

# **FUTURE WEALTH: A NEW ECONOMICS FOR THE 21<sup>ST</sup> CENTURY**

by

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## **Section 2**

This section includes Chapters 5 to 10.

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Initially published by Cassell Publishers, 1989  
Now out of print

ISBN 0-304-31930-9  
ISBN 0-304-31933-3 pbk

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## Nations

This chapter is about economic thinking and policy-making at the national level. Action at that level has a vital part to play in bringing the new 21st-century economic order into existence. This may seem paradoxical.

Because economic life in the 21st century must no longer be primarily about the wealth of nations, but about wealth and wellbeing for people and the Earth, the adjustment now needed in economic thinking and policy-making at the national level is of key importance. Putting it negatively, conventional macro-economic thinking and conventional national economic policy-making are now the biggest obstacles to the emergence of an enabling and conserving multi-level one-world economy. The challenge is to develop an altogether different approach to economic policy-making and analysis at the national level.

So, although from now on the most important new frontiers for progress in economic action and thought will in many respects be at the household, local and international levels, this does not mean that changes at the national level will be unimportant. Quite the reverse. What it means is that national economies must be reshaped to operate as integral parts of an enabling, self-reliant and conserving, multi-level, one-world economic system in which household and local economies and the global economy are just as important as they are.

In the first place, each nation's economic policies should concentrate on developing a self-reliant, conserving economy for the nation as a whole. Next, each national economy—and all its institutions, regulations and policies—should provide an enabling context for self-reliant and conserving economic development by the nation's localities, organizations, households and citizens. Finally, national economies should be developed as sub-systems of the emerging world economic system; national economic policies should contribute positively to the emergence of a well-functioning and well-regulated world economy.

These three principles are closely related to one another. They apply equally to rich industrialized economies, to poorer Third World economies, and to the socialist economies of countries like the Soviet Union, China, and Eastern Europe. They apply also to such economic entities as the single European market, which the European Community countries are planning to establish in 1992.

### **Industrialized Countries**

How, then, should we set about developing more self-reliant and conserving national economies, less dependent on imports and exports than they now are?

The first step will be to secure acceptance of the basic idea, put forward in Chapter 2, that it is better for sub-systems of the global economic system at every level—national as well as local and household—not to be excessively dependent on economic factors outside their own control nor excessively vulnerable to perturbations elsewhere in the larger economic system to which they belong. This will mean getting it widely understood that a change of direction is now needed from the path of world economic development over the last two hundred years, which has involved an ever-increasing role for imports and exports in most national economies, and has thus led to a disproportionate growth of international trade in relation to world economic activity as a whole. The emphasis must now shift toward meeting a greater proportion of national needs from national work, national production and national resources, with import substitution generally taking priority over export promotion, at least for the foreseeable future. The main exceptions to this will be trade in necessary goods which the importing country cannot for natural physical reasons provide from domestic production, and cultural exchanges including personal travel and tourism.

Many of the policies needed for a self-reliant and conserving national economy will be policies that enable and encourage more self-reliant and conserving development in the informal, household and local sectors of the nation's economy, as outlined in Chapters 4 and 5. But there must also be systematic appraisals of national-level public policy in every sphere to ensure that they foster a more self-reliant and conserving national economy as a whole. These appraisals should cover policies affecting work patterns, technology, industry, agriculture, energy use and many other aspects of economic life, as outlined in Chapter 13.

Changes in present financial arrangements at the national level will be particularly important. As discussed further in Chapters 9 to 12, these should include:

- a systematic redesign of the tax system to shift the burden of tax on to activities that use resources or are environmentally wasteful,

- polluting or damaging, and away from useful work and activities that are socially and environmentally benign;
- a systematic review of public spending programmes to shift spending away from programmes that encourage or reinforce dependency or are environmentally wasteful, polluting or damaging, and into programmes that encourage and enable people to meet their own and one another's needs or are socially or environmentally benign in other ways;
  - reforms of the national and governmental accounts, to distinguish more clearly than at present between capital and revenue transactions, and to show changes for the better and for the worse in the economic, social and environmental state of the nation;
  - reforms in the annual budgeting and forward planning procedures for government revenues and expenditures, so that the options for decision can be more clearly and openly presented to parliament and the public;
  - changes in the structure and regulation of the national monetary and financial system, to make it operate more efficiently and openly as a system for allocating resources according to personal and collective needs and choices.

As back-up to all these changes, and to the campaigning and lobbying and public debate required to press them home, studies and research will be needed to show how a more self-reliant, enabling and conserving national economy might be expected to develop over the years. Much of this research should explore hypothetical scenarios. For example, what changes would have to take place and be likely to take place in the British economy as a whole (or whatever other national economy is under consideration):

- if the country were to become-more self-sufficient year by year in food, timber, energy and all manufactured goods, reaching—say—85 per cent self-sufficiency in the year 2000?
- if repair, reconditioning, reuse and recycling (the 4 Rs) were to become as important as manufacturing (in terms of value added) to the national economy by the year 2000?<sup>1</sup>
- if an unconditional basic income scheme were phased in over the ten-year period starting in 1995?
- if the present disparities of incomes and wealth between poor people and rich people were to be reduced by some specified amount by the year 2000?

Many such future possibilities should now be carefully specified for research and study in depth, so that the practical implications of moving towards a more self-reliant, enabling and conserving national economy can be better

understood, and so that feasible targets for progress in that direction can be adopted.

So far as their external economic relations are concerned, national governments should be pressed to avoid unilateral protectionism. This tends to be damaging nationally, as well as internationally, except in the very short run. International trade should be regulated by international arrangements designed to foster self-reliant national economies by giving all countries an equal level of protection against foreign imports. All countries will thus enjoy space in which to develop more self-reliant national economies, and—while being required to respect one another's space—be enabled to trade and invest with one another freely on equal terms in fair competition. This need for a new model of international free trade, appropriate to the one-world economy of the 21st century, is discussed further in Chapter 7.

### **Third World Economies<sup>2</sup>**

The peoples of many Third World countries have been becoming poorer in recent years. The countries of sub-Saharan Africa are obvious examples, but per capita incomes have also declined during the 1980s in many other countries, including Argentina, Philippines, Peru, Mexico and Brazil. For many Asian, African and Latin American countries, military conflicts and the continuing diversion of scarce resources to weaponry and military manpower, stimulated by the interventions of superpower geopolitics and the international arms trade, have not helped. But quite apart from that, the forecasts for many of the poorer countries are that, for the next ten years or so, economic growth rates will not exceed population growth.

Economic prospects in the industrialized world offer little hope for the conventional development approach in these poorer countries. Governments in the leading industrial countries claim that the 1980s have been an economic success story. But, if that is so, it has not provided the engine of growth for world economic development which, according to conventional economic thinking, would have enabled the economies of the poorer countries to develop satisfactorily. The steps now necessary to deal with the United States trade and budget imbalances, doubts over the future of the dollar as the world's main trading currency, the repercussions of these factors on other industrialized economies and their effects on the international stock markets and currency markets, the emergence of trading blocs based on the United States, Western Europe and Japan, and the broader implications of these developments for the world economy as a whole, will not help in this respect. Hope triumphs over experience and common sense in the minds of any who genuinely and sincerely expect the industrialized countries to provide the conventional engine of export-led growth for the countries of the South, at least for the next ten years. In the

normal course of events, the industrialized countries quite clearly cannot be relied upon to provide the expanded markets or the increased financial transfers that would be needed for this.

That is an objective assessment of the situation as it exists today. If, as we are suggesting must happen, the industrial countries reduce their own dependence on imports and exports and move towards greater local and national self-reliance, the consequent effect on the international economy will make it all the more unrealistic for Third World countries to rely on export-led growth as their main development strategy, and all the more necessary for them too to concentrate on local and national economic self-reliance.

These external arguments reinforce the very strong internal ones in favour of a shift of emphasis towards self-reliant Third-World-Country development. This should involve three major shifts of priority:

- investing in the productive capacities of people rather than simply in physical production technologies;
- investing in the development and conservation of natural resources and the environment;
- investing in reduced dependence on industrialized countries and the world economy for technological innovation, food imports and financial transfers.

These three shifts in priority are closely related. They parallel the comparable shifts of priority now needed in industrialized countries.

### **Investing in the Capacities of Third World People**

Human investment is more important than physical investment. The productivity of new technologies depends on the skills, intelligence, confidence, stamina and experience of the people who are going to use them. The capacity of those people to stimulate the further technological, agricultural and industrial innovation needed in local conditions is crucial for self-sustaining further development.

More specifically, the need to invest in women and children as centrally important agents of development must now be recognized and acted upon, together with the need to cushion the particular vulnerability of women and children to economic recession and the "adjustments" conventionally required by the International Monetary Fund.

Development for women, with women, by women, must be a central feature of development strategies in many countries from now on. In sub-Saharan Africa, for example, women form three quarters of the agricultural labour force, and are almost wholly responsible for household provisioning;

yet their role in the food system has been largely ignored hitherto, and sometimes actually made more burdensome, by conventional agricultural research and innovation. The case for giving higher priority to productive innovation in food-growing systems and household provisioning systems, in contrast to the conventional focus on male agricultural activities, is overwhelming. This will require special arrangements for recruiting many more women into agricultural research and extension services, for establishing women's rights to land, and for enabling women to have access to credit—as has been done successfully already in certain places.<sup>3</sup>

High birth rates and rates of population growth are closely related to family poverty; and large family size is, in turn, a cause of poverty. It is women, again, who play the crucial role here, as well as more generally in household health and in bringing up children—the vital factor in future productivity and development. Giving higher priority to primary health care and to intersectoral programmes for community health promotion, as encouraged by WHO's Health For All strategy, will bring big economic pay-offs in later years as well as immediate benefits for the women and children (and men) directly involved in these programmes. A similar re-orientation of priorities in education and technology will be needed to provide future farmers and other rural workers with the skills, equipment and competence they will need to develop the rural economy, rather than providing them with an escape route from the rural sector into the already overcrowded towns and cities. In all these linked fields— food-growing, household provisioning, health, education and appropriate technology—future strategy must enable the people of the communities concerned to play a major part in defining, with professional help, the innovations and developments they want.

### **Investing in the Environmental Resources of the Third World**

The damage done to future development prospects by failure to invest in people, and especially in the well-being of women and children, is matched by the damage caused by failure to invest in the conservation of natural resources and the environment. The threat of environmental bankruptcy is infinitely more alarming than any threat of national financial bankruptcy could ever be.

The droughts and floods and deforestations of the 1970s and 1980s in Africa and Asia and Latin America have exposed the vulnerability of the food production systems and methods of land use which conventional development has encouraged. Everywhere economic pressures—no less than demographic pressures—have led to the "mining" of land and other resources. An important aspect of resource management for the future will be the establishment of land rights, *water* rights and forest rights for local

communities, so that—quite apart from securing the survival of the peasant and tribal and forest peoples themselves— they will recover the incentive and responsibility to conserve land, water and trees for their own future use. If cutting firewood brings an immediate income while planting trees or refraining from cutting them confers no right to any future return, the continuing destruction of trees is virtually assured.

So far as the continuing destruction of the rainforests on a national and multinational scale is concerned, the whole world is now aware of the dangers that this is creating for us all. The international action needed to enable countries like Brazil and Indonesia, and other Third World countries, and even regions like the Arctic, to break through to an ecologically sustainable path of development—not based on quarrying their natural resources for export—is discussed in the following section of this chapter.

The agriculture of Third World peoples, their use of resources and the conservation of their environment cannot be directed successfully by transnational corporations based elsewhere, by government development agencies in capital cities, or by scientists in conventional agricultural research institutions, but only by the people who have the biggest and most direct stake in them. From now on, successful development will have to be based on a multitude of small schemes for enabling local farmers, local businesspeople, and their families to work and live more productively and more conservingly, not on a comparatively small number of big plantations, big dams, big factories and other prestige projects.

### **Investing in Economic Self-Reliance for the Third World**

We have seen that the poorer countries of the South will be very misguided if they try to rely on export-led growth in the coming years. The measures they now take to meet emergency needs, to stabilize decline, and to rehabilitate eroded economic capacity, should give preference to building up internal self-reliance rather than to increasing exports. Measures designed to reduce the spending of foreign exchange will be preferable—other things being equal—to measures designed to increase the earning of foreign exchange. The right strategies closely resemble those outlined in Chapter 5 for the more self-reliant development of local economies. Third World countries should rely as much as possible on domestic savings rather than on external investment capital, and they should encourage production and consumption patterns which minimize the use of foreign exchange.

Internally, this will entail many changes, such as the following:

- new patterns of co-operative self-reliance, embodied in new productive associations between the primary agents of development—that is men, women and children in their own local communities;



- new rights and responsibilities of local communities in respect of the natural resources on which their future depends;
- new enabling relationships between professional people (agricultural, medical, technical, etc.) and the people for whom and with whom they are working;
- new forms of intersectoral co-operation on local developments in agriculture, health, education, industry, technology, etc.;
- a new emphasis on rural, as contrasted with urban, development;
- new less dominant and more enabling relationships between governments and people; and
- a new enabling role for transnational corporations.

The parallels with the approach to local economic development outlined in Chapter 5 will be very clear.

