Global Economics —There IS an Alternative

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Our civilisation is facing a unique crisis at this critical time in our evolution. This crisis occurs only once for a global civilisation, namely when it meets the limits to growth on a planet with finite resources. The failure of a civilisation to deal properly with the crisis can lead to collapse, or, in the worst case, its demise. The essence of the challenge that we are facing is the necessity to change a previously successful worldview to one more appropriate to our new situation. We must break away from a "new frontiers" mentality to a "spaceship earth" mentality. The old, crumbling worldview is often called the Cartesian /Newtonian paradigm — based on a reductionist mode of thinking that breaks down problems into separate manageable parts, analyzing each separately. This was an extremely useful and successful part of the advancement of science that has brought about the industrial revolution. But it has its limits.

In economics, it is characterised by a policy of seeking constant growth. But such a worldview has a fatal flaw. On a finite planet, such growth cannot continue forever. We are now experiencing the limits to growth as land and oil in particular become scarcer. But we are so enthralled by the successful growth strategy of the past that we do not seem able to change direction to a more appropriate economic model based on the holistic thinking necessary to evolve into a steady-state stable global society. In such a society, we must put primary emphasis on a healthy environment and cohesive social structures and less on material consumption as a way to achieve satisfaction.

If there is one aspect of the current worldview more than any other that is driving us towards a possible collapse, it is the recent economic system that has evolved out of the reductionist worldview, namely neo-liberal economics, the economic aspect of globalisation. A repeated claim of the promoters of this ideology is that its critics have no agreed alternative to their neo-liberal economic system. Hence their mantra: TINA — there is no alternative. This article is an attempt to put point out the problems with neo-liberal economics and put forward the outline of an alternative economic regime more consistent with the emerging holistic worldview, including some considerations about how such a change might come about in practice.

Neo-liberal Economics

This economic ideology, which dates back to the 1980s, promotes so-called "free trade", unrestricted capital movements across borders, deregulation of corporations, and privatisation of public services, as the best way to achieve an increase in living standards for all peoples across the world. Neo-liberal economists claim that their ideology is based on Adam Smith's principles of classical economics, in particular the "invisible hand" concept that says that the individual who optimises his own self-interest also optimises the whole society's interest ("Greed is good"). This is the basis for the claim that self-regulating markets without government interference will benefit all of Humankind.

It has been well documented by several studies that the results to date have shown quite the opposite. Growth has slowed compared to the previous period, and what benefits have been achieved have gone to a very small minority of the already rich owners and managers of giant commercial corporations, while the environment and social networks have been constantly degraded. The very concept of a welfare state to protect the disadvantaged is under severe attack. What we see here is not so much growth as theft — a cancerous growth that is unsustainable and primarily based on extracting wealth from the environment, from the public sector, from the poor and from the disadvantaged.

In fact, what few people realise is that the system as practised today deviates significantly in three fundamental ways from Adam Smith's classical economics, on which it claims to be based. Any one of these deviations is enough to expose the neo-liberal promises as The Big Lie of our times.

Firstly, Adam Smith's model was based on assuming a universe of only small buyers and sellers, who are unable to affect prices and influence politicians. The current system allows the existence of enormous international corporations that not only determine prices and buy corrupt politicians at home and abroad, but also reduce real competition by the misuse of patent laws, by entering cartel-like agreements and by destroying smaller potential competitors and suppliers with their subsidized economic might. ¹

Secondly, prices in neo-liberal economics do not reflect the total costs of production, as required by Adam Smith's theory. Prices should include social and environmental costs according to classical economics. The result is the misallocation of resources that always occurs when prices are incorrect. As the IT industry puts it: garbage in means garbage out. We produce too many products that damage the environment and destroy local communities and too few that do the opposite.

Thirdly, the unrestricted movement of capital insisted upon by the neoliberals has no justification in economic science or in empirical studies, as pointed out, among others, by Joseph Stiglitz, Nobel-prize winning economist and former chief economist of the World Bank. It is simply a convenience for investment bankers and gigantic speculative hedge funds that want to be able to get their money out of a country fast when they see a better opportunity elsewhere, as documented in the financial crises of recent years in Mexico, Malaysia, Indonesia, Thailand, South Korea, Russia, Brazil and Argentina. These sudden movements create unacceptable instabilities in financial markets, destroying healthy economies in the process, because our electronic transfer capabilities far exceed the abilities of currency and equity markets to absorb the massive short-term pressures on the system.

