

CHAPTER 1



LOOKING UPSTREAM

A man was standing beside a stream when he saw a baby struggling in the water. Without a thought he jumped in and saved it. No sooner had he placed it gently on the shore than he saw another and jumped in to save it, then another and another. Totally focused on saving babies, he never thought to look upstream to answer the obvious question: Where were the babies coming from, and how did they get in the water?

ANONYMOUS

Our economic system has failed in every dimension: financial, environmental, and social. And the current financial collapse provides an incontestable demonstration that it has failed even on its own terms. Spending trillions of dollars in an effort to restore this system to its previous condition is a reckless waste of time and resources and may be the greatest misuse of federal government credit in history. The more intelligent course is to acknowledge the failure and to set about redesigning our economic system from the bottom up to align with the realities and opportunities of the twenty-first century.

The Bush administration's strategy focused on bailing out the Wall Street institutions that bore primary responsibility for creating the crisis; its hope was that if the government picked up enough of those institutions' losses and toxic assets, they might decide to open the tap and get credit flowing again. The Obama administration has come into office

with a strong focus on economic stimulus, and particularly on green jobs—by far a more thoughtful and appropriate approach.

The real need, however, goes far beyond pumping new money into the economy to alleviate the consequences of the credit squeeze. We need to rebuild the system from the bottom up.

The recent credit meltdown has resulted in bailout commitments estimated in November 2008 to be \$7.4 trillion, roughly half of the total U.S. gross domestic product.¹ Congressional passage the previous month of a \$700 billion bailout package to be administered by the Treasury Department sparked a vigorous national debate that focused attention on the devastating consequences of Wall Street deregulation. Other, even larger government commitments, including \$4.5 trillion from the Federal Reserve, largely escaped notice. I'll say more about this in chapter 7, "The High Cost of Phantom Wealth." Large as the bailouts were, the failure of the credit system is only one manifestation of a failed economy that is wildly out of balance with, and devastating to, both humans and the natural environment.

Wages are falling in the face of soaring food and energy prices. Consumer debt and housing foreclosures are setting historic records. The middle class is shrinking. The unconscionable and growing worldwide gap between rich and poor, with its related alienation, is eroding the social fabric to the point of fueling terrorism, genocide, and other violent criminal activity.

At the same time, excessive consumption is pushing Earth's ecosystem into collapse. Climate change and the related increase in droughts, floods, and wild fires are now recognized as a serious threat. Scientists are in almost universal agreement that human activity bears substantial responsibility. We face severe water shortages, the erosion of topsoil, the loss of species, and the end of the fossil fuel subsidy. In each

instance, a failed economic system that takes no account of the social and environmental costs of monetary profits bears major responsibility.

We face a monumental economic challenge that goes far beyond anything being discussed in the U.S. Congress or the corporate press. The hardships imposed by temporarily frozen credit markets pale in comparison to what lies ahead.

Even the significant funds that the Obama administration is committed to spending on economic stimulus will do nothing to address the deeper structural causes of our three-fold financial, social, and environmental crisis. On the positive side, the financial crisis has put to rest the myths that our economic institutions are sound and that markets work best when deregulated. This creates an opportune moment to open a national conversation about what we can and must do to create an economic system that can work for all people for all time.

TREAT THE SYSTEM, NOT THE SYMPTOM

As a student in business school, I learned a basic rule of effective problem solving that has shaped much of my professional life. Our professors constantly admonished us to “look at the big picture.” Treat the visible problem—a defective product or an underperforming employee—as the symptom of a deeper system failure. “Look upstream to find the root cause. Find the systemic cause and fix the system so the problem will not recur.” That is one of the most important things I learned in more than twenty-six years of formal education.

Many years after I left academia, an observation by a wise Canadian friend and colleague, Tim Brodhead, reminded me of this lesson when he explained why most efforts fail to end poverty. “They stop at treating the symptoms of poverty, such as hunger and poor health, with food programs and

clinics, without ever asking the obvious question: Why do a few people enjoy effortless abundance, while billions of others who work far harder experience extreme deprivation?” He summed it up with this simple statement: “If you act to correct a problem without a theory about its cause, you inevitably treat only the symptoms.” It is the same lesson my business professors were drumming into my brain many years earlier.

I was trained to apply this lesson within the confines of the business enterprise. Tim’s observation made me realize that I had been applying it in my work as a development professional in Africa, Asia, and Latin America. For years I had been asking the question: What is the underlying cause of persistent poverty? Eventually, I came to realize that poverty is not the only significant unsolved human problem, and I enlarged the question to ask: Why is our economic system consigning billions of people to degrading poverty, destroying Earth’s ecosystem, and tearing up the social fabric of civilized community? What must change if we are to have a world that works for all people and the whole of life?

Pleading with people to do the right thing is not going to get us where we need to go so long as we have a culture that celebrates the destructive behaviors we must now put behind us and as long as our institutions reward those behaviors. It is so much more sensible to direct our attention to making the right thing easy and pleasurable by working together to create a culture that celebrates positive values and to foster institutions that reward positive behavior.

WORSE THAN NO THEORY

What my wise colleague did not mention is that placing too much faith in a “bad” theory or story, one that offers incorrect explanations, may be even worse than acting with no theory

at all. A bad theory can lead us to false solutions that amplify the actions that caused the problem in the first place. Indeed, a bad theory or story can lead whole societies to persist in self-destructive behavior to the point of self-extinction.

