

BUILDING THE NEW SUSTAINABLE ECONOMY: TWO ARTICLES BY DAVID KORTEN

David Korten is co-founder and board chair of YES! Magazine, co-chair of the New Economy Working Group, president of the People-Centered Development Forum, and a founding board member of the Business Alliance for Local Living Economies (BALLE). His books include *Agenda for a New Economy: From Phantom Wealth to Real Wealth*, *The Great Turning: From Empire to Earth Community*, and the international best seller *When Corporations Rule the World*. While his writings and experience are focused on the American economy, what he has to say is highly relevant to us in Canada. While we may work at the local level to build sustainability and stability in our economies, it is important to be aware of what is happening south of the border, especially since our governments seem to be very intent on mirroring the American economy whenever they can.

1. TEN COMMON SENSE PRINCIPLES FOR A NEW ECONOMY¹

David Korten©

It's time we the people declare our independence from the money-favoring Wall Street economy. I find hope in the fact that millions of people the world over are seeing through the moral and practical fallacies underlying the Wall Street economy and—by contributing to the creation of a New Economy—are taking charge of their economic lives.

Here are ten common sense principles to frame the New Economy that we the people must now bring forth:

- 1. The proper purpose of an economy is to secure just, sustainable, and joyful livelihoods for all.** This may come as something of a shock to Wall Street financiers who profit from financial bubbles, securities fraud, low wages, unemployment, foreign sweatshops, tax evasion, public subsidies, and monopoly pricing.
- 2. GDP is a measure of the economic cost of producing a given level of human well-being and happiness.** In the economy, as in any well-run business, the goal should be to minimize cost, not maximize it.
- 3. A rational reallocation of real resources can reduce the human burden on the Earth's biosphere and simultaneously improve the health and happiness of all.** The Wall Street economy wastes enormous resources on things that actually reduce the quality of our lives—war, automobile dependence, suburban sprawl, energy-inefficient buildings, financial speculation, advertising, incarceration for minor, victimless crimes. The most important step toward bringing ourselves into balance with the biosphere is to eliminate the things that are bad for our health and happiness.

¹ Yes! Magazine, August 06, 2010

4. **Markets allocate efficiently only within a framework of appropriate rules to maintain competition, cost internalization, balanced trade, domestic investment, and equality.** These are essential conditions for efficient market function. Without rules, a market economy quickly morphs into a system of corporate monopolies engaged in suppressing wages, exporting jobs, collecting public subsidies, poisoning air, land, and water, expropriating resources, corrupting democracy, and a host of other activities that represent an egregiously inefficient and unjust distribution of resources.
5. **A proper money system roots the power to create and allocate money in people and communities in order to facilitate the creation of livelihoods and ecologically balanced community wealth.** Money properly serves life, not the reverse. Wall Street uses money to consolidate its power to expropriate the real wealth of the rest of the society. Main Street uses money to connect underutilized resources with unmet needs. Public policy properly favors Main Street.
6. **Money, which is easily created with a simple accounting entry, should never be the deciding constraint in making public resource allocation decisions.** This is particularly obvious in the case of economic recessions or depressions, which occur when money fails to flow to where it is needed to put people to work producing essential goods and services. If money is the only lack, then make the accounting entry and get on with it.
7. **Speculation, the inflation of financial bubbles, risk externalization, the extraction of usury, and the use of creative accounting to create money from nothing, unrelated to the creation of anything of real value, serve no valid social purpose.** The Wall Street corporations that engage in these activities are not in the business of contributing to the creation of real community wealth. They are in the business of expropriating it, a polite term for theft. They should be regulated or taxed out of existence.
8. **Greed is not a virtue; sharing is not a sin.** If your primary business purpose is not to serve the community, you have no business being in business.
9. **The only legitimate reason for government to issue a corporate charter extending special privileges favoring a particular enterprise is to serve a clearly defined public purpose.** That purpose should be clearly stated in the corporate charter and be subject to periodic review.
10. **Public policy properly favors local investors and businesses dedicated to creating community wealth over investors and businesses that come only to extract it.** The former are most likely to be investors and businesses with strong roots in the communities in which they do business. We properly favor them.

FIX THE ECONOMY, NOT WALL STREET²

Why regulate a broken system when we can build a better one? Welcome to New Economy 101. Financial reform is the Congressional political issue of the month. Democrats say their bill will place essential controls on Wall Street to prevent abuse and a repeat of the financial crash.

² Yes! Magazine, April 28, 2010

Republicans say it will encourage further Wall Street risk-taking by giving the big banks a guarantee of a future taxpayer bailout if reckless decisions trigger another financial crash. Each party would have us believe that its side has the better answer about how to prevent another financial collapse, limit future taxpayer exposure, and protect consumers from financial fraud. These are good objectives, but their focus is fixing Wall Street.

No one in official circles seems to be asking the more fundamental question: “How do we create a financial services sector that directs money where it is needed: toward creating living wage jobs that provide essential goods and services for all Americans in ways consistent with a healthy environment?” Fixing Wall Street, as we presently know it, will do little, if anything, to achieve what should be our real purpose. Since the September 2008 financial collapse, Wall Street has conclusively demonstrated that it is concerned only for its own profits and bonuses.

