A New Economic Paradigm? In the Concrete – Towards a New Model

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A map of the world that does not include Utopia is not even worth glancing at ... (Oscar Wilde)

It is good to remember that utopia is nothing but the reality of tomorrow and that today's reality is yesterday's utopia. (Le Corbusier)

Politics left to managers and economics left to brokers add up to a recipe for social and environmental chaos. (Rowan Williams, Archbishop of Canterbury[1])

The Great Transition – New Economics Foundation

In October 2009, the New Economics Foundation (NEF), an independent think-and-do tank based in Britain, published *The Great Transition*,[2] its version of how things could 'turn out right' by 2050. The transition in question is to an economic model capable of responding to the situation of crisis that we find ourselves in and based on the values outlined in the first article in this series, published in the March 2010 issue of *Working Notes*.[3] The model contains seven major steps, some aspects of which I will outline briefly.

There is, first, what the report terms ***The Great Revaluing***. What this refers to is the goal of building social and environmental values, with market prices reflecting real social and environmental costs and benefits – 'we need to make "good" things cheap and "bad" things very expensive – too often this is the opposite of what we have today' (p. 5). And so, for example, to tackle the social ill of obesity it might be presumed that a proportionate tax would be put on so-called junk food. And, in terms of good environmental practice, is it currently the case that 'food grown locally is often more expensive than that shipped around the world, not least as the environmental costs of the transport involved are not reflected in the price' (p. 39).

For this kind of change to happen, we need to collectively determine – by means perhaps of a national census that explores these issues, helped by increasingly refined measurements of well-being, with government making determinations where there are competing interests – what, as a society, we deem to be important, to be of social and environmental value. All this means that the economy will be required to serve the values which we as a society have chosen.

Secondly, since equal societies are happier societies, there would occur ***The Great Redistribution*** – that redistribution of both income and wealth which would bring about greater fairness and a lower price for the social 'ills' which are associated with high levels of inequality (p. 5). This redistribution would be brought about by a combination of taxation policies (including an increase in inheritance tax), a shortening of the working week to four days (thus leaving more time for the non-market, or 'core', economy of family, friends and community, and implying that as consumption and economic output decrease in order to meet environmental targets, there would be less danger of a growth in unemployment) and an encouragement of more mutual, co-operative ownership forms in order to promote a more participatory and democratic form of stakeholder ownership.

In ***The Great Rebalancing***, the third step, the case is made that the new model is neither socialism nor communism, that it respects the market economy, but that it strives for a better balance between the market, state and society. In particular, it strives to so regulate the market that prices reflect both positive and negative externalities (i.e., the social and environmental costs and benefits associated with market goods and services – p. 45). As it is, our 'free markets' make too few distinctions between 'good' and 'bad' goods and services – by, for example, not reflecting in prices the consequences of pollution and of poverty-level wages.

However, 'by incorporating these factors into market prices we reverse the incentives: buying "good" things become easier and cheaper than buying "bad" things, and if things are *really* "bad" we should not be able to buy them at all' (p. 45). This would mean, *inter alia*, severe restrictions placed on advertising (p. 48) and would facilitate a

‘race to the top’ in terms of prices which reflected social and environmental values. The state should also act to ensure that essential social needs – such as healthcare, education and so on – are catered for, as well as encouraging the kind of society that values participatory democracy and a shared sense of responsibility for long-term, sustainable development.

The fourth step, ***The Great Localisation***, develops this notion of participatory democracy, advocating an expansion of the concept of *subsidiarity* so that decisions are taken at as local a level as possible. The context here is a recognition of the value but also the stark limits of globalisation (p. 56) – we need to develop a better sense of appropriate scale, of where greater local self-sufficiency in some areas is required (one thinks, for example, of food and energy security), while in other areas regional, national and international trade is appropriate. A local economy, for example, should not be entirely dependent on supermarket chains, which may simply close less profitable stores in difficult economic times – a local economy with a more diverse range of ownership models, including smaller retail outlets, is more resilient.

Ships carry almost identical goods across the globe in ‘boomerang trade’

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Similarly, in terms of environmental values, there is what NEF calls ‘boomerang trade’ – with ships, lorries and planes travelling from city to city across the globe and back again wastefully carrying almost identical goods, in order to meet consumer demand (p. 58). So, for example, in 2008 the UK exported 4,400 tonnes of ice cream to Italy, only to re-import 4,200 tonnes (p. 59).

