Note for the Sustainable Development Commission, re *Redefining Prosperity*

By John Jopling, for Feasta, the Foundation for the Economics of Sustainability,* 27 October 2003

1 Introduction

We welcome

- the Commission's recognition of the seriousness of the situation. This accords with many responsible statements made this year of which Michael Meacher's speeches at Newcastle in January and last week in his Schumacher Lecture are perhaps outstanding.

- the recognition that these are not mainstream positions and that there is an element of complacency in the Establishment (the comment that "its been hard to make much headway within Government"). Michael Meacher said on Saturday that in all his years as Minister for the Environment he had never had the opportunity of a general conversation with the Prime Minister with a view to trying to impress on him the importance of this subject.

- the Commission's intention that these issues will be an "increasingly important part of the Commission's work"

- the invitation to "commit to further involvement".

We believe that the Commission is in a unique position to make a difference. It has the advantage of a formal function, appointed by Government but not part of Government. It appears to have the confidence of Government and it is important that it should maintain that confidence.

However I have to say that looking very broadly at the *Redefining Prosperity* paper**, it is largely concerned with symptoms, not the disease, in other words it is looking at the emergent properties of a system, not seeking to analyse the design of the system and to identify its component parts.**

That, we propose, is what we now have to begin to do. We see the need for a genuine co-learning process, by the Commission, with others, including Feasta.

We have to step out of the box, to stop seeing the design of the economy as a given that can't be touched - that is what the Establishment would like us to do. But that is the path that leads to the apocalyptic scenario we all fear.

Note about Feasta

The Gaelic word feasta means 'going forward' or 'in the future' and is taken from the Irish poem 'Kilcash' that lamented the twin destruction of the Gaelic culture and oak forests of 17th century Ireland. Feasta, the Dublin-based Foundation for the Economics of Sustainability, was founded in 1998 by people who believe that human society faces an even greater challenge as the end game of the current system approaches and the harsh consequences of profligate resource use and deep inequality are felt.

Feasta's Mission is to identify the characteristics (economic, cultural and environmental) of a truly sustainable society, articulate how the necessary transition can be effected and promote the implementation of the measures required for this purpose.

Feasta has organised numerous public events and produced several publications in order to engage with mainstream society and educate public and private sector decision-makers, professionals and academics, producers and consumers alike.

The SDC's remit

includes these words:

"The Commission's role is to advocate sustainable development across all sectors in the UK, review progress towards it, **and build consensus on the actions needed if further progress is to be achieved**. Its specific objectives are to:

- review how far sustainable development is being achieved in the UK in all relevant fields, and **identify any relevant processes or policies which may be undermining this;**
- identify **important unsustainable trends** which will not be reversed on the basis of current or planned action, and **recommend action to reverse the trends;"**

If there is a duty to identify any relevant processes or policies which may be undermining the achievement of sustainable development, and important unsustainable trends, this must imply

- **a duty to inform itself** so as to be able to give this advice.

The roles of advocating and building consensus suggest the

- need **to work in a way that is effective to bring about change.**

The situation today

The global economy is expanding at an exponential rate, already causing massive destruction to our life support systems, creating increasing inequality, biodiversity loss unprecedented since the emergence of homo sapiens etc; and threatening the future of human life on Earth.

There is massive evidence that the economy is working in a grossly unsustainable way.

The cataclysmic scenario is not predictable but it is well within the precautionary principle.

These considerations are well within the purview of 'prosperity' in the context of sustainable development.

The duty of the SDC

In these circumstances it must be the duty of the SDC to

(a) take steps to study and understand the design and basic forces moulding and driving the economy (the global economy of which the UK economy is part) - ie what is it about the design of the system that is actually causing the exponential expansion of the economy, for example

- the role of the debt money system
- the private ownership of natural resources and community created values
- the status of corporations
- the use of national currencies for international trade.

(b) devise a strategy for bringing these issues into the realm of practical politics

(c) give effective advice to the government with a view to achieving sustainable development

Feasta's offer to the SDC

Feasta offers to engage with the SDC in a co-learning project

(a) to enable Commission members to examine and understand the basic economic drivers - the components of the system of which exponential growth is the emergent property

(b) for Feasta and the Commission (with others) to work out how the key issues can be brought into the realm of practical politics so as to enable the Commission to be able to discuss these issues with the Government.

Feasta's view is that there are fundamental features of the design of the system that ensure that the economy **inevitably has the effects** of which the Commission is rightly critical. Moreover these features of the design of the system are remediable.

We propose an initial meeting with JP and other commissioners to discuss the above. Feasta would not expect to be paid for the initial meeting. The nature of, and arrangements for, further consultation would need to be agreed.

The key flaw in *Redefining Prosperity*
The document rightly condemns the systemic misperception that the global economy is the reality within which human societies have to operate: this "ignores both the basic laws of thermodynamics and the natural laws on which all life support systems depend."

