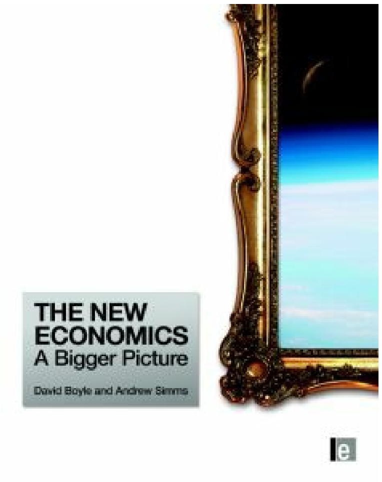

Book The New Economics

A Bigger Picture

David Boyle and Andrew Simms
Earthscan, 2009
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Recommendation

Global financial crises provide opportunities to question the viability of a society's operational economics, and the 2008-2009 recession is no exception. The myopic pursuit of the dollar (or euro, pound, renminbi or ruble) has left people exhausted, depressed and stressed. The cost of that quest is environmental and societal breakdowns. Perhaps the time has come to rethink the whole proposition, say David Boyle and Andrew Simms of the New Economics Foundation. Offering some alternative ideas for global capitalism, they demonstrate why money is a poor proxy for wealth, how happiness is more important than riches and how gross domestic product measures consequences that often are not in society's best interests. The authors provide workable, real-life solutions for rebalancing economic life. So how do you get off the monetary hamster wheel and find contentment? The answer is closer to home than you think: Contribute financially, emotionally and socially to your neighborhood and community. *BooksInShort* recommends this prescription for better economic well-being to policy makers, corporate heads and politicians who are eager for an expanded, humanistic view of the economic future.

Take-Aways

- Current economics relies on incomplete, misleading measures of financial activity.
- Money is not wealth, nor should it be the sole factor in policy decisions
- Economics doesn't value "social capital" – the work people do in their communities and homes to raise children, care for the sick and elderly, and help the needy.
- Gross domestic product (GDP) can't accurately judge a country's well-being.
- Using rising GDP as a proxy for national progress misses important societal and environmental costs.
- GDP counts the good and the bad: Working more hours increases GDP, but decreases leisure time.
- Debt forces people to work longer and harder than their 16th-century forebears.
- "The new economics" promotes "social and ecological" values in public policy.
- It recognizes that keeping local businesses vibrant contributes vital community benefits that go beyond financial considerations.
- Through "co-production," the beneficiaries of community services also give back by working alongside those who provide those services.

Summary

Mickey Mouse Economics

When a bank issues a mortgage to a borrower whose application is signed "M. Mouse," it's emblematic of a surreal economic world gone horribly wrong. But the crisis that began in 2007 is only the latest example of the usual panic that follows a surge "as surely as night follows day": from burgeoning radio stocks to the Great Depression, from junk bonds to the 1987 crash, from tech stocks to the dot-com collapse, from real estate to the recession. These boom-bust cycles are the inevitable result of a capitalism that sees growth and consumption as the only ways to advance society and that promotes money as the only yardstick for measuring wealth. This "ill-directed economic system" has generated some disastrous repercussions:

- An "ecological crisis," in that climate change threatens, to some degree, all life on Earth.
- A "human crisis" of inequitable "distribution," in which a billion people suffer hunger, 30,000 children a day die of "preventable diseases" and the income gap is exploding.
- A "spiritual crisis," where a sense of well-being is rare even for those with good incomes.
- Modern society's capitalistic "monoculture," featuring giant faceless corporations that shove aside neighborhood businesses for profit, efficiency and scale, is loosening the "social glue" that bonds families and communities.

> "Conventional economics measures money and assumes that it is real and valuable in itself; worse, that everything can be reduced to it."

Indebtedness is the oxygen that breathes life into contemporary financial systems. Indeed, most world economies create money by issuing bonds, thus adding to national liabilities. Loans, mortgages and credit cards keep people on the hamster wheel of work – often in two-income households – to repay their debt on bigger, better possessions. Those who voluntarily cut back to making less money in exchange for greater happiness fly in the face of traditional economics' presumption that people always want to "maximize their income." The $3 trillion that pumps through the world economy every day to enable trade and to recycle funds from savers and investors to create jobs and commerce – is now "nearly 90%...speculation, mostly...in the foreign exchange markets."