Among the criteria that would be used to determine appropriate scale would be actual need, central of course to The Great Revaluing. Applying the criterion of need, the report suggests, would mean that ‘many sectors will shrink in size; for example, advertising, clothing and footwear, as well as finance’ (p. 60). In a telling phrase about finance, the report observes: ‘Nor is it apparent that we need many of the complex financial innovations that characterise modern commercial banking’ (p. 60).

Overall, there will be a stronger emphasis on greater local production. Thus, while NEF is ‘by no means suggesting that exports would cease’, it asserts that ‘they would certainly be reduced as the environmental impact of transporting goods around the world was factored into prices’ (p. 8). One can sense the challenge this kind of analysis poses to any easy assumptions in Ireland about the desirability of maximising our emphasis on low-tax Foreign Direct Investment (FDI) in plotting our way forward.

The Great Reskilling – the fifth step – implies that we need to relearn many skills that have been forgotten: ‘From agriculture to manufacturing to the provision of local finance, returning to appropriate scale means equipping ourselves with the means to do so’ (p. 6). ‘Reskilling’ means also becoming less passive with regard to consumption and production – and well-informed enough to be able to contribute to a local and national consensus on these issues.

The sixth step is called the ***Great Economic Irrigation***, and it outlines how finance could facilitate many of the changes proposed in the report. Among the measures proposed is a shift from taxing ‘goods’ such as work, to taxing environmental ‘bads’ such as pollution, consumption and short-term speculation (including the introduction of a financial transactions tax – p. 78). The report argues for new, variable, consumption taxes, replacing income taxes for the majority of the population, reflecting the social and environmental cost of goods (p. 7). There should be a ‘Green Investment Bank’, funded through national-level environmental and ‘land’ taxes, to support a green energy and transport infrastructure.

In working towards a more sustainable, socially responsible, financial system ‘retail banks should be separated from investment banks’ (p. 82) and financial institutions should function within a stable regulatory framework that also encompasses the capital markets (p. 83) – so, for example, company profitability should become directly linked to social

and environmental value, and share prices for listed companies would reflect this. The consequence would be that: 'The composition of the FTSE 100 would change rapidly in some instances, as ethical and environmentally sustainable companies replaced unsustainable incumbents which were unable or unwilling to change their business practices and so saw their market share and profitability plummet' (p. 84).

In the seventh step, ***The Great Interdependence***, these proposals are located in the context of a global 'deal' which addresses global inequalities from both a developmental and environmental perspective. This deal must include a climate change treaty, accompanied by a major redistribution of funds at a global level. And again, with a pricing of the environmental cost of global trade, 'more local production and more regional trade are likely to become the norm' (p. 87).

There are many other details of this model which cannot be outlined here because of limitations of space. However, given the general thrust, how is one to evaluate this radical approach? The authors admit that it involves producing and consuming less, that GDP as now calculated would fall (in the case of the UK, the fall might be by as much as a third, bringing GDP back to 2001 levels), but they claim that 'real value' will in fact grow (p. 4; p. 24): thus the phrase 'prosperity without growth' or a 'steady-state economy' (p. 93). They admit too that more refinement is needed in the tools required to measure well-being, so that we get prices right and so that 'market activity drives rather than destroys social and environmental value' (p. 91).

Clearly, the model involves agreement about the kind of vision, values and goals which the first article in this series outlined.[4] As such, it confirms the insight that more than simply economics is involved: we need a cultural shift, a political intervention. There is little in the report about the kind of institutional global political government that would be required if individual countries are to take the required steps towards transition with a confidence that they are operating on a more even playing field. All this will be difficult: we don't like to think of certain freedoms (for instance, to buy and consume what we like) being constrained; we react somewhat allergically to notions of the 'nanny' state. To many, the model will seem utopian, in the sense of unrealistic rather than in the sense of an imaginative stimulus to real change. But what is the alternative?

Some Irish Contributions to the Debate

Comhar

Comhar (the Irish word for partnership), set up in 1999, is the Sustainable Development Council. It is made up of twenty-five people drawn from five sectors: the state sector, economic sectors, environmental NGOs, social/community NGOs and the professional/academic sector. It is currently chaired by Professor Frank Convery. In October 2009, it published a report entitled, *Towards a Green New Deal for Ireland,* some of the main points of which it will now be helpful to outline.

Starting with the slogan, 'never let a serious crisis go to waste',[5] Comhar sets out the contents of an Irish 'Green New Deal'. The thrust is to support the 2008 Government strategy (*Building Ireland's Smart Economy*[6]) to use our present crisis as a springboard to move away from fossil fuel based energy production, through investment in renewable energy, and to promote the green enterprise sector and the creation of 'green-collar' jobs (p. 6).