Externally, attempts by Third World countries to de-link—at least to some extent—from the international economy, and especially from economic dependence on industrialized countries, face two problems. The first is how to pay off—or write off—existing debt. The second is how to acquire the imported technologies and skills which even a development strategy aiming at internal economic self-reliance will need. As described in Chapter 5, it is one thing to borrow external capital for investments that will generate foreign exchange earnings to service the debt so incurred. It is quite another to borrow it for investments designed to make foreign exchange earnings unnecessary. How, in the latter case, is the debt to be serviced?

It is sometimes suggested that Japan might be willing, even eager, to invest Japanese trade surpluses in a "new Marshall Plan" for the Third World, instead of in other industrialized countries including the United States. There would indeed be a nice paradox here: Japan, whose export-led growth strategy has been such a resounding success, helping less successful countries to reorientate their economies toward a strategy of import substitution and economic self-reliance. There would also be an interesting symmetry. Japan, of all countries, now faces a compelling need to reorientate a growing proportion of its own productive capacity away from exports towards internal domestic consumption. However, paradox and symmetry will not be enough to solve the same old problem. If Japanese trade surpluses are invested in self-reliant internal development in Third World countries rather than in production for export, how—without earning any additional foreign exchange—will the recipient countries be able to service and repay or otherwise provide a return on these investments? Is it

suggested that all this Japanese investment should take the form of free gifts and grants?

There is no escaping the truth, much as rich-country banks and governments have tried. Somehow, the Third World countries must secure a significant easing of their present debt burden and a once-for-all injection of financial and technical aid as a gift from the rich countries. The aim should be to enable these Third World economies to achieve internal stabilization and to generate the momentum needed for self-reliant development by the Year 2000. They would then be in a position to decide, according to the internal and external conditions existing at that time, whether to try to get back to the old conventional path of export-led growth and so "re-link" with the industrialized-country economies in something like their present relationship to them, or to continue on a path of local and national economic self-reliance, or to adopt whatever mix of the two seems likely to suit them best.

There are strong arguments, of both equity and self-interest, why the rich countries should now ease the burden of Third World debt and invest a further once-for-all gift of financial capital and technical aid in self-reliant, ecological Third World development.

In developing their own economies in the 19th and early 20th centuries, Britain and the other industrialized countries of the West enjoyed much more favourable circumstances for development than most Third World countries do today. As increasing agricultural productivity drove people off the land, and as—in the early stages of industrialization—birth rates rose and death rates fell, there was room for the surplus population of Britain and other such countries to migrate not only to the cities of their own country but also to many other parts of the world. Moreover, there were then no ecological constraints on industrialization. No-one ever demanded that early industrial Britain should stop cutting down its forests and polluting the air. No-one had heard of the ozone layer or the greenhouse effect. No-one worried that uncontrolled development in 19th-century industrializing Britain might damage people elsewhere in the world. Finally and perhaps most telling, many of today's industrialized countries—as dominant trading powers in the 17th and 18th centuries—drew capital for their own subsequent development from the profits of exploitative foreign trade, including the slave trade, with the countries of Africa, Asia, the Pacific and the Americas; and later, as colonial powers, they continued to draw capital from, and exploit tied markets in, many of those countries. This historical debt remains to be repaid by the industrialized to the less developed countries.

Self-interest argues strongly that the peoples of the rich countries should now, repay this debt. Unless we can find an effective way to help the billions of people in the poorer countries of the world to break through to self-reliant,

conserving, sustainable forms of development in the next decade, the whole world will face ecological and economic breakdown. The peoples of the rich countries must compel their leaders to understand this and act upon it in the 1990s.

This whole question of Third World development is closely bound up with questions about the future regulation of international trade and aid and finance, including international taxation. These are discussed in Chapter 7.

### **The Soviet, Chinese and Other Socialist Economies**

The unprecedented changes now taking place in the Soviet Union and the countries of Eastern Europe will clearly help to shape the 21st-century economic order. Future economic developments in China will have just as powerful an impact in the long run. But at present it is hard to see precisely how what is happening in the socialist economies will affect the prospects for an enabling and conserving world economy.

At first sight, the changes that have been taking place in these socialist economies in recent years seem to have consisted largely of attempts to liberate the market forces and consumerist forces associated with the capitalist West. Chinese television, at least until the latest upheaval, has been given over to advertising consumer goods, and millionaires have been asking to join the Chinese Communist Party. In the Soviet Union private entrepreneurs are building up fortunes under the guise of "co-operatives". As Gorbachev put it in "Perestroika": "the essence of what we plan to do throughout the country is to replace predominantly administrative methods by predominantly economic methods."<sup>4</sup> And the Chinese leadership was talking of a move to a "socialist commodity economy", a phrase in which "commodity economy" more clearly signified a shift in favour of market forces than "socialist" signified how market forces were to be qualified.<sup>5</sup>

However, both the Soviet and Chinese leaderships have been adamant that they are not simply reverting to capitalism. As Gorbachev put it, again in "Perestroika": "We aim to strengthen socialism, not replace it with a different system. What is offered to us from the West, from a different economy, is unacceptable to us. We are sure that if we really put into effect the potential of socialism, if we adhere to its basic principles, if we take fully into consideration human interests and use the benefits of a planned economy, socialism can achieve much more than capitalism."<sup>6</sup> The Chinese leadership was insisting similarly that the "concept of socialist commodity economy is a breakthrough in the economic theory of Marxism, a development of theory and practice in scientific socialism".<sup>7</sup>

So, although the socialist economies have so far seemed even less open than Western industrialized or Third World economies to the idea of a 21st-

century economic order based on enabling and conserving, this may reflect their particular circumstances at the present time—and also, perhaps, our lack of close contact with their thinking. That socialist-country leaders insist that their economies are not simply falling into line with the prevailing economic orthodoxies of the West is important. At the very least it means that influential actors in the world economy are looking for something new. But we do need to strengthen contact with people in the socialist countries, wherever this is possible, to learn how much potential support there is there for the kind of new enabling and conserving economic order we are proposing.

There is certainly support for some aspects of it. One of the things Gorbachev said in his important speech to the United Nations in New York in December 1988 was that "the world's economy is becoming a single organism, and no state, whatever its social system or economic status, can develop normally outside it." That is not very far removed from the idea of a multi-level one-world economy. The need for environmental conservation is now very widely accepted, though not yet very effectively acted on, in the socialist economies. There is a lot of potential scope for co-operation on new economic thinking there. The emphasis we place on the need and scope for the exercise of economic responsibility and power at the personal level, and for enlarging the economic role of the household sector and the informal sector, may present difficulties for socialist ideology—as it does for died-in-the-wool capitalists. But this just emphasizes that a priority for the 1990s will be, whenever possible, to identify sympathetic non-governmental organizations to work with in the socialist countries, of the types which—both in the West and in the Third World—have been making the running in this field.<sup>8</sup>

### **The Single European Market, 1992**

The twelve member countries of the European Community aim to achieve a single market by 1992. This will involve removing all obstacles to the free movement of goods and services, capital and labour between member countries, and harmonizing their regulations and tax systems to provide fair trading conditions across their national boundaries. Progress towards achieving this in 1992 is gathering momentum.

Some of the issues raised by Europe 1992 concern future developments in the world economy. Those will be dealt with in the next chapter. Here we are concerned mainly with the issues which Europe 1992 raises for the national economies involved.

The stated purpose of the single European market is the expansion of conventional economic growth. The main emphasis—at least so far—is on

creating a Europe for businessmen, from whom all good things are supposed to originate. Environmental and social considerations are regarded as subordinate.

As yet there has been no serious suggestion by European governments that Europe 1992 should be used as an opportunity to enable the people and communities of Europe to take more control over their economic lives or as an opportunity to create for the people of western Europe an economic way of life that would be more conserving of natural resources and the environment. As yet there has been no suggestion from European governments that this consolidation of a European-level economic entity should be accompanied by the emergence and recognition of more self-reliant economic entities at the subnational level too. The main disputes so far have been about the possibility that the new Europe might be dominated by multi-national bureaucrats instead of multi-national businessmen, and about the extent to which national economic functions should be transferred to Brussels: should national currencies, for example, be replaced by a single European currency, and national central banks by a single European central bank?

Our main task for the 1990s is not to obstruct the emergence of a more unified economic entity at the European level. It is to help to shape its development into something different from what is now proposed.<sup>9</sup> Looking outwards, the European Community should evolve into a continent-level component of the 21st-century multi-level one-world economy. Looking inwards, it should evolve into a framework that will encourage the nations and localities within it to develop more enabling and conserving economies of their own. What this means in practical detail, and how it is to be brought about, are questions on which a great deal of work is needed. Two examples are the following.

By the first decade or two of the 21st century, most of the economic functions traditionally carried out by nation states will have their counterpart at the European level. These include public expenditure and taxation, together with currency management and the other functions of a central bank. However, this need not and should not mean that these functions cease to be carried out at the national level. We should envisage their being carried out at all levels—global, continental, national and local. Indeed, they should be designed that way as a means of articulating the autonomous but interdependent functioning of the multi-level one-world economy's component parts. Study and discussion will be needed through the 1990s of how the functions of taxation, public expenditure, currency and central banking will best be dovetailed with one another at European, national and local levels—and at the global level also.

The second question specifically concerns public expenditure. I touched on it in Chapter 5. After 1992, according to existing proposals, public purchasing will be thrown open to "fair competition" on a Europe-wide basis. "Fair competition" is interpreted as meaning that national and local government

agencies in the member countries will be prohibited from using their purchasing power—i.e. money belonging to the people of their own nation or locality—to favour suppliers from their own nation or locality, even if this clearly contributes to the wellbeing of the national or local economy. The same prohibition will not apply to the purchasing decisions of business organizations, however large. Given the public service functions of government and the profit-making functions of business, this is clearly perverse.

There is, of course, a problem. If all national and local government agencies had *carte blanche* to use their purchasing power in favour of suppliers from their own nation and locality, this could result in rapidly spreading protectionism—and even favouritism and corruption. Effective democratic control over public spending will help to avoid that danger. But it may also be desirable to build into the European economy a uniform differential in favour of local suppliers and national suppliers, when they tender for contracts from local and national purchasers. This would make it easier for local and national suppliers to compete for public contracts in their own locality or nation, while establishing uniformly fair conditions of competition throughout Europe between businesses in different localities and different nations. An approach to this question was suggested in Chapter 5, in the context of local economies. The same point is discussed in the next chapter, in the context of international free trade.

In the next two or three years up to 1992 there will be increasing public debate in all the European countries about the impending single European market, and especially about its social and environmental implications. It will be important to use this opportunity:

- to mount a programme of research and discussion on what an enabling and conserving European economy for the 21st century will look like, and what should be done to bring it into existence;
- to build strong working links with non-governmental organizations and groups in other European countries that share the same aim;
- to establish regular contact with those people working in the institutions of the European Community and other European institutions who are sympathetic towards the local, social and environmental aspirations of the peoples of Europe.

As 1992 approaches, and then as the first results of the single European market begin to make themselves felt in the years between 1992 and 1995, there is likely to be a rising tide of protest and an increasingly widespread and powerful backlash against the whole idea of a multi-national businessman's Europe which is socially damaging and environmentally destructive. It will be important to be ready by, say, 1993 with a well-worked

out and well supported scheme for transforming the European Community—through the rest of the 1990s—into an enabling and conserving framework for the national and local economies of Europe.

## Notes and References

<sup>1</sup> John Davis has powerfully argued that the substitution of the 4Rs (repair, reconditioning, reuse and recycling) for a proportion of manufacture must be an essential part of a new direction of economic development. See, for example, John Davis and Alan Bollard, *As Though People Mattered: A Prospect For Britain*, Intermediate Technology Publications, 1986.

<sup>2</sup> This and the following sections of this chapter originated in a set of papers on "New Modes of Co-operation: How and Why" by The Other Economic Summit on prospects for development in Sub-Saharan Africa, which I presented to an international symposium held in Geneva in 1987 by the Association Mondiale de Prospective Sociale (AMPS). The symposium, attended largely by francophone Africans, was organized and chaired by Professor Albert Tevoedjre —the then Secretary-General of AMPS, who is now President of the Pan-African Social Prospects Centre in Porto Novo, Benin.

I should also mention two Institute of Development Studies papers by Robert Chambers which I have found particularly illuminating—No. 227 of December 1986 on "Normal Professionalism, New Paradigms and Development", and No. 240 of December 1987 on "Sustainable Livelihoods, Environment and Development: Putting poor rural people first". And, of course, the Brundtland Commission's report—*Our Common Future*, OUP, 1987—is essential background.

<sup>3</sup> A good example is the SEWA Bank (Self-Employed Women's Association, SEWA Reception Centre, opposite Victoria Garden, Ahmedabad, India). Women's World Banking (684 Park Avenue, New York, NY 10021) provides international banking support for women's grass-roots banks like the SEWA Bank.

<sup>4</sup> Mikhail Gorbachev, *Perestroika: New Thinking for Our Country and the World*, Harper and Row, 1987, p. 88.

<sup>5</sup> Prof. Tong Dalin, Vice-Chairman and Secretary-General of the Chinese Society for Research on Restructuring the Economic System, explained this approach in a paper on "Reform, Opening, and the Movement to Emancipate the Mind in China", which I heard him give at a conference in Beijing in September 1988. The title of his paper is ironic, after the events of June 1989.

<sup>6</sup> Mikhail Gorbachev, *ibid.* p. 86.

<sup>7</sup> Prof. Tong Dalin, *ibid.*

<sup>8</sup> In 1989 the New Economics Foundation made valuable contacts with Soviet economists Vladimir Kollontai and Mikhail Lemeshev.

