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Beyond Bailouts, Let's Put Life Ahead of Money

The financial crisis has put to rest the myths that our economic institutions are sound and markets work best when deregulated. It creates an opportune moment for deep change.

David Korten

The recent market meltdown and the resulting bailout commitments of more than a trillion dollars have focused the nation's attention on the devastating consequences of Wall Street deregulation. This, however, is but the tip of the iceberg of a failed economy in serious need of basic redesign.

Our economy is wildly out of balance with human needs and the natural environment. The result is disaster for both. Wages are falling in the face of soaring food and energy prices. Consumer debt and housing foreclosures are setting historic records. The middle class is shrinking. The unconscionable and growing worldwide gap between rich and poor with its related social alienation is producing social collapse, which in turn produces crime, terrorism, and genocide.

At the same time, excessive consumption is pushing Earth's ecosystem into collapse. Scientists are in almost universal agreement that human activity bears substantial responsibility for climate change and the related increase in droughts, floods, and wildfires.

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

The Wall Street bailout package that Congress passed in its moment of panic did nothing to address the structural cause of the credit freeze, let alone the structural cause of the economy's even more serious environmental and social failures. On the positive side, the financial crisis has put to rest the myths that our economic institutions are sound and that markets work best when deregulated. It creates an opportune moment for deep change.

Here are some essential steps toward a system redesign that can put us on the path to a just and sustainable economy that works for all.

1

CLEAN UP WALL STREET

The first item of business is to get the immediate crisis under control. Wall Street institutions have long claimed their trading activities create wealth, provide the funds that keep business moving, increase economic efficiency, and stabilize markets. The financial meltdown pulled away the curtain to reveal a corrupt system that runs on speculation, the stripping of corporate assets, predatory lending, and asset bubbles like the real estate and dot-com "booms."

If the people involved produce anything of value, it is purely incidental to their primary quest for speculative gains, which placed the entire global economy at risk and led to extortionate demands for taxpayer bailouts when their bets went bad. For these labors, the 50 highest-paid private investment fund managers in 2007 averaged $588 million in compensation—19,000 times as much as average worker pay.

We must hold Wall Street accountable, recover some of our losses from those responsible, and preclude a repetition of the credit collapse. The recommendations of the Institute for Policy Studies (IPS), a Washington, D.C., think tank, are a good place to start. In "A Sensible Plan for Recovery," IPS calls on Congress to make Wall Street pay for both the bailout and a true economic stimulus package. The plan recommends a securities transactions tax, a minimum corporate income tax, recovery of bonuses paid to Wall Street CEOs responsible for the crisis, an end to corporate tax havens, and an end to tax loopholes for CEO pay. IPS also calls for extensive federal regulation to limit speculation and assert real oversight over financial markets.

Implementing these recommendations would be an excellent start on limiting speculation and restoring a progressive tax system to achieve a more equitable distribution of economic power. Additional steps are needed to break up concentrations of corporate power, beginning with Wall Street, and to hold the remaining banks accountable to the public interest. Treasury Secretary Henry Paulson's decision to buy a government equity stake in troubled banks is a positive step that may open the way to a deeper restructuring of the financial system.

The federal government should immediately reinstate the provisions of the Glass-Steagall Act prohibiting the merger of commercial and investment banks, and force the breakup of financial conglomerates and any other Wall Street institutions that are too big to fail. As Senator Bernie Sanders has observed, "If a company is too big to fail, it is too big to exist."

2

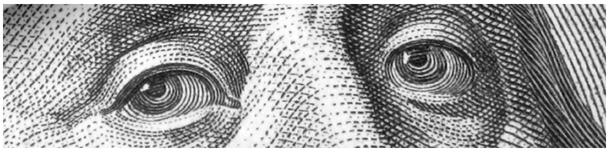
PLAY BY MARKET RULES

Once we extinguish the immediate fire, we can turn our attention to redesigning the institutions of finance to align with the imperatives of sustainability and equity. Ironically, given the excesses committed by Wall Street in the name of market freedom, the economy we need to create looks remarkably like the market economy vision of Adam Smith, revered by many as the father of capitalism.

Smith envisioned a world of local market economies populated by small entrepreneurs, artisans, and family farmers with strong community roots engaged in producing and exchanging goods and services to meet the needs of themselves and their neighbors. His vision bears little resemblance to the Wall Street economy of footloose global capital, credit default swaps, reckless speculation, and global corporate empires.

As I elaborated in *When Corporations Rule the World* and *The Post-Corporate World: Life After Capitalism*, socially efficient market allocation depends on a number of important conditions that Wall Street and those economists devoted to the ideology of neoliberal market fundamentalism routinely ignore. These include:

- Market prices must internalize full social and environmental costs.
- Trade between nations must be in balance.
- Investment must be local.
- No player can be big enough to directly influence market price.
- Economic power must be equitably distributed.
- Every player must have complete information and there can be no trade



» secrets (read: no government-enforced intellectual property rights).

To avoid the distortion of unfair competitive practices, markets must be regulated to assure that these essential conditions are maintained. Think of them as basic principles for securing the healthy, just, and sustainable function of Main Street economies.

3

SELF-FINANCE THE REAL ECONOMY

Far from serving the financial needs of Main Street, Wall Street treats Main Street like a colony to be managed for the benefit of its colonial master. In alliance with the Federal Reserve, Wall Street players have used a combination of control over the money supply, predatory lending practices, and lobbying and campaign contributions to suppress wages, dismantle social safety nets, and capture the value of productivity gains for themselves. The top 1 percent of U.S. income earners increased their share of national cash income from 9 percent to 19 percent between 1980 and 2005, according to Charles R. Morris in *The Trillion Dollar Meltdown*. Income for 90 percent of households fell relative to inflation, household savings rates dropped to less than 1 percent, and household debt soared as Main Street workers struggled to hold their lives together.