Comhar believes that this can be done in a programme which, aligned with sustainable development principles, addresses the economic recession but also environmental and social problems – in other words, issues such as climate change, peak oil, ecosystem degradation, fuel poverty and social inequity (p. 6). This programme would give priority to maximising the potential of our resources in sectors where we already have inherent advantages, such as wind and wave energy (p. 7). It would involve a commitment of up to 2 per cent of GDP to green stimulus measures over the next two to three years.

The priority areas for investment should comprise:

- Improving the energy efficiency of existing housing stock
- Renewable Energy
- Transforming the National Grid
- Delivering Sustainable Mobility (transport, including measures to reduce single occupancy car use)
- Public Sector Investments (for example, green procurement; waste and water infrastructure)
- Skills and Training (for green technology; to include the unemployed)
- Green Infrastructure (parks; afforestation; agricultural subsidies in line with ecosystem enhancement).

To realise all this it will be necessary to have concrete policy instruments such as green procurement, tax and subsidy reform (for example, a shift of the tax base away from labour and onto pollution and consumption – p. 8), skills and training, and research and development (in green technology – for example, ocean, wind and solar energy). Financing options should include the formation of a Green Bank, the creation of a green venture capital fund and the establishment of a National Decarbonisation Fund. Comhar estimated that a stimulus package of up to 4 billion euro a year could directly and indirectly create at least 100,000 new jobs (p. 37).

An additional financial vehicle for supporting the Green New Deal lies in pension funds. These are governed by the fiduciary duty to pursue the best interests of their members but, increasingly, this is seen in terms of a shift to relatively risk-free assets and the desire to avoid the severe threat of climate disruption. It is becoming clear that 'avoiding catastrophic climate change will require an unprecedented shift in investment capital by pension funds and other holders of long-term assets' (p. 57). The obvious solution is that these funds be invested in a new generation of Green New Deal-type 'climate or green bonds' raised by national governments and international financial institutions.

The Comhar Report is less comprehensive, and more reformist than radical in tone, than *The Great Transition*, even if it shares many of the latter's perspectives and some of its policy recommendations. Its own primary focus, consistent with its remit, is the environmental aspect of any new economic model. One can sense how this is already impinging on our real economy – one thinks of the levy on plastic bags, the environmentally graded car registration tax, the carbon tax in the Budget of December 2009, waste charges and talk of imminent water charges. The remarks about pension fund investment are particularly interesting.

NESC

NESC (The National Economic and Social Council) was established in 1973. It is chaired by the Secretary General of the Department of the Taoiseach and comprises representatives of trade unions, employer bodies, farm organisations, the community and voluntary sector, key government departments and independent experts. Its function is 'to analyse and report to the Taoiseach on strategic issues relating to the efficient development of the economy and the achievement of social justice and the development of a strategic framework for the conduct of relations and negotiation of agreements between the government and the social partners'.[7]

The NESC reports on Ireland's 'five-part crisis'

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In a Report, *Next Steps in Addressing Ireland's Five-Part Crisis: Combining Retrenchment with Reform*, published in October 2009, NESC sets itself to address in an integrated way all five parts of Ireland's crisis: banking, fiscal, economic, social and reputational (p. vii).[8]

The Report stresses the underlying need for a 'vision of the kind of society and economy that Ireland wishes to become in the decades ahead, and towards which responses to the crisis will help us move' (p. 20). Among the criteria to be applied are economic (especially measures that contribute to the revival of economic activity and employment), fairness, and sustainability – in economic, social and environmental terms (p. viii).

This report builds on a March 2009 NESC report, *Ireland's Five-Part Crisis: An Integrated National Response,* in which it was argued, *inter alia*, that we needed to correct our public finances, broaden our tax-base, re-establish export-led growth, restore competitiveness, address the issue of public sector reform, create a new regulatory regime and governance culture in our financial and business systems, and combine retrenchment with reform.[9]

The October 2009 report by NESC notes that in relation to the banking crisis there was a need 'to ensure that policy measures provided protection to the increasing number of households with mortgage arrears'. It drew attention to the need to convince those in Irish society who were being

called on to make sacrifices for the common good that the leaders of financial institutions, who were major beneficiaries of the boom, 'are being held accountable and bearing their share of the adjustment burden' (p. 8).[10]

The experience of small countries such as Sweden, Denmark, Finland and the Netherlands, which have shown themselves able to recover from set-backs and reach impressive levels of economic and social achievement, is noted as a reminder that economic difficulties can be the spur to innovation and change in public systems (p. 14).