<sup>9</sup> In 1989 the New Economics Foundation initiated work on the new economics implications of the European Single Market. The *"New European' Quarterly Review* (14/16 Carroun Road, Vauxhall, London SW8 1JT) contains valuable, thought-provoking articles.



## 7

## The World Economy

In recent years the world economy has devastated the lives of millions of innocent people, it has been transferring resources systematically from poor countries to rich countries, and it is destroying the Earth. It is disabling and ecologically destructive. How can we turn it around and make it enabling and conserving?

The first problem is that the workings of the world economy are made to seem so complicated that most people give up trying to understand them. This suits many of the international bankers, businesspeople, officials, politicians and economists most closely involved. Having served their apprenticeship in this rewarding field, and having been associated with what has been happening in it, they have a vested interest in keeping it to themselves.

It is therefore a top priority for us to:

- clarify in our own minds how we think the world's economic institutions should work and how they now need to be reformed, and mount a worldwide campaign of public discussion about it;
- find ways to persuade the experts to say how they think the world economy should now develop, in words people can understand;
- recognize nonetheless that what many of the experts have to say, imprisoned as they are in governmental, financial, business and academic institutions, each with their own self-regarding agendas and specialist spheres of expertise based on the past, may be less constructive than the sustained exercise of our own common sense and common morality.

The key point is that the world economy has now become a single economic system. What happens in one part of the world increasingly affects what happens in others. Raising interest rates in rich countries raises the cost of Third World debts, so increasing the transfer of resources to rich countries

from poor countries, aggravating the poverty of poor people in poor countries, and pressurising them to use up and damage their natural resources and environment. The acid rain caused by power stations in Britain kills trees in Scandinavia. People eating hamburgers in the North causes tropical forests in the South to be cut down for cattle ranching. Destruction of tropical forests causes global climate change. In countless such ways as these, the economic responsibility of people in one part of the world for what happens to people in others is growing all the time. The long-term task, therefore, is:

- to design international rules and institutions and practices which will reflect the reality of a one-world economy, and which will systematically encourage enabling and conserving ways of economic life in every part of the world; and
- to evolve these rules and institutions and practices over the coming years out of what exists today.

The resulting new structure of international economic organization should foster a sustainable but developing world economy: enabling, not dependency-creating as today; socially just, not biased towards towards the richer and stronger countries as today; and conserving, not wasteful, polluting and destructive of natural resources as today.

### **A Multi-Polar Economic World: Two Scenarios**

Recent and current developments in the world economy create the context in which we must tackle this task.

In the past two centuries, the workings of the world economy have reflected and reinforced the dominant economic position of one nation. In the 19th century it was Britain, and the principal international currency was sterling. Since the mid-20th century it has been the United States, and the principal international currency has been the U.S. dollar. As each of these two nations in its time dominated world trade and finance through its relative supremacy in industrial and financial affairs, its currency became acceptable to other governments as a medium in which to hold their financial reserves, and to other countries' businesses and governments as a medium of international exchange. As each of these two nations thus became world banker, it benefited, as the USA still benefits today, from the real resources transferred to it from other countries in exchange for its currency. This is one of the many features of today's international economy that systematically transfers resources from poorer to richer countries.

This era of single nation predominance is now coming to an end. As American economic hegemony wanes, no successor nation is in sight. Japan, the European Community, the Soviet Union, China, India—none of these

seems likely to take the place of the United States as world economic leader. Nor is single nation predominance giving way to bi-polarity. World economic dominance is not going to be shared between the United States and the Soviet Union, as they have shared world military dominance for the past few decades. As the 21st century approaches, the world economy is moving into a more pluralistic, more genuinely international phase.

How will this work out? There are two main possibilities. We can think of them as Oligarchy and Democracy.

Oligarchy is a scenario in which the world economy develops into, and is managed by negotiation between, a small number of powerful trading blocs. Though the precise details are not important at this stage of the discussion, the blocs would be on something like the following lines.

*West European:* European Community, with special links to some resource-rich former colonies.

*American:* United States, Canada, Mexico, Central America and Caribbean, with special links to certain other countries like Korea, Taiwan and Israel.

*Japanese:* Japan, ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand), Australia and New Zealand.

*Russian:* Soviet Union, East European members of COMECON, and possibly India. *The Rest:* China, Latin America, and the rest of the Third World.

The Oligarchy scenario now seems in some respects more probable and in some respects less probable than it did a few years ago. The single European market planned for 1992 and the recent U.S./Canada free trade agreement look like steps towards it. Developments in the Soviet and Chinese economies and their opening to the outside world—at least, in the case of China, up to June 1989—seem to point in the other direction.

The Democracy scenario, which is the one we favour, does not ignore the undoubted tendencies towards these larger trading blocs. But, as outlined in Chapter 6 with reference to the European Community, it requires them to be prevented from becoming inward-looking and protectionist, which would merely result in the richer peoples of the world continuing to rig the conditions of trade against the rest. It envisages the emergence of these supranational areas within which conditions of free and fair trade have been established as one of the possible steps towards a more fairly and efficiently organized one-world economy.

For that to be so, however, it will be necessary—as the Democracy scenario envisages—for there to be further developments in international economic institutions. Those now existing were set up at Bretton Woods after the Second World War. They now need to develop the whole range of functions—wider and more closely articulated than today—which, in an

enabling and conserving one-world economy, will need to be carried out at the global level. These functions include taxation and public expenditure, currency management and the other functions of a world central bank, and the regulation of international finance, business activity and trade.

### **World Taxation and Public Expenditure**

The functions which taxation should be designed to perform at the global level are the same as at other levels:

- to raise the revenue needed for public expenditure;
- to encourage economic self-reliance, useful enterprise, and the conservation and efficient use of natural resources, and to discourage and penalize waste, pollution, nuisance and crime; and
- to redistribute financial resources from rich to poor.

The amount that needs to be raised by taxes at the world level will depend on how world public expenditure develops (see below). With that in mind, research and discussion is needed on the detailed feasibility of various possible taxes, including:

- international taxes on activities that exploit international resources, such as ocean fishing and sea-bed mining;
- international taxes on activities that pollute and damage the global environment, or that cause hazards across national boundaries, such as destruction of the ozone layer, acid rain, dumping of wastes at sea, and nuclear power;
- a uniform international tax on imports between one nation and another;
- a uniform international tax on international currency exchanges, that is exchanges between one national currency and another, or between national currencies and a world currency.

Whether a single market, such as the European Community after 1992, should be treated as a nation for any or all of these purposes, is one of the questions that will have to be agreed between it (and its member nations) on the one hand and the rest of the world community on the other.

The last two of these proposals—for international taxes on imports and currency exchanges—have been mentioned already. They embody the principle that all economic entities should be enabled to enjoy a degree of insulation against domination by external economic forces and against external economic perturbations over which they themselves can have no

control. The case for some such buffering or insulating mechanism to provide national economies with an agreed level of protection, within a world trading system that could then be much freer than today's, was strongly argued by Keith V. Roberts in his privately and posthumously published *A Design for a Market Economy*.<sup>1</sup> Roberts suggested that the whole of the present worldwide system of domestic tariffs and international trade restrictions might be replaced by a single international tax on imports. He suggested a 20 per cent tax, together with an international duty of 1 per cent on all international currency transactions. But he stressed that those figures were given only as a basis for discussion. "The tax would be paid by the importer to an international body, such as the IMF or the World Bank, and the total receipts would then be credited to the account of member governments in proportion to their national populations. This would automatically provide aid to the Third World at a level of between 3 per cent and 4 per cent of the total world income."

Roberts based his proposal for such a buffering mechanism on systems theory. As he put it, "To use a mechanical or electrical analogy, coupled sub-systems are most stable when the coupling is rather weak. When the degree of coupling exceeds a certain level, the whole system can become violently unstable". If completely free international trade were ever to be realized—which in practice it never has been and never will be—it would almost certainly create a violently unstable world economy. The world trading and financial system should be designed to buffer its component parts from the dangers of such instability, and otherwise to leave them free to compete with one another on fair and equal terms in export markets. If, as a bonus, the best way to do this provides international tax revenues for redistribution in favour of poorer nations, so much the better.

As Chapter 4 pointed out, the same principle can be applied to individual people through a Basic Income Scheme. An unconditional basic income will provide people with space, within which they will enjoy a degree of protection from the full rigours of economic competition, and outside which it will therefore be possible for a much freer labour market system to operate than today's. The need for a comparable arrangement for giving local economies space, within which they can enjoy a degree of insulation from the competitive rigours of the national economy, was mentioned in Chapter 5.

Future developments in world public expenditure will depend on how the functions of the United Nations and the whole range of its associated global agencies, such as the World Health Organization, Food And Agriculture Organization, UNESCO, and so on, develop in the 21st century. This is too large a question to go into here. As the 50th birthday of the United Nations in 1995 draws nearer, interest should begin to focus on the prospects for its second fifty years and for the further evolution of the functions of

international government at the global level. For that reason—and others—we may expect discussion to intensify within the next few years about the U.N.'s role in the first half of the 21st century, and about providing the expenditure to support its expanding activities.

Over the longer term an increasing proportion of U.N. and associated expenditure seems likely to be financed by regular sources of international tax revenue. A World Tax Authority will probably be needed to administer these. Some of the revenue—e.g. from international imports and currency exchange taxes—may be used, as suggested above, to finance transfer payments to poorer countries as an automatic, unconditional form of what is now called "aid". Some of it—e.g. from taxes on international resources and pollution—may be used to finance the international inspectorates needed to monitor the depletion of international resources and other aspects of the international environment. These are among the matters now urgently needing research and debate. New methods of financing international governmental expenditure at the global level, e.g. by the U.N. and its agencies, will undoubtedly be a significant feature of the 21st-century one-world economy.

### **A World Currency**

The U.S. dollar is now the world's main international currency. It is used for international trading and financial transactions. International loans are mostly made in dollars. Countries hold their financial reserves in dollars. But this will not continue for very much longer. There are technical reasons for this, connected with the continuing U.S. trade and budget deficits. But underlying these is the more basic fact that the United States no longer dominates the world economy as it did after the second world war and as Britain did in the 19th century.

Theoretically, it might perhaps now be possible for a multi-currency form of world financial and monetary management to evolve as an aspect of the Oligarchy scenario. International monetary holdings and transactions are now computerized, and exchanges between one currency and another can now be effected almost automatically, using up-to-the-minute calculations of their relative values. This might make it feasible for several leading currencies—e.g. ecu, dollar, yen, rouble—jointly to perform the functions of international trading and reserve currencies, at least for a time. This is a possibility that could usefully be explored. But I believe that what is needed is a new world currency, to be introduced as one of a wider package of reforms in the international financial and monetary system.

This being so, a key task for the 1990s is to study and discuss the feasibility of a genuine world currency, to be used in parallel with national (and continental) and local currencies. It should probably be based on a "basket"

of major national currencies, much as the ecu (the European currency unit) is based on a basket of European Community member currencies. It should probably be issued, much as Keynes originally proposed at Bretton Woods in 1944, in the form of credits to national governments. In the first instance it should probably be issued to the governments of poorer countries as part of a package of measures for eliminating their debts and investing in their self-reliant development, as proposed in Chapter 6. It should probably be issued by a new world monetary authority (or world "central bank"). This might be evolved out of the International Monetary Fund and the Bank for International Settlements. One of its main jobs will be to manage and supervise the use of this new currency in the international economy.

These possibilities should be urgently studied and debated. They are among the changes now needed in the international financial and monetary system to bring up to date the arrangements which were agreed at the Bretton Woods conference in 1944 and introduced in 1945 after the Second World War.

## **International Trade<sup>2</sup>**

What role will be played by international trade in an enabling and conserving world economy? We need to go beyond the old arguments about free trade and protectionism, and it is important to get the principles clear.

We should start by recognizing that the world has never had a genuinely free and fair trading system. Ever since people argued whether trade follows the flag or the flag follows trade, trade has been based on domination and dependency, and has been an instrument of them. The ideology of free trade has been used, as ideologies often are, to justify the strong in taking advantage of the weak and to persuade the weak that it is neither conceptually respectable nor in their own best-long-term interest to protect themselves.

Today's international trading arrangements are as powerfully biased as ever against the interests of poorer countries. Textiles and clothes are one of the areas in which the hollowness of rich-country rhetoric about free trade can be clearly seen. When the interests of their own producers are adversely affected, in this and other spheres of manufacturing, the rich countries settle for protectionist policies. Free trade principles and the legitimate interest of Third World producers take second place.

An even clearer example is food and agriculture.<sup>3</sup> World farming subsidies averaged \$246 billion a year in the three years 1984 to 1986. The chief offenders are the richest countries. The chief sufferers are the poorest countries. Between 1980 and 1986, farm subsidies rose from 15 per cent to 35 per cent of farmers' income in the USA, from 36 per cent to 49 per cent in

the EEC, and from 54 per cent to 75 per cent in Japan. The resulting reduction in food imports into those countries, and the resulting increase in the export of food surpluses from them at low prices, have reduced export markets for agricultural products from many Third World countries and—even worse—have seriously damaged their rural economies by reducing incentives for domestic food production.

A real danger in the coming years is that protectionist policies will become stronger in the three trading blocs crystallizing round the USA, Europe and Japan. Such policies might not only lead to trade wars between those blocs themselves. They would also be very damaging to the poorer countries of the Third World, insofar as these were still trying to export to the industrialized world or were still being required to do so in order to pay off their debts.