Another Way

"The new economics" tries to incorporate all aspects of life – financial, moral, environmental, and so on – into the calculus of human progress. French economics students who were uneasy with their field's growing dependence on statistics and theory first proposed "post-autistic economics" as a way to reject the "inward-looking, disengaged preoccupation with numbers" that conventional economists use to judge the world and its people's motivations. The new economics looks beyond money as the sole meaning of wealth, says economics is not a "scientific representation of the real world" and disagrees that profit should be the deciding factor in any human undertaking.

> The new economics "is a new definition of wealth...that follows from the central discovery that money and wealth are not the same, that money is a means to an end – and not the only means required either."

This line of thinking is not new; economists, writers and artists have long bemoaned the damaging, often unintended effects of society's chase for monetary success. The New Economics Foundation opposes the 1980s' unfettered free markets and "trickle-down economics." It seeks to include environmental and societal values in public economic considerations, to see the merit in "local economic self-reliance" and to recognize the important contribution of raising families in the "non-monetary economy."

> "The new economics is the rejection of money as the totemic center of pseudoscience."

Over time, these concepts began to gain some traction, giving rise to ecologically sound community food cooperatives, microlending and "energy taxation." But globalization, moved along by the Washington Consensus that prodded nations to privatize their national businesses, shifted power from sovereign states to huge multinationals, where the "wealth doesn't trickle down, it floods up." Rather than empowering individuals, the chase for more money has enchained them and has turned impoverished people "into dependent supplicants to big corporations."

Money Doesn't Buy Happiness

Vanuatu, a Pacific island chain, ranked first on The Happy Planet Index, a measure of how well nations use their natural assets to give their citizens "long and happy lives"; the United States and the United Kingdom, which have much higher gross domestic products (GDPs), came in at 150 and 108, respectively. Utilizing GDP as the econometric proxy for well-being implies that the more people produce, the happier they are and the better off a country is. But GDP measures and, thus, fosters unintended consequences. For instance, working more hours increases GDP, but cuts leisure time. The costs of containing the pollution caused by more production and of combating rising crime in disintegrating communities all raise GDP. Even fast food aficionados who eat hearty and then subject themselves to liposuction add to the growth in food and cosmetic surgery revenues, also upping GDP. Society needs new ways to measure well-being, not wealth: The Happy Planet Index, the Index of Sustainable Economic Welfare, and Gross National Happiness (Bhutan's measurement) are more meaningful determinants of progress than calculations of GDP.

Money Makes the World Go 'Round

China financed the Iraq War by buying Treasury bonds from the financially troubled U.S. Even France and Germany, who were against the war, kept the battle machine going by investing in dollars. Money swoops and lurches around the system, fueling speculation and massive value swings. Since instability represents profit opportunities for stock traders, markets "overshoot and veer dangerously off in the wrong direction" rather than attaining equilibrium. Money's intended purpose – facilitating individuals' private transactions – is out of date, and money no longer calculates wealth accurately. Currencies that derive their value from multibillion-dollar finance machinations impose exaggerated, unrealistic distortions in local economies, where, for instance, highly paid global executives put the price of London housing out of the reach of most people.

> "The new economics insists that the economy exists to serve people rather than the other way around."

Money doesn't represent the value of "social capital" – the work people do in their communities and homes to raise children, care for the elderly, tend the sick and help the needy. Some methods of accounting for social capital and encouraging local economies use barter, scrip and "local currencies." For instance, the Berkshire Mountains town of Great Barrington, Massachusetts, issues "berkshares" that people can spend in its shops and eateries, keeping more tourist revenues at home.

“If You Build It, They Will Come”

The problem with using money to represent everything people want is that it doesn’t do that job. Individuals yearn for the contentment that material things can’t provide. They value time more than money. Yet classical economics doesn’t recognize these basic human motivations. Those who believe in “ethical consumerism” – and, thus, pay more for goods that are morally produced – contradict the economic axiom that price is king. Humans behave contrary to economics’ expectations: They don’t always act reasonably, they copy each other, they seek approval, they don’t analyze every financial decision, they act out of habit, they want “to do the right thing” and they need to feel connected. Misguided policy based only on financial motives can result in devastating consequences. For example, to address a blood shortage, some U.S. blood banks paid their donors. This did not increase the supply, but it did increase the likelihood of collecting tainted blood. Getting paid removes the donor’s selfless satisfaction in helping others, and a blood donor who needs money is more apt to lie about being ill, thus compromising the blood supply.