Thanks to the taxpayer bailout and a constant flow of nearly free credit to the big banks from the Federal Reserve, Wall Street is once again reporting record profits and bonuses. Main Street, which has received far more modest public support, has not been so quick to recover from the effects of the crisis: high unemployment, low wages, consumer debt, bankruptcies, and foreclosures. It is a stunning contrast not lost on the properly outraged American public.

Meanwhile Wall Street power brokers resist even modest financial reforms that might prevent a repeat of the collapse. After all, they have little reason to be concerned—they’ve rigged the system to assure that no matter how risky their actions, they will still get their bonuses and taxpayers will pick up the bill. This is a destructive system beyond repair. Generally, Republicans believe that “too big to fail” Wall Street banks should have been left to collapse as a self-corrective act of market discipline. Democrats would rather forestall another collapse by placing appropriate restraints on Wall Street excesses. On one level, I’m sympathetic to both sides of this particular debate. Another bailout is not acceptable; banks that engage in overly risky behavior *should* fail; and we need strong government action to forestall a financial crash potentially far more devastating than the one that happened in September 2008.

Neither side, however, is addressing the essential need to replace the Wall Street casino with a new financial system, one designed to provide essential financial services to the Main Street economies we depend upon to meet our daily need for jobs and essential goods and services like food, shelter, water, waste disposal, education, and public safety. Wall Street is a world of pure finance in the business of using money to make money—by whatever means—for people who have money. Any contribution to the production of real goods and services is purely an incidental byproduct.

Wall Street, in its current incarnation, has no interest in providing true financial services, except as instruments of predatory extraction. In the name of financial innovation, its institutions have perfected the arts of financial speculation, inflating asset bubbles, stripping corporate assets, predatory lending (usury), risk shifting, leveraging, and creating debt pyramids—none of which serves any beneficial public purpose. Rather than being fixed or restricted, most of Wall Street should be shut down. The institutions of a new service-oriented financial system could more efficiently and beneficially fulfill the essential financial functions that Wall Street now controls. Such a system cannot be created simply by restoring the regulations that once kept Wall Street’s tendency toward concentration and fraud in check. The system is now corrupt beyond repair. A new system of financial services institutions designed to serve and be accountable to the people of place-based Main Street economies must be built from the bottom up.

Wall Street thrives and Main Street struggles because Wall Street controls the money flow. The money system is to the modern economic system what the circulatory system is to the body. Where blood flows freely, the body's cells flourish. Where blood flow is restricted, they become anemic and may die. Real resources follow the money, so we must design the financial system to put the money where it will produce the greatest living-wealth benefit. Complicated though the details may be, the broad outline of what this means in practical terms is simple common sense.

Wall Street thrives and Main Street struggles because Wall Street controls the money flow. If you are a vulture speculator pushing the state of California toward bankruptcy by short selling California state government bonds, the Wall Street banks are there to be sure you have access to enough cheap money to make a big killing. If you are a Main Street entrepreneur serving real needs in your local economy, you're forced to borrow against your credit card at predatory interest rates. This is the money system that Congress is debating how best to stabilize.

Our investments tend to fund consolidation and speculation. But emerging new models allow us to finance the economy we really want. A proper service-oriented financial sector will feature a decentralized system of local banks and credit unions, mostly organized as nonprofits and cooperatives, that hold local deposits, clear transactions, and provide credit to productive local businesses and home buyers at fair interest rates. In this system, state and local governments would not be facing bankruptcy, because they would capitalize and operate their own banks to issue themselves credit for beneficial public projects.

At a national level, a Federal Reserve captive to Wall Street banking interests is currently giving the largest Wall Street banks interest-free loans that they in turn loan to the federal government at 3 percent interest to cover the federal deficits created by the bailout of these same Wall Street banks. Rather than using the bailout money to provide credit to Main Street businesses, the Wall Street banks have used it to pay record executive bonuses and dividends, grow even larger through mergers and acquisitions, and bet against the bonds that governments have issued to cover costs of bank bailouts and economic stimulus. None of this serves a beneficial public purpose.

Imagine how differently the economic recovery would be playing out if the federal government had taken over failing Wall Street banks and restructured them as locally owned, independent community banks and credit unions. Imagine further that it had taken over the Federal Reserve and issued itself interest-free credit, not to fund Wall Street bank bailouts, but rather to fund adequate stimulus programs that create living wage jobs in the Main Street economy—jobs doing work that meets real needs. That money would now be flowing back into local banks as deposits and savings, which these banks would then lend back into their communities. Main Street would be thriving, and Wall Street speculators would be the ones receiving foreclosure notices and hoping their unemployment benefits don't run out before they find a new job.

Current efforts by Washington politicians to limit the excesses of dysfunctional, predatory, and destructive Wall Street institutions may be well intentioned, but they are seriously misguided. The proper goal is not to avoid another Wall Street collapse, it is to replace Wall Street with a new money system designed to provide honest and efficient financial services to the Main Street economies that create real wealth.