As a basis for a new international trading regime in the 21st century, we need to start from the following principles and explore their implications and their feasibility.

- The total volume of international trade—as a proportion of total world economic activity—should fall, as nations and localities everywhere move towards greater economic self-reliance and more conserving economies.
- This reduction in the volume of international trade should not be brought about by national governments (or trading blocs) unilaterally introducing tariffs and subsidies and quotas, i.e. by old-fashioned protectionist measures, which distort the internal working of their own economies as well as distorting the conditions of international trade.
- It should be brought about by developing a new international regulatory framework for trade—including such measures as the international imports and currency exchange taxes discussed above—which will affect all countries uniformly, and which will encourage greater self-reliance and a more conserving use of resources, while also providing a basis for free and fair international trade where necessary.

The main point is that, from now on, the evolution of the world's trading system must be linked with the concept of self-reliant, sustainable development. More specifically, it should be closely tied in with resolving the present Third World debt problem, with the introduction of international taxation and a new systematically redistributive approach to aid, with the further development of the international monetary system and the Bretton Woods institutions including the IMF and the World Bank, and with the future regulation of international business and finance.

GATT (General Agreement on Tariffs and Trade) and UNCTAD (United Nations Conference on Trade, Aid and Development) should probably now develop



into a fully fledged International Trade Organization (ITO), of the kind originally proposed in 1944. ITO should probably also take over responsibility for regulating the activities of transnational corporations (see below). ITO would then take its place, alongside the new World Tax Authority and a new-model IMF, in a tripartite arrangement for regulating international trade, taxation and finance. These possibilities need urgent study and debate. How the present World Bank and other UN development programmes and agencies will fit into the new arrangements are among the questions that need to be researched, discussed and resolved.

### **The IMF and the World Bank**

The International Monetary Fund (IMF) and the World Bank (International Bank for Reconstruction and Development) came into existence on 27th December 1945, following the Bretton Woods conference in 1944. Their 50th anniversary is due in 1994/5.

Even when they were set up, the functions defined for them reflected the problems of the past, at least to some extent. The IMF, in particular, was charged with ensuring that in the post-war world the obstacles which had bedevilled international trading relations between the industrialized countries in the 1930s—unilateral tariffs and quotas, competitive devaluations, lack of convertibility, and other impediments to foreign exchange transactions and international capital flows—did not arise again. The IMF's purpose was to foster an international trading and financial environment of the kind thought likely to suit its two main architects, Britain and the USA. Its terms of reference committed it—and still do—to promote the expansion of international trade, and to eliminate foreign exchange restrictions which hamper world trade.

Forty years on in the 1980s, the IMF has found itself dealing largely with the problems of countries which were not very much in mind when it was set up—the "developing" countries. The IMF was not intended to foster development and still disclaims any direct concern with it. But the conditions it lays down when national governments seek its help in dealing with balance-of-payments difficulties, do in fact impose on the countries concerned a development strategy based on export-led growth. For the Third World countries caught up in the debt crisis of the past decade this has meant a development strategy which locks them into deeper dependence on the industrialized countries and compels them to mine their long-term environmental resources to meet their short-term need for foreign exchange.

The effects of the IMF's ideological orientation towards the expansion of international trade has thus had a damaging impact on Third World development. It has been quite the reverse of enabling and conserving. In

practice, its ideology has led it to adopt policies geared first to the interests of bankers, politicians and bureaucrats in the rich and powerful countries, second to the interests of a rich and powerful minority in the poorer countries, and not at all to the interests of the majority of people in poor countries.<sup>4</sup>

The World Bank was originally set up to foster reconstruction and development in the post-war world. So, unlike the IMF, it is at least supposed to be concerned with development. But its approach to development, like the IMF's, has turned out to be disabling and environmentally destructive. The kind of development it has fostered has made the developing countries even more dependent on the industrialized world and on their own traditional economic role as exporters of primary commodities, raw materials and resources. The Bank's agricultural policies have—no doubt to some extent inadvertently—led to the further impoverishment of poor farmers and have made many of them landless. The Bank's urban housing projects have led to the further impoverishment of poor slum dwellers and have made many of them homeless. Many of the big development projects the Bank has supported in countries like Indonesia, the Philippines and Brazil have had a devastating effect on the livelihoods of tribal peoples, leading in some cases to their near extinction. Industrialized forestry projects and big dams and irrigation schemes have made a few rich people in Third World countries even richer, but many poor people even poorer. In practice, the World Bank's policies have turned out to be geared to the interests of bankers, industrialists, engineers, bureaucrats and politicians, and hardly at all to the interests of the majority of people in the Third World.<sup>5</sup>

The underlying reason for the World Bank's now obvious failure to have fostered the kind of development needed by most of the people in Third World countries has been suggested in earlier chapters. External investments of loan and equity capital require to be serviced and eventually repaid in foreign exchange, which can only be earned by increasing exports. Investments of that kind simply cannot lead to self-reliant development. They are bound to lead to deepening economic dependency.

In short, as the 50th anniversary of the IMF and World Bank approaches, their functions and operations (together with those of other U.N. development agencies and programmes) need to be fundamentally overhauled and reorientated. Only then will they be able to play their part in an enabling and conserving one-world economy for the 21st century.

### **Transnational Corporations**

Transnational corporations (TNCs) play a key role in the international economy. The 56 largest TNCs have annual sales ranging from \$10 billion to \$100 billion. TNCs are responsible for a very large proportion of international trade. For example, trade associated with TNCs represents between 80 per cent and 90 per cent of the exports of both Britain and the USA.<sup>6</sup> TNCs loom

large in international capital flows, and are responsible for the bulk of foreign direct investment and international transfer of technologies. By internalizing international market transactions within themselves they can by-pass many of the controls exercised by national governments. Their bargaining power allows them to negotiate with many governments from a position of strength and to play one country off against another, for example over inward investment decisions. In countries which cannot stand up to them, they can sell products and enforce working conditions which are unacceptable elsewhere. Whether we like it or not, they are here to stay—at least for the foreseeable future.

How, then, can TNCs be encouraged to play an enabling and conserving role in the world economy, and how are they to be controlled?

TNCs can be encouraged to play an enabling and conserving role, as all other companies can, by bringing market forces to bear on them within the countries where they operate—for example through people adopting the purposeful approach to work and consumption and investment suggested in Chapter 4, and through the kinds of changes in the tax system suggested in Chapter 10.

So far as control is concerned, the shift to new institutions and procedures for a one-world economy, as outlined earlier in this chapter, will provide the context needed for more effective international regulation of TNCs. Part of the problem today is that even the biggest TNCs, though they operate worldwide, are still treated as if they belong to a particular "home country" and also happen to operate in other "host countries". The time has come to internationalize them formally—at least the biggest among them—and to put their obligations towards shareholders, employees, and other stakeholders on a fully international basis.

The one-world economy of the 21st century should, in fact, be equipped with company law at all its various levels—world, as well as continental (cf. the European company) and national—and perhaps even local, for small enterprises which operate in one locality only. At the world level, a UN Code of Conduct for TNCs is now being negotiated. In due course, this Code should assume the status of international law, enforceable by an international administering authority through an international court. The appropriate administering authority might be a new International Trade Organization (see above), formed out of GATT and UNCTAD and the UN Commission on TNCs. Among the matters to be determined will be which companies should continue to be based simply on the national company laws of their home and host countries, which on international company law, and what the difference will be.

## Notes and References

<sup>1</sup> Keith V. Roberts, *A Design For A Market Economy*, Chapter 1, pp. 10-13. (Enquiries to: Mr. A.R.V. Roberts, Barn Cottage, Michelmersh, Romsey, Hants. S051 ONR—tel. 0794 68387).

<sup>2</sup> A series of New Economics Foundation seminars on Trade and Self-reliance organized by Pat Saunders of Quaker Peace and Service between January and May 1989 stimulated me to clarify my ideas on these and other issues discussed in this chapter.

<sup>3</sup> Useful articles on international agricultural trade reform by Douglas Evans are in *New European Quarterly Review* (14/16 Carroun Road, London SW8 1ST), Winter 1987/88 and Winter 1988/89.

<sup>4</sup> See Susan George, *A Fate Worse Than Debt*, Penguin 1988, for a full account.

<sup>5</sup> Mohamed Idris, Martin Khor and their colleagues at Third World Network (87 Cantonment Road, 10250 Penang, Malaysia), and Edward Goldsmith and his colleagues, in the pages of *The Ecologist*, are among those who have been drawing the attention of concerned people to the damage done in many countries by the World Bank's policies.

<sup>6</sup> For these and other facts see *Transnational Corporations in World Development: Trends and Prospects*, U.N. Centre on Transnational Corporations, U.N., New York, 1988.

## 8

## Organizations

We have now looked at the implications of an enabling and conserving one-world economy for people and households, for local and national economies, and for the international economy. Enterprises and organizations of many kinds play a crucial role at all these levels.

Most people probably think of the business company as the typical economic organization, but governmental and third-sector organizations are just as significant. Our economic lives are largely shaped by the way all these organizations operate, the rules which govern them, the ways they take decisions, the flows of money to them and from them, the relationships between the people in them, and the relationships between them and the rest of society. So the question is how economic organizations—and the corporate economy as a whole—are to become enabling and conserving. That is what this chapter is about.

There are two key points to keep in mind. First, these organizations are for people. They are how people come together to achieve shared economic purposes. Second, the present structures and workings of these organizations are—no less than the present workings of the household, local, national and international economies—based on conditions and assumptions that are now historically out of date. If the underlying purpose of these organizations and the corporate economy as a whole is to enable and conserve—to create wealth and Wellbeing for people and the Earth—rather than, say, to maximize monetary incomes and profits, big changes will be needed.

**The Boredom Barrier Again**

We noted in Chapter 1 that many people find economic discussion dismal and boring. Unfortunately, they find talk about economic organizations doubly so. Understandably. Organization talk is usually even more alienating for non-organization people than horse talk for the non-horsey or sailor talk for non-

sailors. But we simply have to find ways of breaking through the boredom/mystification barrier. The structures of the corporate economy—the circuitry of the economic system—have to be redesigned to serve the real interests of people and the Earth.

Today's economic order and today's economic thinking tacitly assume, not that organizations are for people, but that people are for organizations, as employees, customers, taxpayers, investors, clients and so on. The great majority of economists, business people, politicians, public officials, academics and journalists look at economic questions from an organizational point of view. Most of them are employed by large organizations. They see the world, and their own place and future prospects in it, through organizational spectacles. They have a vested interest in today's organizations. So, in the first instance, change will have to be initiated from outside.

We should start by understanding that, by and large, the corporate economy today is dependency-creating, not enabling. It fosters personal and collective irresponsibility for removing poverty and social deprivation, for safeguarding local interests, and for conserving natural resources and the environment. One of the two opposing trends now taking place is making these faults worse. This is the trend towards bigger and more impersonal organizations, many of which give top priority to the maximization of financial success in an increasingly competitive international marketplace. The contrary trend towards smaller, more personally orientated organizations, which—though necessarily subject to the constraint of financial viability—are more closely concerned with meeting the real-life needs of real people in real places, is the one we have to encourage.

A three-pronged approach will be needed.

First, people responsible for the functioning of large organizations must be required to concern themselves with the benefits and costs—and the rights and obligations—of all the various different groups of people affected. Instead of aiming to maximize profit or benefit from the single notional point of view of a company or a nation, they must be required to optimize from the many different real-life points of view of all the various groups of people affected. The many large organizations that will continue to exist must be made much more responsive to the needs of all the people with whom they deal. They must become fully accountable for the effects they have on people and the natural environment.

Second, whenever possible, large organizations should be encouraged to split up into smaller autonomous organizations where people can feel they belong, work closely with their fellows, and share a sense of responsibility for their organization's dealings with the outside world.

Third, it must be made easier than it is today for people to set up their own organizations. People who want to come together in joint activities of their own choice should no longer have to depend on the expensive know-how of legal and financial specialists to make the necessary arrangements. That this is now the case is partly due to the muddled complexities of business law and finance, and partly to the tendency of legal and financial professionals to mystify such matters. But it also reflects most people's lack of education or training in economic self-reliance, and their resulting lack of capacity to self-organize. This is a natural feature of a dependency culture that conditions people to depend on employers to organize their work. It is one of the obstacles to be removed in the transition to an enabling economy.

### **Make-Up of the Corporate Economy**

In order to design a well-functioning corporate economy for the 21st century, we need to understand the characteristics and functions of various different types of enterprises and organizations. To enable us to do this, we need to get organization experts to develop a comprehensive classification of organizations. That will put us in a position to discuss what mixture of different types of organization an enabling and conserving economy should contain.<sup>1</sup> For example, types of organization include:

- multinational companies and banks;
- inter-governmental organizations like the World Bank;
- national companies;
- national government organizations and agencies;
- medium-sized and small commercial companies;
- local government organizations;
- charities and other non-commercial and non-governmental organizations like churches, trades unions, and all kinds of voluntary organizations and pressure groups;
- co-operatives, community businesses, credit unions, and other participatory organizations of that kind.

The question we must never lose sight of is, What are all these organizations for? The main characteristics of any organization are closely related to the answer.

These include:

- its ownership and control;
- the nature and scale of its financial incomings and outgoings;
- its area of operations—local, national, international; and
- its size;
- the nature of its activity—mining, banking, etc.