Where the document errs is in asserting or assuming that the purpose of the government in promoting economic growth is to enhance wellbeing. For example the fifth paragraph under the heading *5. Redefining prosperity* contains this passage
"It’s worth remembering that for governments, the **end goal** of their use of their democratic mandate is to improve people's wellbeing. The **means** available to them for achieving this are many and various, though securing as high a level of economic growth as possible has become the most important. Indeed, it's become so dominant that it's easy to forget that the ultimate purpose of this economic growth is in fact to improve wellbeing."
This is not in fact so.
The real reason why governments regard growth as desirable is that, with a debt-based money system, if the economy does not grow, it collapses. This is something all politicians are naturally and rightly extremely keen to avoid. **Growth is an absolute imperative imposed on governments by the nature of the current money system**.

Thus it is in the nature of the money system, not the choice of government, that growth must be maintained.

The debt-money system is a key driver of the compound interest/exponential growth path on which the UK economy, as part of the global economy, is currently driving humanity towards the apocalyptic scenario we now see ahead of us.

The way in which the global economic systems is designed <u>automatically</u> ensures that the economy operates in such a way that
(a) inequality is bound to increase
(b) the economy is unstable and
(c) the economy is blind to the limits of natural resources and the need for humanity to live in symbiosis with the rest of the natural world.

The way in which the economy is designed can be changed. There are many things the UK government could do to improve the design.

The debt-money system

The system is referred to in the Introduction to the Schumacher Briefing *Gaian Democracies- Redefining Globalisation and People-power* by Roy Madron and John Jopling, Green Books 2003:
"It is not widely known that almost all the money we use comes into existence, not by governments creating it, but as a result of a bank agreeing to make a loan to a

customer at interest. Only about 3% - the notes and coins - is government-made. The other 97% comes into existence as a debt owed by a customer to a bank. The effect of this is that our economies **have to grow in order to avoid financial collapse**. The debt-money system is thus the driving force behind the economy. The risk of collapse forces governments to give priority to strategies that serve the money growth imperative; and in turn, these strategies produce the unjust and unsustainable form of globalisation that we have today."

Chapter *3 "The Global Monetocracy"* expands as follows:
"The debt money system itself has been described in earlier Schumacher Briefings by James Robertson and Richard Douthwaite. They show that almost all the money we use (i.e. all except the notes and coins, which today are about 3% of the total) came into existence as a result of a bank agreeing to make a loan to a customer, at interest. This is why it is called ‘debt-money’.

This system has several extremely important consequences. First, it gives the banks a free lunch. They are, in effect, able to print money and lend it out at interest. Bank profits from this source alone in the USA, UK, Eurozone and Japan are about $140 billion per year. It is quite outrageous that the banks should have this power. Counted among public figures that have been bold enough to object are three US presidents: Thomas Jefferson, Abraham Lincoln and Franklin Roosevelt. Its many critics amongst economists have even included Milton Friedman, a favourite of Margaret Thatcher and the American Right. That the governments of Western ‘democracies’ permit the banks to continue to enjoy this massive subsidy, and for this extraordinary privilege to be off the agenda of public debate, is a tribute to the power of the ‘elite consensus’ discussed later in this chapter.

Secondly, the effect of this method of creating money is that the economy has to grow in order to avoid collapsing. In industrial countries, between 18% (Sweden) and 26% (Japan) of each year’s total output is ploughed back into investment projects. If in any year this figure falters, the economy risks entering a downward spiral. The fact that the necessary growth can be achieved only by increasing the total level of debt makes the economy heavily dependent on confidence. People borrow when they are optimistic about being able to repay with interest. Businesses borrow when they want to expand. Confidence in the future is self-fulfilling. So is the lack of it. The economy therefore constantly moves between boom and bust; it is systemically unstable.

Consider what happens if growth slows or stops. First of all unemployment appears. Firms that invested in the past in the expectation of increasing sales find themselves with surplus capacity, and consequently cancel further investment projects. This puts the people who would have designed, constructed and equipped them out of work. So for the government, no growth or slow growth means rising unemployment and, as a result, higher social welfare bills. Also, because wages, turnover and business profits fall away, it means lower tax receipts. The public finances go into the red, and the government has to choose between increasing tax rates or borrowing, thus increasing the National Debt. The policies of the party in office lose all credibility, making it unlikely to be returned at the next election.

The consequences for the business sector are even more serious. Since interest has to be paid on most of the money invested in the failed expansion projects, corporate profits tumble. This cuts share prices, and although the personal wealth of all shareholders is reduced, the fall is particularly painful for company directors with share options or large holdings. Worse, the developing recession cuts the value of their other investments too. All the assets in which they hold their wealth – investment properties, land, antiques, fine art – fall in price. Even the housing market collapses because of the rising unemployment, leaving millions with negative equity.