Working Like a Peasant

Forty weeks of work provided a peasant in 16th-century England with enough wherewithal to live for a year. North American workers toiled 163 more hours per year in 1987 than in the 1960s. Today, most households require two full-time incomes just to make ends meet. Despite technological labor-saving devices, “conventional economics [has] delivered such an exhausting world for those...who are favored by the economic system, and such an impoverished world for those who are not.” Poverty grows in developed and developing countries; income inequality keeps expanding. The current growth-reliant system encourages people to add debt so they can buy more, priming the economic pump. The more people owe, the harder and longer they must work under the constant shadow of debt. Economic incentives favor large-scale corporations, which now conduct 28% of global business with less than 0.25% of the world’s workers. This concentration of power – for instance, two companies control nearly half the global banana supply – results in a monoculture that drives out small shops and weakens local communities.

> “Loneliness, isolation, stress, depression, chronic ill health, all stand in the way of genuine success.”

Since people see environmental resources as cost-free, never-ending inputs, they discard anything that wears out or breaks. Doing more with less can save the planet, but the modern economic system is set up to trade in junk. The consumer machine runs on built-in obsolescence, encouraging folks to buy the new rather than repair the old. “A terrifying 80% of products are thrown away after a single use.” Making better use of this disregarded, discarded property requires giving consumers incentives for repair and reuse. Rotterdam residents who recycle receive credits for local transportation and movie tickets.

> “Money is round and it rolls away.” – Confucius

Global trade engenders “interdependence” among nations for goods and services, but commerce that ignores its environmental and energy impact leads to ill health, poverty and inefficiency – for example, countries that import the same products they export, the way the U.K. and Sweden exchange ice cream. Nations involved in global trade abandon their industries and kill their jobs in favor of cheaper imports. Trade tariffs, subsidies and ecological damage all incur supplementary costs that the prices of goods and services do not capture. Air pollution and asthma are among the unhealthy byproducts of “the wrong kind of trade.” The new economics calls for keeping good local products within local economies. Other measures that could reduce world trade inequities include enacting worldwide antitrust regulations to get big corporations out of the food business, assessing taxes to cover hidden energy costs, reducing intellectual property rules on local knowledge and removing subsidies.

The Walmart Effect

Shoppers love Walmart for its low prices and great selection, but at what cost to society? Researchers in the U.S. discovered that communities with a Walmart store exhibit declining social capital – “fewer local charities...churches, campaign groups and business groups,” as well as reduced voter turnout. Why? Walmart squeezes out not only competing local shops but also the other activities and professions that support neighborhood businesses, such as bankers and accountants. Town and city planners normally extend subsidies and tax breaks to welcome big box retailers because they want the megastores’ jobs and tax revenues, yet the displacement these giants cause in a community’s social fabric carries hidden charges.

> “Studies of very dependent communities, like First Nation American reservations in the USA, have found that 75% of their money leaves again within 48 hours – to pay bills to distant utilities, or to shop in Walmart, which sends all its takings every night to Arkansas.”

Divorce, broken families and the paradoxical isolation brought on by technology exacerbate this social breakdown. The new economics calls for greater use of “co-production,” in which people who benefit from community services work alongside those who provide the services. For example, citizens who work with their local police to keep their neighborhoods safe provide a meaningful service and supplement their economic and social communities. People actively participate in contributing and belonging, instead of being passive recipients of public care. “Time banks” are a mechanism that could recognize such endeavors by swapping credits in exchange for citizens’ efforts.

Debt Slavery

By 2006, less-developed nations had remitted some $683 billion, 5% of their income, to the industrialized world in loan interest and repatriated corporate profits; back in 1995, the flows were reversed, with $46 billion in aid and investment moving into the developing world. “Global turbo-capitalism” makes every nation, firm and person a debtor, but “sensible, small-scale debt” can help generate jobs and prosperity. Microlenders such as the Grameen Bank are at the forefront of a new approach to banking, which includes “community development credit unions,” “social banks” that fund community needs, and a “financial third sector” which balances financial and societal needs.

About the Authors

David Boyle, journalist and author, is a fellow at the New Economics Foundation, where **Andrew Simms** is policy director and head of the climate change and energy program.