Before we take a closer look at these, we must dispose of an important red herring. It distorts our understanding of the corporate economy today. It is the false assumption that organizations fall into two distinct categories, economic and social, productive and non-productive, wealth-creating and wealth-consuming, and that these correspond to what are known as the private sector and public sector.

These simple distinctions are grossly over-simplified and misleading. It has become increasingly apparent in recent years that all organizations have a mixture of economic and social functions. Greater social awareness and a wish to contribute to social improvement have begun to take hold in parts of the commercial (or private) sector. Competitive market forces have begun to play a greater role in the public (or governmental) sector. And third-sector organizations, with mixed economic and social goals, have begun to play a more prominent part in the economy as a whole. The corporate economy can now be seen to consist of a variety of different types of organizations each with its own defining characteristics. And it is becoming evident that, if groupings are to be made, three—not two—clearly stand out: a governmental sector, corresponding to the existing public sector; a commercial sector, corresponding to the existing private sector; and a third, socio-economic, sector whose existence is now largely ignored by conventional economic thinkers and policy-makers.<sup>2</sup>

### **What Are These Organizations For?**

The present situation is that, in practice as well as in theory, some business companies exist solely to make financial profits for shareholders. Their non-financial objectives are minimal. Other companies do, of course, have non-financial objectives—making motor cars, providing leisure facilities, or whatever. But company legislation in force in Britain today requires that, legally speaking, such non-financial objectives must be subordinate to the primary objective of maximizing the financial return to shareholders. As things now are, therefore, all normal business activity has to be orientated towards making money.

This raises many important and difficult questions for the future. How should company law be changed? Is the financial concept of profit outdated,



as I argued fifteen years ago and as I still believe?<sup>3</sup> Should it be replaced by the more comprehensive idea that the cash flows generated by an organization should be distributed between all its stakeholders in accordance with its obligations to them? What would that mean for business motivation? How would capital accumulation then take place? What would profit and capital accumulation actually mean in an enabling and conserving economy? Can profits be made at all without imposing loss on someone else or on the Earth's resources? If an enabling and conserving economy was based on inflation-free and interest-free money (see Chapter 12) what difference would that make to our notions of profit? What would happen to stock exchange activity in a non-profit economy? Without the threat of profit-directed takeovers, what effective spur would there be to business efficiency?

All these questions will need to be worked through. A start should be made urgently in the early 1990s. Meanwhile, organizations which exist not primarily to make money but whose explicit primary objective is to provide a service of some kind or to achieve something in the real world, must—strictly speaking—take a form other than a shareholder company. They can be public-sector organizations, such as:

- a government department, which exists to serve the public;
- a nationalized industry, which exists to serve the public, but not mainly at public expense;
- a local government agency, which exists to serve the local public;
- a municipal enterprise, which exists to serve the local public, but not mainly at public expense.

Or they can be third-sector organizations, such as:

- a charity, which exists to perform specified charitable functions;
- a non-profit company, which exists to perform specified non-charitable functions;
- a consumer co-operative, which exists to provide goods and services to its customers;
- a worker co-operative, which exists to provide a livelihood for its workers;
- or a community business, which exists to meet needs of the local community.

We need to step up public discussion and promote wider public understanding in the 1990s about what these types of organisation, as well as business companies, are for. How should their objectives be defined, to ensure that they are enabling and conserving? How, in particular can third-sector organizations be encouraged, since these—such as co-operatives, community businesses, and voluntary organizations with mixed economic and social and environmental objectives—should by their nature be enabling and conserving? Phased programmes with target dates through the 1990s need to be drawn up for expanding the scale of their activity.

## **Ownership, Control and Finance**

The ownership and control of organizations is closely linked with their economic and social objectives. Every organization has a range of different stakeholders—shareholders, workers, customers and so on. One type of organization tends to be controlled on behalf of its shareholders, another on behalf of its workers, another on behalf of its customers, another on behalf of the national state, another on behalf of the local state, another on behalf of the local community in which it operates, and another "mutually" on behalf of its customers and suppliers jointly. As it becomes increasingly necessary in many organizations, regardless which of the stakeholders has the controlling role, to recognize the rights of the others, the old argument between capitalism and socialism—should capital control labour or should labour control capital?—is clearly much too simple.

First, then, we need to develop more pluralistic and democratic structures of ownership and control, embodying the rights and obligations of all the various stakeholders in an organization.

Second, a piecemeal collection of special laws and regulations, difficult for anyone but specialists to understand, now governs all the various component organizations of the corporate economy, with their various mixes of financial and non-financial objectives and their various forms of ownership and control. This makes a happy hunting ground for corporate lawyers and accountants. In the 1990s we need to lay the foundations for a new, simpler, more comprehensive—and much more comprehensible—regulatory structure, systematically matched to the different economic and social objectives of different types of organization, their size, the nature of their business, and so on, and clearly defining the rights and obligations of the various categories of people who have dealings with them.

This will involve a redefinition of the financial structures of economic organizations. The financial structure of every organization reflects its ownership and control and its economic and social objectives. It affects an organization's responsiveness to the interests of its various stakeholders.

It must also be made easier for people setting up new organizations, especially in the third sector, to identify suitable sources of finance. Handbooks need to be written up for particular types of organization, showing how potential sources of finance can be matched to their potential needs, and giving guidance about how to raise "packages" of funding from varieties of different sources. New sources of finance for third-sector organizations are needed, and new channels through which people can invest in organizations of this type.

Various forms of popular capitalism must be encouraged, including wider share ownership and employee ownership.<sup>4</sup> So must various forms of decentralized socialism, including co-operatives and- community-controlled companies.<sup>5</sup>

### **Scale, Size and Type of Business**

Companies and other organizations may operate locally (i.e. in one locality), nationally (i.e. in a number of localities within one country), or multi-nationally (i.e. in a number of countries). When decisions about an organization's operations within a locality or nation are taken at a headquarters located elsewhere, the interests of people within the locality or nation take second place. The regulatory responsibilities of local, national and international government organizations in relation to local, national and multinational enterprises need to be rationalized. Work is needed to establish other ways in which local and national citizens and authorities can protect themselves from damaging decisions by companies and other economic organizations headquartered elsewhere.

The size of an organization can be measured in a number of different ways, including the number of people it employs, its capitalization value, its financial turnover, its annual profit, the number of its customers or clients, and the number of its shareholders or investors.

Criteria of size need to be worked out to which the legal and financial structure of organizations can be matched. The greater the impact of an organization on the outside world, the greater the need for it to operate openly in accordance with clearly understood rules governing the rights and obligations of all concerned. Too many disasters and financial scandals in recent years—Bhopal, Seveso, the Zeebrugge ferry disaster, the Kings Cross underground fire, the Guinness affair, the Exxon Alaska oil-spill, and so on—have demonstrated the irresponsibility and lack of accountability of top managements in large organizations.

In this context the effect of size on the performance—social and environmental, as well as financial—of companies and other economic organizations also needs to be documented. Conventional economics has been biased in favour of economies of scale. The 21st-century economy must pay more attention to the diseconomies and social costs of large scale and the economies and social benefits of small scale.

Of course, the nature of an organization's activity strongly influences its size and other characteristics. A different type of organization is necessary, for example, to run an international airline from the type needed to provide help with the care of sick people in their own homes. As an aspect of the proposed classification of organizations, research is needed on what types of organization will be best suited to what types of activity in an enabling and conserving economy.

Still on the question of size, the problem of monopolies will have to be tackled. It is pointless simply to transfer a monopoly from the public sector to the commercial sector, as has recently been done in Britain with the gas supply and the telephone service. These, and the supply of water and electricity, are bound to be monopolies so long as they continue to be based on technologies that require a system of pipes or wires which it would be wasteful, uneconomic and environmentally unacceptable for competitors to duplicate. Where monopolies are genuinely unavoidable, for physical or technical reasons, special arrangements for openness and public accountability must be rigorously enforced. But in the 21st-century economy the emphasis must be on breaking up monopolies whenever possible, and on developing decentralizing energy, communication, sewage and other technologies that will make this possible. This must be part of a comprehensive technological research and development effort to reduce the scale on which many production activities will be technically and economically viable.

### **Decision-Making and Motivation**

How an organization reaches decisions and who is represented at what stages of the decision-making process, reflects the rights and obligations of the various stakeholders in the organization, the size and nature of the business, and so on. This is another aspect of the corporate economy which now needs to be opened up to public discussion. What decision-making structures and procedures are right for organizations of different types and sizes to ensure that they are enabling and conserving?

Decisions in most large organizations today are taken without giving full weight to social and environmental factors. For example, in deciding to build and equip a new factory, a company is guided primarily by production and marketing considerations. It is not aiming to achieve social or environmental benefits. Any social or environmental problems created by its decision will be dealt with only after the decision has been made. Hitherto, the techniques of social impact analysis, environmental impact analysis and technology assessment have been essentially defensive and remedial after the event.

Some years ago Eric Trist and his colleagues at the Tavistock Institute proposed a sociotechnical approach to the design of new work systems.<sup>6</sup> This would aim right from the start at a joint optimization of technical and social aspects—the social aspects, in this case, being limited to the quality of working life of the workers. But even that limited approach to the incorporation of social factors in company decision-making has never been widely adopted. It has not reflected actual corporate goals. In an enabling and conserving economy, social and environmental considerations will have

to be brought into the early stages of corporate decision-making. Since this is only likely to be possible if social and environmental goals are among the primary goals of the organization, it raises many of the questions about corporate objectives, ownership, control and finance that we have touched on already.

How decisions are made is an aspect of the corporate context which vitally affects people's sense of commitment and responsibility for what they do. The corporate economy of the twenty-first century will have to provide more positive conditions for personal and organizational motivation than conventional capitalism and conventional socialism have provided.

The larger an organization, the greater the risk that careerist values, internal organizational demands, and alienation will divert the motivation of the people in it from the needs of the outside world. There are greater pressures on the ambitious, in their climb up the ladder, to harness their efforts to self-perpetuating and self-aggrandising organizational goals. There are greater pressures on the less ambitious conformists to play the system, since that is the surest way for them too to get their rewards. And there are greater pressures on those who feel the organization is exploiting them or failing to value them sufficiently, not to give of their best.

Even on their own terms, large organizations find it difficult to motivate people. Writing of high-risk industries like nuclear power, Charles Perrow says:

"Organizational theorists have long since given up hope of finding perfect or even exceedingly well-run organizations, even where there is no catastrophic potential. It is an enduring limitation—if it is a limitation—of our human condition. It means that humans do not exist to give their all to organizations run by someone else . . . This is why it is not a problem of 'capitalism'; socialist countries . . . cannot escape the dilemmas of co-operative organized effort on any substantial scale and with any substantial complexity and uncertainty. At some point the cost of extracting obedience exceeds the benefits of organized activity."<sup>7</sup>

That these are strong arguments in favour of small organizations, can be attested by all who have worked in large ones. However, some large organizations will continue to exist, and the question of how they and the people in them can be motivated to be enabling and conserving is one that must be tackled. The issues include the following.

- Competition and co-operation: when and with whom and how should people be encouraged to compete, and when and with whom and how should they be encouraged to co-operate?
- Enterprise and accountability: how should people be encouraged to be enterprising, and at the same time be made accountable for what they do?
- Reward for performance: how can the rewards achieved by an organization and the people in it be made to match their performance?

(The opposite often takes place, as when banks profit from their own dilatoriness in clearing cheques.)

- Risk-taking and reward: what risk-taking should be encouraged and what discouraged?

On the last point, today's economic order has encouraged corporate decision-makers to impose risks on other people, like the risks imposed on customers and third parties by the producers of tobacco and nuclear power. Just as limited liability has allowed shareholders to limit their financial risk with no corresponding limit to their prospect of financial gain, so corporate decision-makers in the pursuit of corporate and career success have been able to limit their personal liability for the risks they have taken with other people's wellbeing.

How, then, are we to insist on the liability of corporate decision-makers who take unjustified risks with other people's wellbeing? And how, conversely, can we adapt the 19th-century principle of limited liability in order to provide a measure of security to enterprising people whose initiatives are directed, not at creating profits for themselves and their shareholders, but at creating wealth and wellbeing for people and the Earth?

### **Business, Management and Organization Studies**

Finally, business, management and organization have become important subjects for study, education and training in the past half-century. The emphasis has been, and still is, predominantly on how to make private-sector corporations more profitable, but public-sector management is also studied and taught professionally. For the future, greater emphasis will be needed on ways in which the commercial sector and the government sector can become enabling and conserving, on defining the rights and obligations of all the parties concerned (with the help of moral and political philosophers and jurists), and on management training and education for people in the third sector—not forgetting training for household management, as suggested in Chapter 4.

Existing business schools, management centres, and organization specialists must be encouraged to take up the questions covered in this chapter. But some new institutions, combining the functions of think-tanks and pressure groups, will also be needed to provide a competitive stimulus.<sup>8</sup>

## Notes and References

<sup>1</sup> I first became aware of this need in the nineteen-seventies, when I did a study on the legal and financial structure of the enterprise for the Anglo-German Foundation for the Study of Industrial Society. The "whole economy" perspective suggested by David Ross—see Paul Ekins (ed.). *The Living Economy*, RKP 1986, pp. 155 ff—now needs to be developed systematically in an enabling and conserving context.

<sup>2</sup> The role of the third sector in the 21st-century economy was discussed in my 1987 Aves Memorial Lecture on "The Changing Environment of Volunteering", published by the Volunteer Centre, 29 Lower King's Road, Berkhamsted, Herts HP4 2AB.