Creating a fair distribution of wealth by restoring progressive tax rates, increasing the minimum wage, containing health care costs, and regulating mortgage and credit card interest rates is an essential element of a post-bailout economic agenda. This will help those at the bottom, restore household savings and purchasing power, and, combined with the debt-free money system proposed below, eliminate Main Street dependence on Wall Street financing. The financial services needs of Main Street economies are best served by a federally regulated network of independent, locally owned community banks that fulfill the classic textbook banking function of acting as intermediaries between local people looking for a secure place for their savings and local people who need loans to buy a home or finance a business. Evidence that people with savings are moving their accounts from the giant banks with questionable balance sheets to smaller local banks is a positive step.

Wall Street interests have also rigged the economic game to give a competitive advantage to mega-corporations over the local independent businesses that are the heart and soul of Main Street economies. The New Rules Project of the Institute for Local Self Reliance provides a wealth of recommendations for restoring a proper balance in favor of Main Street that also merit serious consideration.

4

SERVE LIFE, NOT MONEY

Now we come to two foundational design issues that strike at the root of the current economic failure. We must measure economic performance against the results we really want and we must move to the public issuance of debt-free money.

Measure what we really want

The only legitimate function of an economic system is to serve life. At present, however, we assess economic performance solely against financial indicators—gross domestic product (GDP) and stock prices—while disregarding social and environmental consequences. We are now paying the price for years of managing the economy for financial performance, which translates into making money for people who have money—that is, making rich people richer. It was not a wise choice. We now bear the devastating costs of this foolishness in the form of massive social and environmental damage and financial instability.

This would be a good time to start evaluating economic performance against indicators of what we really want—healthy children, families, communities, and natural systems. This would place life values ahead of money values and dramatically reframe the public policy side of our economic decision-making. Happiness, by the way, is an important indicator of physical and psychological health.

We might well continue to track GDP, a measure of economic throughput, as a quite useful indicator of the economic cost of producing a given level of health and well-being. When we recognize that GDP represents cost, not gain, it becomes clear why making it grow is a mistake. A

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number of researchers have been pointing out that happiness, as well as other indicators of human, social, and environmental health, have been declining even as GDP increased, but their appeals have been largely ignored. We continue to manage our economies to maximize the cost, rather than the benefit, of economic activity. The shock of financial collapse creates an opportunity to draw attention to this substantial anomaly. We will know we have turned an important corner when business news reporters happily announce, "It has been a successful quarter. Happiness rose by two points and GDP is down by one point."

Convert to debt-free money

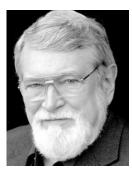
This brings us to the most important reform of all: changing the way we create money. One key to Wall Street's power and to the inherent instability of the financial system is the current practice of private banks creating money with a simple bookkeeping entry each time they make a loan. Because the bookkeeping entry creates only the principal, but not the interest, unless the economy grows fast enough to generate sufficient demand for loans to create the new money required to make the interest payments on the previous loans, debts go into default and the financial system and the economy collapse. The demand for repayment with interest of nearly every dollar in circulation virtually assures the economy will fail unless GDP and inequality are constantly growing.

Leading economists and political figures, including Thomas Jefferson and Benjamin Franklin, have advocated replacing the system of bank-created debt-money with an alternative system in which the government creates debt-free money by spending it into existence to fund public goods like infrastructure or education. The suggestion that government create money with the stroke of a pen sets off all sorts of alarm bells about runaway inflation. The primary change, however, would simply be that the entry is made by government for a public good rather than by a private bank for private profit. Ellen Hodgson Brown's *The Web of Debt* is an informative current review of issues and options.

Privately issued debt-money adds to debt and taxes and bears major responsibility for environmental destruction because it requires infinite growth, extreme inequality because it assures an upward flow of wealth from Main Street to Wall Street, and economic instability because issuing loans to fuel reckless speculation generates handsome short-term bank profits. Publicly issued debt-free money would greatly reduce debt, taxes, and environmental harm, be more equitable, and increase financial stability. In a democracy, it should be ours to choose.

THIS IS AN OPPORTUNE MOMENT TO MOVE FORWARD an agenda to replace the failed money-serving institutions of our present economy with the institutions of a new economy dedicated to serving life. The idea that we humans might put life ahead of money may seem unrealistic and contrary to our human nature. Surely, that is what our prevailing cultural story would have us believe. That story, however, has no more validity than the story that Wall Street speculation serves a higher public purpose. As I noted in my article "We are Hard-Wired to Care and Connect" in the Fall 2008 issue of YES!, scientists have found that the human brain is hard-wired for compassion and connection.

My many years living abroad in Africa, Latin America, and Asia taught me that people of every race, religion, and nationality the world over share a dream of a world of happy, healthy children, families, and communities living in vibrant, healthy, natural environments. When they see an opportunity, people are willing to make extraordinary investments of their life energy in an effort to actualize this dream, as regularly documented in the pages of YES! Liberated from the predatory grip of Wall Street, this long-suppressed energy has the potential to transform our relationships with one another and Earth, and to realize our shared dream of a world that works for all.



David Korten is author of the international bestseller *When Corporations Rule the World* and *The Great Turning: From Empire to Earth Community*. He is co-founder and board chair of YES! Magazine, and a board member of the Business Alliance for Local Living Economies.

Interested? New Rules Project: *www.newrules.org*. *The Web of Debt*: *www.webofdebt.com*

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Read the YES! Take on economic and financial solutions, including the IPS Plan for Recovery.