Kuypers • 2 years ago

It's great reading this. We do desperately need a different mindset in economics. I don't wholly agree with point 4 though. I agree that there are no control levers that steer the economy exactly where we want it to go. There are some underlying mechanics that nudge it in a certain direction though. And those we can change. I'm talking about the 'design' of the underlying monetary system. For some bizarre reason that system is hardly ever questioned. It's like putting up a skyscraper and never looking at the quality of the ground it's built upon. Why is it never brought up? It's just a human construct. A bad one at that. If you look at the monetary flows it creates it can only work if the economy keeps growing. Shrink the economy and the entire thing comes crashing down. If we want fair distribution to be built in, we need to start to build it into the monetary system. And it can be done (http://circularmoney.org). It won't solve everything but it will nudge things in another, more sustainable and fair direction.

1 ^ | ⌄ • Reply • Share ›

Dick Burkhart • 2 years ago

When I began to delve into economics a couple of decades ago, I quickly saw that something was radically wrong. So Kate's critique and vision is most welcome. I would only add that she should also study biophysical economics - how economics is rooted in natural resources, especially energy.

However, as a mathematician, I also see another opportunity. That is, chaotic systems can sometimes be controlled or guided by very little energy if this energy is applied in just the right way. So there is the potential to do far more to guide economic systems, given the right understanding and the right regulatory tools. One big and vary crude tool - interest rates - is a pretty poor substitute for what economists could be doing, if we could trust them. Today most economists can't be trusted, as they are bound to the ideology of market fundamentalism and corrupted by the billionaires.

3 ^ | ⌄ • Reply • Share ›

Lev Shakhmundes • 2 years ago

To the readers of this post,

If you really want to appreciate the breadth of the topics at hand, go to amazon.com, open Look Inside for the Kate's book referred to at the end of this post, and peruse the parts Notes (27 pages) and Bibliography (12 pages).

^ | ⌄ • Reply • Share ›

Ted Howard • 2 years ago

Kind of, sort of, goes part way, and misses much more than it gets.

Yes we need a new story.
Yes we need a different characterisation of human nature.
Yes we need to think in terms of complex adaptive systems, and also in terms of all the other sorts of systems that also exist.

David Snowden's Cynefin framework is a great simple introduction to complexity, bringing an infinite spectrum down to just 4 classes of complexity, simple, complicated, complex and chaotic. Simple is the realm of engineering and best practice, complicated the realm of good practice, complex the realm of adaptive systems, iterative probe and evaluate approaches, and chaos is best avoided if possible as by definition it is not predictable. Humans are very poor at identifying chaos, we are primed to find pattern, even where it does not exist.
And it is much more complex than just that story.

Our current economic system is built on a fundamental mischaracterisation of the process of evolution.
Evolution is a process of change through differential survival.
In the strategic sense, there seem to be two major modalities that tend to dominate

see more

4 ^ | ⌄ • Reply • Share ›

Wim Nusselder ➦ Ted Howard • 2 years ago

I also ran into this potential link between the Cynefin framework and Doughnut economics.
As well as the potential link with the 5 colours of change in "Learning to change" by Caluwé & Vermaak.
Would love to check notes.
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Dan Doyle ➦ Ted Howard • 2 years ago
Interesting comments... would love to see what you make of my remarks, above:
Neoliberalism starts on the simplistic assumptions that (a) people are naturally always competitive and (b) the economy is rational and self correcting. A new economic theory must start with the assumption that (a) people are naturally competitive (greedy, selfish, aggressive) AND cooperative. The choice of competition vs cooperation is a blend of rational and IRRATIONAL (emotions, beliefs, attitude, and cultural values) behaviors.
(b) markets/economic systems have no innate intelligence and do not self-correct. It functions through very complex cycles or reactionary human dynamics.
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Gunther Sonnenfeld ➦ Ted Howard • 2 years ago
So, what are you building and testing, Ted, having said all this?
46 • Reply • Share ›

Ted Howard ➦ Gunther Sonnenfeld • 2 years ago
I'm working on lots of stuff simultaneously.
My blog site - www.tedhowardnz.wordpress.com has a reasonable record of most of it. I chair 4 groups, treasurer for 1, minutes secretary for two others, involved in about a dozen others. Testing meme-sets in the local environment mostly, and sometimes in international fora such as this.

I am trying to build a mix of theoretical and practical experience across as many domains as I can, and it aint easy. My ability to communicate lags so far behind the possibilities that I can "see".
Don't have the time to bridge most of those gaps as yet. Soonish I think.
Been putting some time into writing a book over the last week.
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Homer Connor • 2 years ago
Economics should be the study of how to maintain a balance between production and consumption. The facilitator of balance is money.
Natural resources and human psychology also play a part.
Banks ability to create money causes an unbalanced system that is bound to fail periodicaly and with enormous consequences.
2 • Reply • Share ›

GaryReber • 2 years ago
Not one word about abating concentrated capital wealth ownership and creating new capital owners simultaneously with the responsible growth of the economy.

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Derryl Hermanutz ↪ GaryReber • 2 years ago

No, she did talk about new ways of distributing ownership of capital wealth and the power to create money.

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