Because of these three deviations from Adam Smith's utopia, we see an even more rapid degradation of the environment, and an increasing gap between rich and poor within countries and among countries, with a corresponding increase in social unrest, including increased terrorism by desperate peoples with nothing left to lose.

If Adam Smith were alive today, he would undoubtedly be counted among the opponents of neo-liberalism. Not only for the above three reasons, but also because he was a firm supporter of government regulation of corporations. He pointed out that without strict regulation there would be no limits to the greed and corruption of corporations. Recent scandals in the USA, Europe and Japan confirm Smith's fears of what inadequate regulation leads to.

In conclusion, neo-liberal economics is nothing but an unproved theory that benefits its promoters; an ideology with no scientific basis in economic theory that has been refuted in empirical studies. Nevertheless, it has been bought into by almost all politicians in Western democracies except the extreme left. Why? I will leave this guestion for contemplation.

The Risk of Collapse

Civilisations have been collapsing for 12,000 years. But why do they collapse? This question has occupied historians for centuries, and many theories have been put forward. Recently, historian Joseph Tainter has formulated a general theory that includes earlier theories as special cases and has impressive explanatory powers. Tainter sees societies as problem-solving organisations with a tendency to solve problems by creating greater complexity. According to Tainter, the prime, overriding reason for collapse is economic — more specifically, it is an example of the law of diminishing returns, i.e. benefits to the population. Each time a civilisation introduces a new level of complexity to solve its problems, the cost is greater and the payoff, or marginal return, is smaller relative to the cost.

The situation we are in currently can be illustrated with a measure of wellbeing developed by alternative economists called the Genuine Progress Indicator (GPI), shown here for the USA in the period 1955-1995.

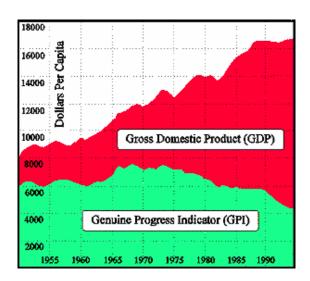


Figure 1: Genuine Progress Indicator ³

Traditional economics measures growth as Gross Domestic Produce, or GDP. But this is more a measure of activity than a measure of how well we are doing. The GPI deducts from GDP the factors which are negative, such as environmental cleanup, highway accidents, increasing medical bills and insurance premiums, increasing costs of social unrest, stress, and much more. Thus we get a net figure which is a truer measure of the net benefits to society. It would seem from the diagram that the marginal costs began to exceed the marginal benefits of further growth around 1970, as net benefits

went into decline. Thus it is quite possible that a collapse may already have started. According to Tainter, the process can take several decades to complete. It should be noted that a collapse means a return to a simpler life, not necessarily a less attractive life. Such a collapse could therefore, in the long term, be a possible route to a more sustainable global society based on a Life-based, holistic worldview. But it would be very painful path for everyone and would take many decades to evolve, in the best case.

Strategies for Change

Barring a collapse, the only other plausible scenario that might lead to a sustainable and just world that I can imagine is that a small number of states declare that they are going to do things differently from now on. They are going to choose a path different from the current Money-based Path, namely a Life-based Path, and they are going to do it together. They are going to break away from neo-liberalism once and for all. This is the way it is going to happen if it happens at all. In other words, a few courageous nations will have to step forward and show real leadership. Possibly even a single nation. One thing is for sure. It will not happen by a decision at a UN summit, nor at a G-8 meeting, nor by new oxymoronic declarations about "sustainable growth". The most likely scenario facing the world right now is a major ecological or financial disaster — a "hard landing" that will force change upon us, as suggested by Joseph Tainter. Nevertheless, there is a slight hope that one or more nations might have the courage to take the initiative to create an alternative economic order. The key institution in this connection is the WTO (World Trade Organisation).

The WTO

Joining the WTO in 1995 meant an automatic surrender of sovereignty to foreign corporations by every member country, although very few people, including many politicians, are even aware of this, as it happened with little or no public debate. WTO rules prevent consumers from demanding to know where a product was made and how it was made. Was it made with environmentally damaging production methods? Was it produced in a Mexican maquiladora by underpaid Third World workers under unacceptable working conditions? We don't have to tell you, says the WTO — that information could put a foreign importer at a disadvantage. This is totally absurd. How can one talk about sustainable development and social justice if citizens have no control over the method of production of goods sold in their local stores? There is no incentive for any company to produce sustainably and socially responsibly under the WTO system. On the contrary, the opposite is directly encouraged. This is simply self-destructive for society and should be totally unacceptable.