The NESC report is strong on having an integrated approach that starts from a vision of what we want and then coordinates the different parts of a response. It will not do, for example, to tackle the deficit in public finances in a way that damages social equity or disregards the effects on employment – the economic and social focus needs to be embedded in fiscal policy. The report itself does not articulate the vision in question,[11] does not take up a position on whether constant economic growth is possible or desirable, and has surprisingly little to say on 'green' issues, in the main simply referring to other reports.

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Official Government Policy: Building Ireland's Smart Economy

Both the Comhar and NESC reports refer frequently to the December 2008 document, *Building Ireland's Smart Economy – A Framework for Sustainable Economic Renewal 2009–2014*, which is the central plank of Government policy for economic recovery, with the partnership agreement, *Towards 2016*: *Ten-Year Framework Social Partnership Agreement 2006–2015*, in the background.

The core idea running through the Framework document is that of the 'smart economy', described as combining the 'successful elements of the enterprise economy and the innovation or 'ideas' economy, while promoting a high-quality environment, improving energy security and promoting social cohesion' (p. 32). The aim is 'to restructure our economy so that we can be in pole position when the global recovery begins' (Foreword by An Taoiseach). The Framework does not seek to be comprehensive but rather aims to identify some of the specific actions to be taken in the short-term in order that we 'can return to sustainable growth in the medium-term' (Foreword), a growth that is envisaged to be export-led (p. 7).

These actions include restoring stability to the public finances, restoring competitiveness to the economy, heavy investment in research and development, a new 'green deal', the development of a first-class infrastructure, reform of the public service and optimising the all-island context of our State. The Report, teeming with ideas, details and action points, includes a commitment to help people who face difficulties with mortgage repayments (pp. 55–6) and to reform the legislative framework for financial services (pp. 58–9).

In an interesting section (3.6, pp. 90–91) the issue of how environmental factors may be integrated into traditional economic performance measures (GNP and GDP) is broached. The desirability of this integration – so as to overcome the inability of GNP and GDP, as now calculated, 'to measure the sustainability of an economy and a society' (p. 90) – is acknowledged, as is the fact that 'currently there is no initiative in Ireland to measure sustainable development systematically and the necessary data for such calculations are difficult to obtain' (p. 91).

The Action Point arising from this discussion is that the 'Central Statistics Office will develop more comprehensive measures of Sustainable Development in Ireland to take account, in particular, of the environmental impact of economic development' (p. 91).

There are many good ideas in this report, not least the more serious commitment to a 'green' economy, already beginning to be implemented in government policy, including the commitment to broaden the standard measurement for economic growth by the inclusion of environmental factors.

One wonders, however, if the essential[12] but limited managerial approach apparent in the report really takes seriously the issues raised by what caused the recession and hence the need for economic development to follow, and not determine, the kind of vision of society that we want, the kind of 'growth' we should aim for in the future.

So, for example, when one reads that 'light and adaptive regulation' is an attribute of the Smart Economy (p. 34), one thinks of the behaviour of banks and financial markets under so-called light-touch regulation. Similarly, when 'an equitable society' is also dubbed an attribute, one wonders how this squares with the objective to make Ireland 'the innovation and commercialisation capital of Europe … a highly-attractive incubation environment for the best entrepreneurs in Europe and beyond' (p. 38). Without any mention of higher tax or salary caps, surely talk of equity and social cohesion remains merely aspirational? And, again, how do we combine an export-led approach with a green economy?

We will think more radically if we are convinced that the recent status quo was both unconscionable and against our own interests

Conclusion

It is often said that radical, even utopian-like, ideas are at first mocked, then fiercely contested, until finally they become the new common sense and we then wonder what all the fuss was about. It is heartening that in Irish Government policy there are significant reformist dimensions.

However, one wonders if the policy is not too dependent on conventional expectations of a 'global recovery'? Is our 'smartness' not too inclined to an opportunistic following of others rather than an attempt to think a little more 'outside the box' and face up to our new situation in a more independent, radical way? Why, for example, given our tradition of active involvement in developing countries, are we not leading the charge for the introduction of some kind of financial transactions tax?

We will think more radically if we are convinced that the recent status quo was both unconscionable and against our own interests. It was unconscionable because of its injustice, both globally and nationally, including, of course, the inter-generational injustice of so degrading our environment. It was against our self-interest because it did not make us happy.