<sup>3</sup> See *Profit or People? The New Social Role of Money*, Calder and Boyars, 1974.

<sup>4</sup> See David Howell, *Blind Victory: A Study in Income, Wealth and Power*, Hamish Hamilton, 1986. I strongly recommend this powerful argument for "the miniaturisation of capitalism, the spread of ownership into mass hands" from one of Mrs Thatcher's ex-Cabinet colleagues.

<sup>5</sup> Martin Stott, *Beyond Isolation: Constructing a Co-ops Sector in the U.K. Economy*, ICOM (7-8 The Corn Exchange, Leeds LSI 7BP), 1986, and Paul Derrick, "Towards a Consensus on Common Ownership", *Science and Public Policy*, April 1985, are two useful recent accounts of prospects for co-operatives. Charles Knevitt (ed.), "Community Enterprise"—a booklet with a foreword by the Prince of Wales—published by *The Times* and the Gulbenkian Foundation in 1986, is a useful introduction to community businesses. Strathclyde Community Business and Community Business Scotland, Six Harmony Row, Govan, Glasgow are valuable sources of information on community businesses in the U.K.

<sup>6</sup> Eric L. Trist. "The Sociotechnical Perspective", Chapter 2 of *Perspectives on Organization Design and Behaviour*, eds. Van de Ven and Joyce, Wiley 1981.

<sup>7</sup> Charles Perrow, *Normal Accidents: Living with High-Risk Technologies*, Basic Books, New York, 1984, pp. 338-339. Diana Schumacher drew my attention to this study, when I was preparing a paper on "The Changing Environment for Safety and Risk at Work" for an international safety conference in Montreal in June 1988.

<sup>8</sup> The Business Network (18 Well Walk, Hampstead, London NW3 1LD) is a valuable source of relevant information and ideas.

## 9

## Money

Money is crucial. It links the component parts of the economy with one another. The way it does this, and how the money system functions, goes far to determine the character of the economy as a whole.

Chapters 4 to 8 have mentioned money as an aspect of the economic activities of individuals and households, local and national economies, the international economy, and organizations of all kinds. Those chapters suggested changes in how those component parts of the economy each use money and take decisions about it, as part of the transition to an enabling and conserving economy.

In this chapter and the three which follow we look at money from a wider perspective—as if we were cosmonauts looking down from space on the operations of the money system in the economy of planet Earth. Our concern here is wider than just the role which money plays in the affairs of the economy's individual component parts. It is with the changes needed in the way we think about money and in the way the money system works as a whole. This chapter discusses the need for a new understanding of the economic functions of money. The two following chapters discuss two particularly important features of the money system that help to determine its economic impacts—taxation and the distribution of incomes and capital. Then Chapter 12 asks whose money system it is anyway, and takes up the need for changes in regard to currencies, interest and debt.

Reform of the money system will be central to the transition to an enabling and conserving economy. Economic development in recent centuries has brought with it a continuing expansion of money-based transactions into areas of human activity in which relationships were previously based on gift and custom, reciprocity and mutual aid. Money now plays a central part in the economic life of the world and of the majority of people in it. It will continue to do so for as far ahead as we can see, even if we envisage—as we do—a larger role for informal economic activities in which money plays no part.



## Money as Master

The money system now operates in ways directly contrary to the needs of an enabling and conserving economy.

Take conserving first. Today's money system positively encourages the rapid consumption of resources. In any particular case—say a particular quantity of oil—the money gained from extracting or using it today will tend to be worth more than the money to be expected from leaving it unused for the time being. If the sum acquired today from selling or otherwise using the oil can be banked at 10 per cent interest per annum, the money will double its value—with compound interest—in less than nine years' time. So if 10 per cent is the going interest rate now and there is any risk that the value of the unused oil will not double in nine years' time, it is a better financial bet to realise its value now than to conserve it, to have the money now rather than later.

This explains the practice of discounting the present worth of future money. It means that—from a conventional economic point of view—revenues and costs arising in the rather longer-term future are not worth considering at all. So, as a matter of normally accepted practice today, conventional business planning and conventional economic analysis ignore anything that may happen further into the future than twenty or thirty years—including any effects of destroying natural resources and polluting the environment. This very serious problem is directly linked to the fact that if you have money and save it you get paid interest, but if you have natural resources and save them you don't. The practice of charging and paying interest is now generally accepted as a natural fact of monetary life. It must be questioned—see Chapter 12.

So far as enabling is concerned, the money system—as it now operates—restricts the economic capacity and freedom of many people and places and nations by making them dependent on getting money incomes from sources over which they have no control. By the way they regulate money and finance, government agencies and monetary authorities often make it more difficult for people to work in the informal economy—see Chapter 4. Historically, by imposing monetary taxes on subsistence farmers, rulers compelled them to work as paid labourers for larger landowners to get the necessary tax money, instead of working unpaid for themselves to improve their own and their families' living. Just so today, governments like the British government insist that, in order to be eligible for benefits, unemployed people must be ready and available to accept paid work from employers, regardless of any more socially or environmentally useful unpaid work they otherwise might do. At the other end of the scale, international monetary authorities similarly impose conditions on nations, restricting their freedom to decide their own economic policies and pushing them deeper into

economic dependency. The IMF's insistence that indebted Third World countries should concentrate on exporting commodities fetching low world prices to richer nations, rather than on producing goods for their own people, is a current example.

The role of debt in creating and reinforcing economic dependency needs no elaboration. A debtor has to find money not only to repay the principal owed but also the interest payable on it. Unless the interest is regularly paid, the amount of the debt increases and dependency deepens. Debt and interest are key factors in dependency creation, as in ecological wastefulness.

But, quite apart from debt, it is important to get it widely recognized that the growing role of money in the lives of individual people and in the workings of human society as a whole over the last 200 years has brought increased economic dependence. As I said in Chapter 1, modern development began when enclosures of the common land deprived the "common people" in countries like Britain of the means to provide a subsistence livelihood for themselves and their families, and made them dependent on paid labour. The same process continues today in those regions of the world—mainly equatorial, arctic and mountainous—where millions of hitherto non-industrialized and tribal peoples are having their traditional environments and ways of life destroyed by logging, oil pipelines, big dams and other forms of development, and are being made dependent on work-as wage-labourers or on welfare handouts from the state.

It is not just the unfortunate and the oppressed who have become more dependent on money in this way. We are all, almost without exception, more dependent on money than our ancestors were. Whereas in pre-industrial times most people, living in rural village communities, provided most of the necessities of life for themselves and one another directly through their own work, most people in modern society are almost wholly dependent on money for the goods and services they need—either to purchase them themselves or to be provided with them by public services paid for with public money.

So much so that, as I have pointed out elsewhere,<sup>1</sup> money now plays the central role in late industrial society that religion played in the late Middle Ages. Then the local church was the most prominent building in most villages; today the prime sites in every high street are occupied by branches of banks, building societies, and other financial concerns. The centres of medieval cities were dominated by cathedrals; today's city centres are dominated by the tower blocks of international banks. Today's army of accountants, bankers, tax-people, insurance brokers, stockjobbers, foreign exchange dealers and countless other specialists in money, is the modern counterpart of the medieval army of priests, friars, monks, nuns, abbots and abbesses, pardoners, summoners and other specialists in religious procedures and practices. The theologians of the late Middle Ages have their counterpart in the economists of the late industrial age. Then they argued about how to measure the space occupied by angels; now they argue about

how to measure unemployment or the money supply. Financial complexity holds us in thrall today, as religious complexity held our ancestors then. Just look at the financial pages of the daily newspapers—especially on Saturdays.

As the role of money has become greater in the lives of people and society, the institutions set up to handle money have become bigger and more remote. In step with increasing centralization in industry and government, financial institutions have become more centralized. Small local banks have been taken over by bigger banks and turned into local branches of national banking networks. Only in very exceptional cases are local financial institutions found today with the function of channelling local money into investment in local enterprises and projects. So it is not just individual people who have become more dependent on money coming in and going out again. The same is true of places, like cities and rural districts. And also of nations. There has never before been a Third World debt crisis like the one there is now.

### **Impersonal and Amoral**

With this growing dependence on money has come a growing impersonality and lack of positive morality in the use of money. As we noted in Chapters 4 and 5, the investment of money has become less personal and less local, as has the spending of money in supermarkets instead of local corner shops, and the earning of money from faceless employing organizations instead from personal employers. As increasing numbers of people have acquired savings to invest—in pensions for their retirement and in mortgages for their houses, as well as in other forms of saving—they have not been expected to take a personal interest in how those savings are used. Just as employees have become content to hand over responsibility to employing organizations to direct the purposes of their work, so savers have been content to hand over responsibility to a bank, or a pension fund, or a building society, or some other financial institution, to decide what use is to be made of their money.

With this has gone a growing tendency to try to make money out of money rather than out of useful activity. This has resulted in the huge growth of stock markets, money markets, bond markets, currency markets and other financial markets throughout the world, and in the ever-growing demand for capital assets like land and property, not mainly to make good use of them but in the hope of selling them later at a capital gain. And this in turn has been one of the contributing factors to the massive expansion of borrowing and debt—personal, corporate, national and international—that has taken place in the last thirty or forty years.

The fact that money has become more abstract and less material, as discussed below, has reinforced the growing impersonality of our use of money and our dependence on it. We have now become very largely

dependent on the banking and financial institutions' computerized communications networks, through which money transactions are carried out simply by crediting and debiting the accounts of the parties to the transaction. The whole process is far removed from the old way of making payments by the hand-to-hand, person-to-person transfer of coin and paper. We now have a world money system in which the money markets and stock markets of Tokyo, London and New York are linked in a continually active web of financial transactions twenty-four hours a day. Many of these transactions are activated automatically, by computers programmed to buy and sell currencies and bonds, stocks and shares, when price levels reach a certain point. The people operating the system and carrying out the transactions know nothing and care nothing about the lives of the people ultimately affected by these financial transactions. Not for nothing did Martin Buber ask, "Can the servant of Mammon say Thou to his money?".<sup>2</sup>

### **A Bird's-Eye View**

It is natural enough, the way the monetary and financial system has evolved, that no-one should have been very interested in how to design it and manage it efficiently and fairly in the interests of all its users. The immediately important thing for everyone is to make sure that we have enough money coming in to match what we need to spend out. How can -we get more and, if necessary, spend less? If we don't get this right, we are in trouble. The same is true for companies and other organizations. And, disappointing though it may be, it applies to governments too. Throughout history, rulers and governments have been much more interested in using the money system to their own advantage than in trying to make it work efficiently and fairly for all concerned.

This affects the orientation of almost all who are especially knowledgeable about money and finance, or professionally expert in some aspect of it. If they do not use their knowledge and expertise to make more money for themselves, they will use it to advise other people or companies or governments how to do so. And the vast majority of academic and journalistic commentators on monetary and financial matters are interested in them from that standpoint. I now understand this. But when in the late nineteen-sixties I went to run the Inter-Bank Research Organization for the big banks in the City of London, I was surprised that so very few of the financial experts, economic commentators and monetary academics I came across, understood or were interested in how the whole system works. How the monetary and financial system as a whole helps to shape economic life and how it actually does so today, what its functions should be, and how its further evolution could lead to its carrying out those functions more effectively—these were questions that featured on nobody's agenda.<sup>3</sup>

Unfortunately, things have not changed much for the better in this respect in the last twenty years.

To bring these questions on to the agenda now, we must take—as I have said—the cosmonauts' bird's-eye view. When we do this, we shall see the money system from a fresh perspective. Sometimes it will look to us like an information system, and we shall interpret the way it works as if that is what it is. This will be in tune with up-to-date scientific thinking, which now successfully models many aspects of the natural and man-made world in terms of informatics and information systems. Sometimes it will look to us more like a network of flows—of cash flows, that is—linking all the people and organizations taking part in economic life, reflecting and helping to shape their relationships with one another. Again, we shall be in tune with up-to-date scientific thinking which now tends to see the world in ecological or systems terms, as consisting primarily of interactions and relationships rather than of free-standing entities. The fact that it sometimes seems useful to see the money system as an information system and sometimes as a network of flows, should not disturb us. At certain stages of understanding this kind of double vision is helpful, as in physics earlier this century when it was sometimes helpful to interpret light as particles and sometimes as waves.

### **Money as Information**

The evolution of money has, as we have just noted, been from concrete to abstract: from valuables like cattle and tobacco; to metal bars and coins; to paper notes and cheques; and now to numbers electronically stored in computer files and electronically transmitted between them. As this last stage has arrived—with the transformation of monetary and financial assets into entries in computerized accounts, and of monetary and financial transactions into electronic messages that debit and credit the accounts of payer and payee—our understanding of the nature of money and its role in economic life is reaching a watershed.

So long as people were required to transfer money to one another in the form of actual things, such as metal and paper, this gave colour to the idea that money was itself a kind of thing—a commodity like other commodities. Concepts like the money supply and the velocity of circulation of money then seemed to make sense, in spite of the difficulties of measuring them satisfactorily. So did the concept of money as something that had to be issued and put into circulation. So did the idea of tying the value of a currency to the value of a commodity like gold, or to the value of a "basket" of commodities in more general use, like grain or timber.