The cultural historian Jared Diamond tells of the Viking colony on the coast of Greenland that perished of hunger next to waters abundant with fish; it had a cultural theory,

PHANTOM WEALTH

Also called illusory wealth, this is wealth that appears or disappears as if by magic. The term generally denotes money created by accounting entries or the inflation of asset bubbles unrelated to the creation of anything of real value or utility. The high-tech-stock and housing bubbles are examples.

Phantom wealth also includes financial assets created by debt pyramids in which financial institutions engage in complex trading and lending schemes based on fictitious or overvalued assets in order to generate phantom profits and justify outsized management fees. Debt pyramids may be used as a device to feed financial bubbles, as in the subprime mortgage scam.

Those engaged in creating phantom wealth collect handsome "performance" fees for their services at each step and walk away with their gains. When borrowers begin to default on debts they cannot pay, the bubble bursts and the debt pyramid collapses.

Those who had no part in creating or profiting from the scam are then left to absorb the losses and to sort out the phantom-wealth claims still held by the perpetrators against the marketable real wealth of the larger society. It is all legal, which makes it a perfect crime.

REAL WEALTH

Real wealth has intrinsic, as contrasted to exchange, value. Life, not money, is the measure of real-wealth value.

The most important forms are beyond price and are unavailable for market purchase. These include healthy, happy children, loving families, caring communities, and a beautiful, healthy, natural environment.

Real wealth also includes all the many things of intrinsic artistic, spiritual, or utilitarian value essential to maintaining the various forms of living wealth. These may or may not have a market price. They include healthful food, fertile land, pure water, clean air, caring relationships and loving parents, education, health care, fulfilling opportunities for service, and time for meditation and spiritual reflection.

Because of the essential role of caring relationships, the monetization or commodification of real wealth, which generally translates into the monetization or commodification of relationships, tends to diminish its real value. Examples include replacing parental caregivers with paid child care workers.

In contrast to a phantom-wealth economy, money in a real-wealth economy is not used as a measure or a storehouse of value, but solely as a convenient medium of exchange. A phantom-wealth economy seeks to monetize and commodify relationships to increase dependence on money; a real-wealth economy favors relationships based on mutual caring that reduce dependence on money.

or story, that eating fish was not “civilized.” On a much larger scale, the human future is now in question and the cause can be traced, in part, to economic theories that serve the narrow interests of a few and result in devastating consequences for all.

As we are perplexed by the behavior of the Vikings who perished because of their unwillingness to give up an obviously foolish theory, so future generations may be perplexed by our foolish embrace of some absurd theories of our own, including the theory that financial speculation and the inflation of financial bubbles create real wealth and make us richer. No need to be concerned that we are trashing Earth’s life support system and destroying the social bonds of family and community, because eventually, or so the theory goes, we will have enough money to heal the environment and end poverty.

This theory led to economic policies that for decades served to create a mirage of phantom wealth that vanished before our eyes as the subprime mortgage crisis unfolded. Even with this dramatic demonstration that we were chasing a phantom, most observers have yet to acknowledge that the financial speculation was not creating wealth at all. Rather it was merely increasing the claims of financial speculators on the shrinking pool of everyone else’s real wealth.

A NEW STORY FOR A NEW ECONOMY

A theory, of course, is nothing more than a fancy name for a story that presumes to explain how things work. It is now commonly acknowledged that we humans are on a course to self-destruction. Climate chaos, the end of cheap oil, collapsing fisheries, dead rivers, falling water tables, terrorism, genocidal wars, financial collapse, species extinction, 30,000

child deaths daily from poverty, and millions squeezed out of the middle class in a growing economy in the richest country in the world—all evidence of the monumental failure of our existing cultural stories and the institutions to which they give rise. We have good reason to fear for our future.

At first, each of the many disasters that confront us appears distinct. In fact, they all have a common origin that our feeble “solutions” fail to address for lack of an adequate theory. *Agenda for a New Economy* is a big-picture story, or theory, of where we went wrong in the design of our economic institutions and what we can do about it. We do, in fact, have the means to create an economy that fulfills six criteria of economic health. Such an economy would

1. provide everyone with the opportunity for a healthy, dignified, and fulfilling life.
2. bring human consumption into balance with Earth’s natural systems.
3. nurture relationships within strong, caring communities.
4. honor sound, rule-based market principles.
5. support an equitable and socially efficient allocation of resources.
6. fulfill the democratic ideal of one-person, one-vote citizen sovereignty.

A BOOK FOR THOSE READY TO LOOK UPSTREAM

Agenda for a New Economy is a book for people who are looking upstream, not to place blame, but to find real solutions to the system failure that now threatens our future. At its core,

it is about the cultural stories that shape our collective values and the institutional systems that shape our relationships with one another and with Earth. The primary focus is on the economy, because in the United States, economic institutions have become the dominant force in shaping values and choices.

The justified public outrage against the breathtaking excesses of Wall Street creates an opportunity to mobilize political support for a new economy that shifts our economic priorities from making money for rich people to creating better lives for all and that reallocates our economic resources from destructive, or merely wasteful, uses to beneficial ones. Our present Wall Street-dominated system is very effective at doing exactly what it is designed to do. To get a different outcome, we need a different design grounded in different values and a different understanding of wealth, our human nature, and the sources of human happiness and well-being. The basic design elements of the New Economy we seek are known, as I will elaborate in subsequent chapters.

We face an urgent need for a national and international discourse on economic policy that addresses the deep need for a bottom-to-top structural transformation of the economy to strengthen community and reallocate resources to where they best serve. I have written *Agenda for a New Economy* as a contribution to this discourse. I hope you will be encouraged to engage your friends, colleagues, community, and media contacts in discussion about the foundational economic policy choices at hand and will find this book a useful tool.