It will require deep reserves of meaning to face into the prospect of a more frugal, but also more just and sustainable future. Pessimists among us might say that in the end only fear, the politics of fear, will motivate us, and that it will require more global economic shocks to convince us.

Christianity is one such reservoir of meaning. In its naming of sin it understands the human proclivity to complacency and stasis, to egoism and corruption, to manipulation and exploitation, to the social forces and structures of injustice which it calls the 'Powers and Principalities' (Ephesians, 6: 12). But it also is convinced that at its roots the world is good (God saw that the divine creation was 'good' – Genesis 1: 31), and that its fall from grace has been healed and transformed into something wonderful and beautiful by the birth, life, death and resurrection of Jesus Christ, who came that 'we might have life, and have it to the full' (John 10: 10). This is a powerful source of inspiration for the long haul ahead – a source which, through committed Christians, can be of great service to the body politic.

None of this means that, in terms of practical political judgement, what is radical is automatically to be preferred to what is reformist, or, in theological terms, that the prophetic always trumps the sapiential. But it does give us courage to ask the radical questions, to consider the issues that arise with seriousness and hope, and then take our decisions.

Let's not 'waste a crisis': let's do more thinking and talking beyond the parameters of conventional economic models. Our crisis has given us an opportunity to face these more radical questions and solutions.

Notes

1. Rowan Williams, Archbishop of Canterbury, 'Human Well-Being and Economic Decision-Making', Keynote Address, TUC Economics Conference, Congress House, London, Monday, 16 November 2009.
2. New Economics Foundation, *The Great Transition: A Tale of How it Turned out Right,* London: New Economics Foundation, 2009.
3. Gerry O'Hanlon SJ, 'A New Economic Paradigm', *Working Notes*, No. 63, March 2010, pp. 3–10.
4. *Ibid*.
5. Attributed to Rahm Emanuel, White House Chief of Staff in the Obama Administration – cited in Comhar, *Towards a Green New Deal for Ireland*, Dublin: Comhar Sustainable Development Council, 2009, p. 4.
6. *Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal*, Dublin: Stationery Office, 2008.
7. See www.nesc.ie/home

8. National Economic and Social Council, *Next Steps in Addressing Ireland's Five-Part Crisis: Combining Retrenchment with Reform,* Dublin: National Economic and Social Council, 2009 (Report No. 120).
9. National Economic and Social Council, *Ireland's Five-Part Crisis: An Integrated National Response*, Dublin: National Economic and Social Council, 2009 (Report No. 118).
10. Later, the NESC report notes a feature article on the Irish economy in *The Financial Times* (30 August 2009) which quoted one Irish government official as saying: 'Until people believe that the pain is being shared more equally – and perhaps one of these bankers or developers has to be put behind bars first – the government will always struggle to win popular backing for what they are doing.' (NESC, *Next Steps in Addressing Ireland's Five-Part Crisis: Combining Retrenchment with Reform*, 2009, p. 66.)
11. Contributors to the NESC Conference, 'Well-Being Matters', held on 7 October 2009 (with inputs from among others Professor Joseph Stiglitz, Helen Johnston and Dr Maeve O'Brien) did articulate elements of such a vision (see www.nesc.ie).
12. I note in this context a most interesting report by NESDO (National Economic and Social Development Office), *Ireland At Another Turning Point: Reviving Development, Reforming Institutions and Liberating Capabilities,* July 2009, part of the *FuturesIreland* project. The report is compiled with the help of a 23-member National Advisory Panel, a 183-member Consultative Panel (people with a track-record of creative ideas about life and work in Ireland) and four international experts. Its brief was an examination of the conditions that would support Ireland's transition to a learning society. Its central thesis is that Irish people – in business, society and public service – are ready for much greater innovation, more widespread learning and richer accountability, but the capabilities and practices that support these are inhibited by features of our organisational system (p. 5). It notes that one of the ways to meet the development challenges now facing Ireland is to move away from a compliance, centralised 'command and control' model of governance and administration to one that was more adaptive and committed to experimentation, learning from others and accountability, with leadership operating within this context (pp. 59–64). Interestingly, its picture of Ireland in 2030 was one which 'emphasised prosperity more centred on quality of life and well-being … more local decision making, new forms of community involvement, preventative medicine, tailored services available to all who need them, and experiential learning' (p. 20). See NESDO, *Ireland At Another Turning Point: Reviving Development, Reforming Institutions and Liberating Capabilities*, Dublin: NESDO, 2009 (www.nesdo.ie).

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