

PATH TO A JUST AND SUSTAINABLE NEW ECONOMY  
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I'm delighted to be here in what we in the United State think of as the progressive heartland of Europe to explore with you how we create a just and sustainable new economy for the 21<sup>st</sup> century. My work centers on framing the issues and choices in ways that address the deeper roots of the potentially terminal economic, social, and environmental crisis unfolding around the world.

I believe it is within our human means to create a world in which every person has a secure and fulfilling life filled with creative opportunity — a world that nurtures strong families, caring communities, and a sense of place. But it is going to take serious work and must be built from the bottom up through creative, visionary citizen action. The more conscious we are of the outcome we seek, the more effective we can be in creating it.

The current economic debate is commonly framed as a choice between a neoliberal free market economy and a welfare state economy. Of course, the neoliberal idea of a free market is one in which the largest corporations are free organize the economic life of the planet in whatever way maximizes their profits..

The issues are particularly complex here in Europe, where your much admired public welfare state model is now threatened by the processes of European political and economic integration under the control of corporate interests committed to the neoliberal agenda. This puts you at grave risk of becoming ever more like the United States, which functions not as a public welfare state, but rather as 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 is a diversion from the more fundamental question of whether the institutions of government will serve the living interests of people and nature or the financial interests of transnational corporations. This in turn will determine whether we have corporate welfare states or public welfare states.

Let's start with a simple, but essential question.

What purpose should an economy serve? If the purpose is to build and support a wealthy ruling class, then the values and institutions of the current corporate-dominated, growth driven-global economy serve well. If, however, the purpose is to build and support prosperous democratic communities that meet the needs of all people in sustainable balance with nature, we need to redesign our economic institutions to optimize well-being rather than growth and put control of social and environmental decisions as directly as possible in the hands of people who have a strong sense of connection to their 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 as a business school student. Our professors constantly admonished us that whenever we identify something that has gone wrong in the organization we manage, we should always look upstream to identify its source in 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 an institutional failure, its symptom will continually reproduce.

Rather than pursuing the career in corporate management for which I had been trained, I served as a member of the U.S. foreign aid establishment resident for 21 years in Ethiopia, Nicaragua, Philippines, and Indonesia engaged in implementing the Western development model. During that period of my life, I became increasingly alarmed by evidence that the lives of the majority of people 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 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.

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 its 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.

These policies are all presently in place in the United States. They:

1. Reduce all values to financial values.
2. Make money creation and allocation a unregulated private monopoly operated by private bankers and financiers for their private benefit.
3. Concentrates and centralizes ownership detached from public accountability, shifts the negative consequences of ownership decisions to others and shields owners from liability.

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.
4. Readily absorbs political assaults by progressive groups on individual issues, and
5. Produces outcomes exactly the opposite of what we need to secure a viable human future.

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.

Economic instability, environmental destruction, and social disintegration may be only unintended consequences of the neoliberal agenda, but they are nearly guaranteed results of a neoliberal economic system. The connection is easier to see in the United States than in Europe, because you have softened the system's edges with progressive rules, tax policies, and social programs, but the underlying structure of your economic system is much the same and the policies and programs that soften the results are all under assault..

Progressive civil society can respond in any one of three ways.

1. Accept the status quo and get on with business as usual.
2. Introduce additional rules, taxes, and public services to moderate the most destructive consequences of a bad underlying system, or
3. Restructure the entire system so that its natural internal tendency 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 economy we have.

- Healthy people, communities, and natural systems rather than money must become the defining value. This requires that decisions be in the hands of people who love their place on Earth rather than in the hands of global financiers who love only the money in their own pockets.
- The money system must be decentralized, managed as a public utility and be democratically accountable to communities of place.
- Ownership must be broadly distributed, locally rooted, and owners must bear the consequences of their actions. Because ownership is power, equitable

participation in rooted responsible ownership is more important to the outcomes we seek than equality in incomes.

This agenda puts us at odds with the most powerful and ruthless interests on the planet. It requires effective citizen action on many fronts, including the following:

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 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 ownership with a goal to achieve 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](http://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 building a national support system for such efforts. Check it out at [www.livingeconomies.org](http://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.

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