But now it is becoming clear that the monetary and financial system is basically an information system. Money and finance provide an accounting system, or scoring system, which regulates people's economic relations with one another. It indicates the claims for goods and services which people are entitled to make on one another, it enables them to trade those claims in exchange for goods and services, and it enables them (e.g. through investment and insurance) to exchange their present claims (such as money in a bank account) for other financial claims (such as an equity shareholding in a commercial company, or a life policy or accident policy with an insurance company).

This last point about the exchange of financial claims is important. The financial system consists predominantly of the wide variety of traders and brokers who have come into existence over the years to create a market—or otherwise provide facilities—for exchanging financial claims of this kind. They include all kinds of financial institutions—banks, building societies, insurance companies, stockbrokers, unit trusts, foreign exchange dealers, and many, many others. In principle, the financial system can offer an almost infinite variety of possible deals for lending and borrowing, investing and insuring, exchanging one currency for others, and so on—all of which involve paying (or receiving) a certain amount of a certain kind of money at a certain time, in return for the right to receive (or the obligation to pay) a certain amount of a certain kind at a certain time under certain conditions. New sorts of deals, defined by particular sets of options and conditions that have not been available before, are continually being thought up and introduced by financial innovators.

This sounds rather good. But there are a couple of flaws. Both are directly connected with the fact that making money out of money has become so profitable.

First, the people and organizations who run the financial system are in it primarily to make money out of it for themselves—in other words, to distort its functioning in their own interests and those of their customers and associates. They don't technically cook the books—not most of them, that is. But collectively they cook the whole system. Yuppies and others who go into banking and the City do so to get higher salaries and make more money for themselves than they could elsewhere, not to dedicate themselves to managing and operating an efficient and fair monetary and financial system to facilitate the workings of the economy in the interest of all. In other words, the financial system that exists today is systemically corrupt.

Second, again because it is so profitable, the volume of activity and the number of people employed in the financial system has grown to cancerous

proportions. It is estimated, for example, that only about 5 per cent of the foreign exchange transactions that now take place are related to international trading transactions in non-financial goods and services. Ninety-five per cent are to do simply with making money out of money. This is rather as if the game of cricket were to develop to the point where the one or two people, who keep score of the activities of the twenty-two out on the field, were joined in the scorers' box by an ever-increasing number of the players; as if these, by using the runs scored by their remaining team-mates as stakes in gambling and betting games of various kinds, were then able to achieve a twentyfold increase in their side's score; and as if—for obvious reasons—the gamblers and betsmen then became more sought after, better paid and more highly regarded than the bowlers and batsmen. The nature of the game would change. And for the worse.

### **A Network of Flows**

The other way of seeing the monetary and financial system is as a worldwide network of cash flows connecting people and organizations of all kinds. The way this network functions reflects and determines the workings of the economy. The way it functions is determined partly by the behaviour of its nodes, that is all the millions of people and organizations in the world who transmit and receive money to and from one another, and partly by the characteristics of the network as a whole. So, to improve the way it functions, we need to improve it in both these respects.

In Chapter 4 I suggested that, as consumers and savers, and also as earners, we should use our purchasing, saving and earning power purposefully, to help to create the kind of world and the kind of future we want. To support and inform this purposeful use of our economic power, we need to visualize how our patterns of earning and spending link us into the wider activity patterns of society and the world. Each one of us receives inward payments from other people and organizations—as wages, salaries or fees for work, as pensions and social security benefits, as dividends and interest on our savings, as gifts and prizes, as the proceeds from sales of property and possessions or from realizing savings, and so on. And each one of us makes outward payments for such things as food, clothing, household expenses, transport, holidays and leisure, mortgages, insurance premiums, taxes, purchases of shares or units in unit trusts, and so on. Everyone from whom we receive money and everyone who receives it from us has a comparable set—a comparable pattern—of payments in and out. So does everyone from whom they receive money and everyone who receives it from them. And so on, extending to the great majority of human beings now alive. Each of us is a nodal point on this great network of money transactions,

actual and potential, that holds human society together, both expressing and helping to shape its dominant patterns of behaviour and its impacts on the world.

The sets of inward and outward payments linking each node—that is each one of us, each economic entity—into that global network, both reflect and shape the part we each play in the economy and the impact we each have on it. By the way we each control and direct our own pattern of payments in and out, we each help to shape what happens in the world. All economic entities—people and households, cities and other localities, nations, and commercial, governmental and third-sector organizations of every kind—share this basic feature. Every one has flows of money coming in and money going out. The sources and destinations and sizes and frequencies of all these flows of money shape and reflect the wider economy. The pattern of the flows is shaped by choices made by each node on the network, by each node with which it transacts, and so on through the world economy as a whole.

Many of the points made in Chapters 4 to 8 were related to this concept of the economy—or, to be precise, the formal economy—as a worldwide network of money flows linking all people and organizations. One, as I have just said, is to do with the purposeful workers, consumers and savers of Chapter 4. Then in Chapters 5, 6 and 7 I suggested changes in patterns of public spending and taxation by local governments, national governments, and international government agencies. In Chapter 8 I suggested a need for more open and representative methods and procedures in businesses and other economic organizations for deciding and controlling their flows of money out and in.

The idea is taken up again in the three chapters that now follow, this time in the context of a number of specifically financial issues that are of central importance—taxation and public expenditure; the distribution of income and capital; currencies; interest, credit and debt; and the future development of financial institutions. Meanwhile, however, I want to stress again the need to focus public concern on the matters discussed in this chapter.

### **The Top Priority**

The top priority for the 1990s is to foster widespread public interest in the way the money and financial system actually works, how it will need to work in an enabling and conserving economy, and what changes this will require. The following points need to be established in the public mind.

First, the proper function of money and finance is to enable all the billions of people who take part in economic activities all over the world to carry out economic transactions and to conduct economic relations with one another.



The monetary and financial system does this by providing a system of linked accounts (and cash in the form of paper and metal tokens) through which people anywhere in the world can transfer financial claims between one another, either in exchange for real goods and services or in exchange for other different financial claims.

Second, the monetary and financial system has developed historically in such a way that it has never been properly designed to carry out this function efficiently and fairly. The primary concern of the goldsmiths and bankers and government servants who have built it up over the centuries, and of the bankers and other financial specialists who operate it today, has been to make money for themselves and their organizations, and their customers, shareholders and other associates. No wonder that its overall impact is now disabling and ecologically destructive. It encourages everyone to try to get more for themselves at the expense of other people and the natural environment.

Third, since money can be understood as information about the claims for goods and services that people and organizations are entitled to make on one another, the monetary and financial system needs to be designed and operated as an information system—a fair and efficient scoring system. Insights from the design, management and operation of information and communication systems should be brought to bear upon the changes now needed in it.

Fourth, visualizing the patterns of payments transmitted by people and organizations to one another as a worldwide network, reflecting the patterns of real economic activity taking place all over the world and shaped by the spending and earning decisions of each person and organization, throws light on many of the changes that -will need to be made in the transition to a new economic order.

Finally, ministers and politicians, officials of government monetary authorities, and directors and managers of financial institutions, all have public responsibilities for the way the monetary and financial system works. We must press them, and also academic economists and other financial specialists, to tell us what changes they think are needed. How do they think the monetary and financial system should be redesigned and further evolved to operate efficiently and fairly as a vital part of an enabling and conserving multi-level global economy? How do they think it should be managed, so that those who operate it do so in the general public interest instead of their own?

## Notes and References

<sup>1</sup> *Future Work*, pp. 126 ff.

<sup>2</sup> Martin Buber, *I and Thou*, Scribner, New York, 1958, p. 106. As I said, in an unpublished paper on "Money: I, Thou And It", given at a conference for the Teilhard Centre on 3rd October 1987, this insight of Buber's is relevant to an apparent paradox in the Teilhardian vision. The emergence of a worldwide money transmission network is clearly part of what Teilhard saw as the emerging noosphere or global mind. Yet it represents a process of depersonalization, not personalization as Teilhard assumed noogenesis would be.

<sup>3</sup> My experience at that time strengthened my earlier impression that the monetary and financial system is in need of more radical restructuring than is generally envisaged, for example by politicians of the Left. See *Profit or People? The New Social Role Of Money*, Calder and Boyars, 1974. Also *Power, Money and Sex: Towards a New Social Balance*, Marion Boyars, 1976.

# 10

## Taxes

Governments—local, national, international—have even more scope than other economic agents to shape economic development for better or for worse by the ways they direct the flows of payments to and from themselves.

The most important payments received by governments are taxes. Governments determine the basis for these payments. This chapter suggests how the principles of enabling and conserving will apply to a multi-level—local, national and international—taxation system, and what now needs to be done about it. (Public borrowing provides another important inflow of funds to governments. We will mention it again shortly, and again in Chapter 12.)

Outward flows of payments from governments are public spending. Other chapters have suggested the need for changes there. Chapter 4 suggested that—in place of existing social benefits—a universal basic income, paid by government to every citizen as of right, would eliminate many of the disabling and dependency-creating effects of conventional economic and social policies. Chapter 11 takes that discussion further. Chapters 5 and 6 suggested a systematic shift of emphasis at both local and national government levels to spending programmes that enable and conserve. Chapter 13 will give some specific examples. Chapter 7 mentioned the need to systematize public spending programmes at the global level, by the United Nations and associated organizations.

This chapter will not be dealing with public expenditure or public borrowing. However, in dealing with taxation, we do need to keep them in mind. The equation "public spending = taxation + public borrowing" means that each of the three helps to determine the other two. It is in combination with the other two that each produces the economic impact it does. There must be a coherent, sensibly designed system for handling them together, in combination, at each level of government. It should be based on procedures

that enable people and their elected representatives to understand and discuss the combined economic effect of their governments' public spending, taxation and borrowing policies.

This was the point on which I wrote in 1971, with reference to the British Treasury, revenue departments and Bank of England: "Eventually, before we are all dead. God willing, they will be able to combine these separate systems for planning, managing and reviewing expenditure, taxation and borrowing into a unified system for controlling them in combination. Only then shall we be able to talk realistically about steering the economy in the desired direction."<sup>1</sup> Alas! little progress has yet been made. At the time of writing, Mrs Thatcher's government is still presenting its public spending proposals to Parliament for debate in the autumn, and its revenue proposals at Budget time in the spring. No-one running a corner shop would handle their cash flow projections in such an eccentric way as that.

There is one further point to be made here about public expenditure. In the long term, as the emphasis in government policies shifts away from direct intervention and provision of services to ways of enabling people to be more self-reliant and conserving, aggregate levels of public expenditure over the years are likely to fall—at least in real terms. Required levels of taxation (and public borrowing) will come down accordingly. This is one aspect of the crucially significant negative multiplier effect which, as explained in Chapter 12, will be a feature of the transition to an enabling and conserving economy.

### **Objectives of the Tax System**

The tax system for an enabling and conserving one-world economy will differ in important ways from today's. In addition to raising the revenue needed to support the expenditure of government authorities, it should be designed:

- to encourage people to develop their productive capacities, to use them for the common good, and to become more self-reliant in the provision of goods and services for themselves and one another;
- to encourage organizations to enable people to develop their productive capacities in that way;
- to encourage local and, especially in the Third World, national economies to become more self-reliant too;
- to encourage efficient use, fair distribution and conservation of scarce resources, and discourage waste, pollution and other socially and environmentally harmful behaviour;
- to be progressive and redistributive, in the sense of taking more from rich individuals, localities and nations than from poor, and redistributing income and wealth from rich to poor—but without reducing the incentives for anyone, however rich or poor, to make an effective contribution to meeting their own and other people's needs.

It must also be designed:

- to be simple enough for people to understand without needing tax experts to tell them how it works, and without therefore spawning a great army of tax accounting specialists—who might otherwise use their lives in materially and socially more useful, and spiritually more rewarding, ways;
- to be non-discriminatory between different categories of citizen, e.g. between men and women, and—in the international economy— between different nations.

### **A Fundamental Shift**

The over-riding priority is to secure widespread understanding and acceptance of the idea that the burden of taxation must be shifted away from what people contribute to the rest of society and on to what they take from it—that is to say, shifted away from useful work which adds value, and on to occupation of land, use of energy and resources, and activities that risk imposing waste, pollution, ill health, and other environmental and social costs on the rest of society. The task is to formulate clearly the long-term changes in the present taxation system that this will imply, to study their feasibility in practical terms, and to work out how they should be phased in over a period of years.

We should not try to conceal the fundamental nature of what we are proposing. Among other things, it will be a shift away from taxing the shadow—the artificial mirror economy of money incomes, value added, profits, capital gains, capital transfers, and so on—to taxing the substance—the real economy in which, when some people occupy land, or use and waste natural resources, or pollute the environment, they do so to the exclusion and detriment of others. As a working hypothesis, we should envisage the eventual removal of all taxes on incomes and value added, savings and financial capital—resulting in no personal or company taxes as such, no VAT, and no capital taxes including capital gains or capital transfer taxes.

This means that no-one will be taxed on money as such—either the money that comes in as income or profit or the financial assets they already possess. This will help to eliminate the poverty trap for the poor and the disincentive for the not-so-poor of, as they see it, the state confiscating well-earned money that rightfully belongs to them. Taxes will much more nearly take the form of rents and charges reasonably paid in exchange either for the use of resources that would otherwise be available for other people, or for damage caused to other people. Taxation will thus come to be seen in a different way from how most people see it today.

This change will also help to eliminate the present tax bias which favours the business sector against household and other informal production—see Chapter 4. This bias arises from the fact that, with taxes on incomes and profits, the costs of materials and equipment used by the business sector in the production of goods and services for sale are met from untaxed money, i.e. they can be set off against taxed profits, whereas the corresponding costs of producing the same goods and services in the household or elsewhere for direct consumption have to be met out of taxed income.