The worst danger of all is that the economy falls to the sort of level it reached in the 1930s and that high levels of unemployment persist for several years. This would throw the viability of the entire capitalist system into question - a frightening thought for those who owe their power to it. Not surprisingly, the possibility of a downward spiral is a prospect that terrifies governments. That is why - whatever their political colour - governments try to work closely with the business sector. In this way they can ensure that, regardless of any social or environmental damage, the economy continues to grow. The debt-money system thus forces governments to put the imperative for short-term growth above long-term considerations, such as the widening inequalities gap or humanity's relationship with Gaia.

Governments are quite open about the need for economic growth. But what they hardly ever admit is that this need is imposed by the debt-money system, let alone that this method of creating money is quite unnecessary and certainly contrary to the interests of the taxpayer and the public generally. And they will of course always contend that growth will benefit people directly, even though the opposite has been shown to be the case in many countries over the last few decades.

Nor is it true, as our current leaders invariably assert, that economic growth is necessary for human development in poorer countries. In *Complex Systems Theory and Development Practice*, Samir Rihani has provided compelling evidence that, for nations where the need for human development is most desperate, economic growth is largely irrelevant and possibly wasteful.

Furthermore, it is the banks, rather than governments, who shape the way the economy develops, because a high volume of bank lending – which the banks control - is essential if the present money system is to function. They determine who can borrow and for what purpose, according to criteria which favour those with a strong cash flow or substantial collateral. Justice and sustainability are irrelevant. The system thus favours rich people and multinational companies against smaller firms and poorer individuals. It gives an automatic advantage to the wealthy and thus tends towards ever-greater inequality. It also totally ignores Gaia.

In systems-thinking terms, the growth imperative imposed by the debt-money system is a positive feedback mechanism - a vicious spiral. It is also a classic case of leverage: the leverage that the debt-money system exerts on national economies and on the global economy as a whole leads directly to the effects we outlined in Chapter 2.

Debt-money is also the ideal instrument for imposing a stranglehold of debt on the world's poorest countries. It forces them to increase their exports, thus drawing down commodity prices for the benefit of wealthier countries. It is the basis of the global financial system in which, year after year, money flows not from rich countries to poor countries but in the opposite direction. It is the source of the system's instability, the main impact of which always falls on the poorer countries and on the poor in those countries.

Linked to the debt-money system is the use of the currencies of some of the wealthiest countries (US dollars, UK sterling, Euros, Japanese yen and Swiss francs) as 'reserve currencies', so-called because they are held by central banks as reserves. These are national currencies being used as though they were global currencies. Around 70% of all foreign currency reserves held by central banks are US dollars. In effect, the system enables a wealthy country to import goods from, or acquire assets in, a poorer country, without 'paying' for them. For example, Japan can import goods from an African country and pay for the goods in yen. These cost Japan nothing to print, or more probably, to create with an electronic entry. If those yen remain in the central bank of the exporting country, or if they are kept in a bank in Japan in an account controlled by the African country or a member of its ruling elite, or if they are used to buy investments in Japan, it follows that Japan never has to export anything in return. The effective cost to the Japanese economy is nil.

Between 1992 and 2000, the number of US dollars held as reserves by central banks around the world grew by $800 billion, an average of $100 billion a year. This constituted an $800 billion interest free loan by the rest of the world to the USA. In other words the USA has been able to buy $800 billion worth of goods and foreign assets in effect without paying for them. It has been described as a tribute, a crippling tax that the rest of the world pays to the USA. For the USA, it is another case of a free lunch.

Even that isn't all, because almost all those dollars were created by US banks as debt. Richard Douthwaite has calculated that the total return to the USA from creating the money is of the order of $425 billion per annum. This has enabled the USA to run a trade deficit in the order of $1.2 billion per day. Compare that with the figure of $343 billion for the US military budget for 2002. It is a country that has been able to build its military strength at the expense of the rest of the world - not so much a free lunch as a free army, navy and airforce.

The figure of $425 billion per annum can also be compared with the estimate by the United Nations Development Programme that $40 billion per annum over ten years would solve most of the world's problems of extreme poverty, unsafe drinking water, malnutrition, sanitation and pre- and post-natal care. Yet, while the world was paying the USA a $425 billion per annum tribute, US aid to 'developing' countries was running at around $10 billion per annum. The USA, by far the wealthiest country in the world, is the donor country that gives away by far the lowest proportion of its national product - over the last half century the proportion has declined from 0.3% to 0.1%. "What a peculiar world," comments Joseph Stiglitz, former Chief Economist of the World Bank and Chair of President Clinton's Advisory Committee on the Economy, "in which the poor countries are in effect subsidising the richest country, which happens at the same time to be amongst the stingiest in giving assistance in the world."