Leaving the WTO

The first, mandatory step of the Life-based Path pioneers will be to leave the WTO with six months' notice and form a new trade organisation. Let us for the sake of reference call it the Gaian Trade Organisation (GTO), reflecting the founders' commitment to the global commons. As should be clear from the above, the WTO embodies the very essence of corporate-dominated

globalisation and all its related ills. Within the WTO regime, meaningful reforms are impossible.

The suggested GTO principles can be summarized as follows:

- (1) Members are committed to prioritise environmental and social factors over and above trade issues, with the goal of improving the quality of life of their citizens as measured by GNP-adjusted measures such as the Genuine Progress Indicator and the Index of Sustainable Economic Welfare. Given this commitment, each member has the right to regulate capital flow, foreign investment and foreign access to its domestic market and local resources. Each member state is free to negotiate voluntary bilateral and/or multilateral trade agreements with other countries as it sees fit. Member states will endeavour to include environmental and social costs in their product prices.
- (2) GTO members adhere to the conviction that corporations, both domestic and foreign, have obligations that must normally be fulfilled as a condition for operating in or selling products in a member country. These include full disclosure of (a) the method and place of production of any goods or services to be sold and (b) corporate environmental and social policies practised (c) hard evidence that the product is not a threat to health or the environment. Products which pass a special ecological test will receive a GTO eco-label. Members may, at their sole discretion, but with cause, refuse access to their domestic market to any foreign corporation, product or country, or place tariffs on such products that are admitted to compensate for deficiencies in environmental or social standards, as compared to those required of domestic producers or of other foreign producers.
- (3) GTO members will negotiate reductions on tariffs on GTO eco-labelled products to encourage trade in these items.
- (4) The GTO will discriminate positively its developing country members in order to reduce inequities in income distribution.
- (5) The GTO recognizes the right and legitimate need for member countries to protect their food security, culture, environment, national security, job security and vital industries through tariffs and other measures.
- (6) GTO members honour, respect and cherish the diversity of nature, culture, religion and personal opinion in self-determining, sovereign nation states having a high degree of participatory democracy.
- (7) Conflicts between a member state and another country (member or not) can be brought before an international GTO panel for comment and recommendation for resolution. The panel shall include representatives of trade, environmental and social interests. Compliance with recommendations is voluntary.

It is no accident that these principles resemble in some respects the pre-WTO GATT (General Agreement on Tariffs and Trade) rules, for example, the voluntary trade agreements, the positive discrimination of developing countries and the conflict resolution mechanism. The GATT rules were very successful, and were in place during the "golden years" of trade expansion (1945-1970). Note that the developing countries preferred them to the WTO

rules, and that the industrialised countries, with the exception of the USA, were lukewarm about the change to the WTO regime. Under GATT, growth rates were higher than under the WTO, and higher still if we adjust for the negative contributions to traditional GNP measures. Controls on capital movements were also standard procedure and quite successful during most of the GATT period.

Note the explicit GTO right to protect vital national interests as defined by each nation. This is a deviation from WTO rules, but not from the actual practice of the stronger WTO members. Recent examples: the 2002 unilateral USA tariff on foreign steel products, the 2002 80% increase in USA agricultural subsidies, and the 2005 special tariff on Chinese textiles by the EU because the Chinese are too competitive. Can you imagine a small country doing the same? They would be punished harshly and immediately for not following the rules. This GTO rule is simply more honest and levels the playing field among strong and weak member states.

A major purpose of the GTO rules is to reward corporations that can demonstrate environmental and social responsibility and penalize those who cannot. Thus we get the precise opposite effect of what we see under the WTO regime. A second major difference is the reversal of the burden of proof on heath risks. It should thus be clear that there is no room for compromise with WTO rules. Thus reform of the WTO is out of the question.

GTO incentives will tend to move its members gradually towards a sustainable and equitable global society rather than towards an inequitable fascist world of social apartheid in a devastated environment. If the GTO pioneers are successful, others will join, and in time the WTO will disappear...

References

- 1. Adam Smith, *The Wealth of Nations*, (1776, reprinted by Pelican Books, 1977).
- 2. Joseph Tainter, *The Collapse of Complex Societies*, (Cambridge University Press, UK, 1988)
- 3. See www.rprogress.org

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