The change will also mean, of course, that no-one—whether persons or companies or other organizations such as charities—would receive tax allowances or tax exemptions. Any valid purposes for which tax allowances and exemptions are at present used would have to be achieved in other ways. For example, personal tax allowances would be replaced by the basic income paid unconditionally to all citizens—see Chapter 11. By setting this, and the taxes on occupation of land and use of energy and resources, at high enough levels, the government of the day would be able to achieve a very powerful progressive and redistributive effect in real economic terms. There would be no need to complicate the tax system with additional taxes for that purpose. Any further redistributive measures could be taken by replacing regressive and dependency-reinforcing public spending programmes with enabling ones, including measures to spread the ownership of land and capital more widely.

A key task for the early 1990s will be to stimulate public discussion of the need to shift the burden of taxation as proposed here. This will require the working up of quite detailed practical proposals. The following are some of the questions on which feasibility studies are needed, to demonstrate the practicability and probable consequences of what is being proposed.

### **Occupation of Land**

The proposal is for a tax on the site-value of all land, the site-value being the value of any plot or area of land in its unimproved state, i.e. excluding the value of any buildings on it or other man-made improvements that have been made to it. The tax will be paid annually by the owners of the land. It will be calculated as a percentage of the capital value of the site or of its annual rental value. This will, in effect, be a tax on every piece of land at the point just before it contributes to any economic activity. It will therefore enter into the cost of every activity involving that piece of land, including the cost of leaving it idle. Not only will it capture for the community a proportion of any communally created increase in land values. It will tend to encourage efficient land use, to reduce the value of land in relation to other forms of

capital, to redistribute wealth as well as income from those who own valuable city-centre and agricultural land to those who don't, and make it easier for more people to own a piece of land.

This tax was first proposed by the 19th-century American economist Henry George, who argued—as we do not—that, if it were introduced, no other taxation would be needed at all. I am not going to set out here the very wide-ranging economic, social and environmental arguments in its favour. I have done so in *Future Work*, and other useful references are given in *The Living Economy*.<sup>2</sup> Site-value taxation was for many years included among Liberal Party policies and is currently supported by the Green Party in the UK.

Later in this chapter I suggest that this tax should be a combined local and national tax. But to get it generally accepted that any form of tax on the site value of land is a practical proposition, we must be able to give properly researched answers to the following questions:

- What total revenue could be raised from an annual tax on the site-value of all the land in the locality or the nation, if the tax rate (i.e. the percentage of annual rental value payable annually as tax) were set at 25%, 50%, 75%, or 100%?
- What repercussions on economic activity might such a tax at such tax levels be expected to have?
- What would need to be done to make it administratively feasible to raise this tax?

## **Energy and Resources**

Ernst von Weizsacker, the Director of the Institute for European Environmental Policy,<sup>3</sup> is among those who have proposed that the tax burden should be shifted from labour to energy and resources. Farel Bradbury is another.<sup>4</sup>

Bradbury's proposal is that energy should be taxed at source, that is at the point of its entry into the economy. The tax would be calculated, not as a percentage of the monetary value of the energy, but in relation to its calorific value.

Bradbury has worked out that Europe, including the U.K., could entirely replace value-added-tax (VAT) by an energy tax of this kind set at a rate of £1.15 per gigajoule of source energy. This energy tax would, of course, be passed on by energy producers to their customers, and by them to their customers, and so on right through every stage of economic activity to final consumers of goods and services. It would thus have a conserving effect on all economic activity. It would be progressive in the sense that people and organizations, including shareholders in companies, using greater quantities

of more energy-intensive goods and services would be contributing more to taxation than people using, or benefiting from the use of, less. Assuming that it would be a national tax, it would be very much simpler to collect than VAT or, for that matter, than income tax.

As with the site-value tax on land, it is not difficult to understand in general principle that an energy tax on these lines would have a beneficial overall effect—as a substitute for, not an addition to, VAT and other taxes. But, again, the practical task now is to show how such a tax would actually work, and what its detailed effects would be likely to be. Feasibility studies are needed to give authoritative answers to questions such as the following.

- How would a tax on the first introduction of energy into the economy actually be collected? Which types of companies (and private persons, if any) would pay the tax to the tax authorities? What problems would have to be ironed out—e.g. to distinguish between renewable and non-renewable energy sources, or in relation to the fuel and non-fuel uses of substances such as wood, biomass and petroleum-based chemical feedstocks? What would have to be done to make this tax administratively feasible?
- What total revenue could this tax be expected to raise, at various different rates of tax? What other taxes could it, therefore, replace?
- What repercussions on economic activity and existing economic interests might such a tax, at various rates of tax, be expected to have?

The possible merits and feasibility of similar taxes at source on non-energy resources and materials—whether in the form of depletion taxes or saleable depletion quotas or licences, as Herman Daly has proposed<sup>5</sup>—also need to be worked through. Are these necessary in addition to the energy tax? Would they apply to all mining and quarrying of minerals, stone, sand and gravel? And what about forest, agricultural and fishery products? And water? How much revenue could such taxes be expected to raise? What would have to be done to make them administratively feasible?

## **Waste and Pollution**

The scope for taxes on activities which cause, or risk causing, waste and pollution and harm to other people needs to be carefully worked through. These activities include the creation of waste and rubbish that has to be cleaned up, pollution of air, soil, and water, and the creation of noise, vibration and smell. They include much that comes under the headings of occupational and environmental health and safety. They might also be taken to include such things as the erosion of soil from one's own or other people's land, and the sale of health-damaging products like alcohol and tobacco.



The need is to make the waster and the polluter pay. There is no argument about this. It is necessary in order to discourage waste and pollution, to contribute to the cost of remedial measures, and to penalize activities that cause damage, ill-health and nuisance in the widest sense. In economists' language these are activities that externalize important costs, i.e. impose them on other people. The aim must be to internalize them, by bringing them home in one way or another to those who are responsible for them. The question is how best to do this, and what part taxes should play.

It is possible to imagine a proliferation of special taxes inflicting penalties of varying severity on a multitude of different wasting and polluting activities—heavier taxes on leaded than unleaded petrol, on coal than on cleaner energy sources, on noisier than quieter machinery and vehicles and aircraft, on packaged goods that cause litter than on unpackaged goods that don't, on fertilisers and pesticides that can poison food and water and air than on those that can't, and so on. It is also possible to imagine recoverable taxes on an almost unlimited range of manufactured products—cars, refrigerators, tables, cans, bottles, you name it—the tax being reclaimable if the last owner of a product, instead of throwing it away or dumping it, returns it to a state agency for recycling. Some people find this approach attractive. Certainly, it could provide meat and drink for a small army of environmental economists and bureaucrats.

Before a convincing case can be made for this kind of wide range of special taxes on pollution, it will be necessary for feasibility studies to answer the following questions.

- What pollution taxes are envisaged?
- How would these taxes actually work, and what would have to be done to make them administratively feasible?
- What revenue could they be expected to raise?

However, although an argument can no doubt be made for this detailed case-by-case tax strategy to fight waste and pollution, there may be less complex ways of achieving the desired result. For example, the generalized land and energy taxes outlined earlier will be much more pervasive than the effects of special pollution taxes, because land and energy taxes will bear upon the basic physical ingredients of all economic activities, not just the end results of some. The energy tax will automatically reduce the volume of waste and pollution—much of which represents wasted energy—and will encourage many manufacturers to save energy by producing and using recyclable goods and giving incentives to customers to return them after use. Moreover, it will often be simpler and more effective to reduce pollution by banning it and then fining and imprisoning those who break the law, than by taxing it. Indeed, it

can be argued that to tax pollution as such would be, in a sense, to legitimize it; and that it is preferable to make it illegal and penalize it by fining or imprisonment. No amount of taxation should be allowed to justify pollution on the scale of the Union Carbide disaster at Bhopal or the Exxon oilspill in Alaska.

### **Local Taxation**

Local government should enjoy a defined degree of autonomy in relation to national government, in taxation as in other matters. A local authority's spending should therefore be met from taxes which are either raised by the local authority itself or which come to it as of right, rather than as grants and handouts to be negotiated each year with the national government. At the same time the national government must carry out the important redistributive function of providing poorer local authority areas with some of the tax money raised from richer ones. How are these two requirements both to be met in a reformed system of local and national taxation?

In Britain the property rating system on which local government taxation has been based is currently being replaced, first by a community charge (or poll tax) payable to the local government authority by each individual local resident regardless of income and wealth, and second by a rate payable by businesses to the national government which will distribute the proceeds to local authorities. These arrangements are likely to prove unsatisfactory and perhaps unworkable in the course of the 1990s. But to return to a property rating system of the previous kind will also be unacceptable. There is an opportunity here to move forward, which we must be ready to take.

In preparation for it, the possibility to be examined is that a land tax (as outlined earlier in this chapter), perhaps in combination with a local personal tax developed out of the community charge, could provide the basis for local government taxation. (The personal tax would be used as a subsidiary tax, to top up the proceeds of the land tax. It would be levied by local authorities at whatever rate each decided annually, in accordance with electoral opinion in their locality.)

The tax on land will have to be nationally based, or at least there will have to be a national element in it, so that some of the tax raised from richer parts of a country—as, in Britain, the City of London—can be redistributed to poorer parts like the Highlands of Scotland. It might take the form of a combined local and national tax, to be levied by each local authority for the national government as well as for itself. The local rate of tax would be decided by each local authority for its locality, and the national rate would be decided by the national government for the country as a whole. A certain percentage of the proceeds from the national component of the combined tax

would be redistributed by the national government back to local authorities on a per capita basis, i.e. according to the number of people living in their locality. The defining characteristics of this whole arrangement, and the rights and obligations of local and national governments under it, might have to be laid down constitutionally, to avoid the risk of undesirable controversy every year between national government and local authorities about how it was supposed to work.

The first priority is a study to establish the feasibility of this approach in broad outline. The next stage will be to propose a timetable for phasing in the combined local and national tax on the site value of land and for phasing out the taxes which it is to replace.

### **International Taxation**

The following are among the issues to do with international taxation that need to be dealt with in the 1990s.

The tax harmonization policies and processes of the European Community may either hinder or help Britain and other European countries to develop enabling and conserving systems of taxation. It will be necessary to build up a co-operative network of people in all the European countries who are working to bring in such tax systems, and to make co-ordinated use of their political and pressure-group support.

If national governments are to levy taxes on energy, resources and pollution, they will have to levy corresponding taxes on the energy, resources and pollution content of foreign goods imported from countries which have no similar taxes. How this will be best done, what administrative problems will have to be resolved, what negotiations with other countries and international organizations will be needed, and how much additional revenue these special import taxes will be likely to raise, are matters that must be worked out. In the first instance, they should be part of the feasibility study on the proposed energy tax.

So far as international taxes are concerned, a number of possibilities need to be worked through. These include the proposed taxes on international trading and international currency transfers (Chapter 7). They also include taxes on the extraction of global resources from the sea-bed and Antarctica, as proposed in the Brandt Report of 1980,<sup>6</sup> and on international pollution. Study is needed on which of these taxes should support the international public expenditure of the U.N. and other agencies, and which should be paid into an international development fund to promote self-reliant development in Third World countries (Chapter 7).

## Taxes by Design<sup>7</sup>

Existing taxes have not been designed as a system which will encourage people to be economically and socially productive. Nor do they encourage efficient use of resources. They are not enabling or conserving.

There are two priorities for the early 1990s.

The first is to secure widespread national and international support for a new understanding of the functions of taxation, and a new approach to it. This will involve shifting the burden of taxation from useful human work to the occupation of land and the use of energy and resources. It should remove the present tax bias against informal economic activity. At the international and national levels it should encourage self-reliant national and local economic development and redistribute financial resources from richer to poorer countries and from richer to poorer localities.

The second of these two priorities is to carry out proper feasibility studies on the scope for replacing existing taxes with:

- a combined national and local tax on the site value of land;
- a national tax on energy at source;
- pollution taxes;

and for introducing:

- international taxes on imports and currency transfers, and on the extraction of global resources.

## Notes and References

<sup>1</sup> James Robertson, *Reform Of British Central Government*, Chatto and Windus/Charles Knight, 1971, p. 124.

<sup>2</sup> *Future Work*, pp. 174-177, and *The Living Economy*, pp. 189-192.

<sup>3</sup> Institute for European Environmental Policy (European Cultural Foundation), Aloys Schulte Str. 6, D-5300 Bonn, Federal Republic of Germany.

<sup>4</sup> Farel Bradbury (Hydatum, P.O. Box 4, Ross-on-Wye HR9 6EB, England) has developed his approach to energy taxation over a period of years, in papers on "Resource Economics", "Tax Distribution In the Energy Economy", and "The Joules Of Wealth". His ideas merit detailed research back-up, which has not been available hitherto.

<sup>5</sup> See *The Living Economy*, p. 231.

<sup>6</sup> *North-South*, Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, Pan, 1980.

<sup>7</sup> Some of the proposals in this chapter were circulated in early 1987 as a basis for a research project for the New Economics Foundation. It was not possible to take the project forward at that time, but I benefited from constructive comments from, among other, Farel Bradbury, Roy Cattran, David Chapman, Peter Fellgett, Mayer Hillman, John Pezzey, and Malcolm Slessor.