Principles for a new economy

This working paper has been developed by the New Economics Foundation for discussion at the Summit in Copenhagen 10th – 11th September 2015, to mark the launch of the European New Economics Research and Policy Network. It has been developed from discussions at two roundtable events held in Brussels and Vienna in November 2014.

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Introduction

The financial crisis and its aftermath have laid bare many of the fundamental flaws both in neoclassical economic theory and in the neoliberal policy prescriptions it has been used to justify. It is becoming increasingly clear that this economic orthodoxy is incapable of addressing the interlinked crises we face: crises of sustainability, inequality and financial instability. Connections are being built between different schools of heterodox economic thought to better respond to the crisis of orthodox thinking. The discipline itself is in a state of flux.

Meanwhile, there is a growing public unease about the way the economy works – reflected for example in the Occupy movement. Yet the recognition that we have fundamental problems has yet to be matched by awareness of potential solutions. If we are to overturn the discredited orthodoxy and achieve systemic change, history tells us that we need a compelling new narrative about what will replace it: in other words, how the economy can work differently This project brings together leading thinkers with the aim of finding a shared narrative which different schools of thought can unite around and articulate in a way that rivals the clarity and simplicity of the neoliberal message.

The last systemic economic shift in the early eighties had a set of principles that could be used over and over again to develop the next wave of policy. At root, these were that for the economy to work well you needed to limit government, free markets, and focus on the individual as a consumer. These principles are not only reflected in the assumptions that underpin the currently dominant strand of economics but, critically, also provide the foundations for the dominant narrative about how the economy works.

As with all systemic changes these principles then strongly influence how we measure success, how we reform institutions, how we make decisions, who makes the decisions, and so on. The notion 'there is no alternative' gathers strength in this way, to such an extent that – despite their contribution to challenges such as growing inequality, increasing environmental damage and financial instability – these principles continue to set the parameters for debate about how to resolve those challenges. In part, this is because of the failure to articulate a clear and positive alternative. If we are to move to an economic system that delivers wellbeing for all within environmental limits, we need a new set of principles for a new economy.

This will not happen overnight and it will not be produced by one person or even one organisation. It needs to be co-produced by people from different perspectives. This Summit is a step along the road to identifying the common ground that unites our visions of the new economy, and this paper is intended to stimulate debate at the beginnings of that process.

To reiterate, by 'principles' we mean general rules about how the economy should be run – analogous to the current prescription of free markets and limited government. We do not mean principles in the sense of axioms (although, as we highlight throughout the paper, these principles must draw on the insights of heterodox economics about how the economy really works), or in the sense of ethical values or beliefs (although any such principles inevitably reflect a normative standpoint).

There are some criteria which we suggest these principles must meet in order to be effective. They should be:

- intellectually robust: grounded in theoretical and empirical insights about how the economy really operates
- fundamental: apply to how the whole economy works, not just to specific issues or outcomes
- actionable: it is clear how they can be applied in practice to specific problems or situations
- effective: contribute to achieving the outcomes we want
- distinctive: clearly setting the 'new economics' apart from neoclassical economics

In this paper, we set out a provisional summary of how new economic schools of thought differ from neoclassical economics in their understanding of the economy, and how this might translate into new principles for policymaking. This is intended as a catalyst for discussion and debate within the European New Economics Research and Policy Network as we shape a common understanding of common issues we can align around.

Part 1: What is the economy – and how does it work?

Whilst we come from many different perspectives and may not agree on everything, we believe the members of the Network share a set of ideas about what the economy *is* and how it works which fundamentally differ from that of mainstream economics. These draw on various schools of heterodox economics, including ecological economics, feminist political economy, Marxist and post-Keynesian schools of thought, and behavioural economics – not to mention other disciplines. They are the foundation for building a set of shared ideas about how the economy *should* be organised which can be used as the basis for developing and influencing policy.

Defining 'the economy'

Neoclassical economics treats 'the economy' as broadly synonymous with 'the market'. Its framework of analysis is limited to things which can be monetised and given a (real or imaginary) market price. But 'economy' can be defined much more broadly than this, as **the way society organises itself to provide for the needs of its citizens**. Markets are just one way of doing this: the economy also includes various kinds of **uncommodified production and exchange**, such as unpaid household labour and social relationships which provide for human needs such as care and shelter.

It is inconsistent to treat these kinds of activity as 'economic' only if they can be monetised or brought into the market (for example, through paid care work). When we talk about the economy, our frame of reference must be much broader. We should value these non-market spheres on their own terms, and not force them into an inappropriate neoclassical framework.

'Economy' can also be understood in its original Greek sense of 'oikonomia', or 'household management': i.e. the **management of resources**. This points to the need to widen our frame of reference still further, to include the **natural systems** from which all inputs derive and on which all economic activity depends. Neoclassical economics does not recognise natural resources as a distinctive factor of production, treating them as a form of capital.

But natural resources are finite and, once exhausted, cannot be substituted with other forms of capital. (For example, it does not matter how many ovens a baker has, or how much money he has available, if there is no flour with which to make his bread.)

We recognise that **the market economy is a subset of a social system, which in turn is a subset of an ecological system.** When we talk about 'the economy', we are talking about the interaction of all these systems to provide for human needs using the available natural resources. This requires us to draw on a range of disciplines beyond formal economics, including sociology, anthropology, psychology and ecology. It means that we need to operate at various levels of analysis, including social institutions and ecosystems: the operation of the economy **cannot be understood simply in terms of the interaction of atomised individuals**, as orthodox economics assumes.

We also respect and acknowledge the fact that all of these are **complex adaptive systems in which the future is uncertain**, and cannot be reliably predicted using mathematical models. To think we can describe the future in terms of risks, with quantifiable probabilities, can provide false confidence. Keynes talked about "irreducible uncertainty" – things about the future we simply cannot know. This points us towards greater caution when it comes to systems we do not fully understand, such as the global climate.

Analysing the free-market economy

As well as insisting on the need to broaden our frame of reference beyond the market economy, we also require a new approach to analysing the market economy itself – one which challenges many of the basic assumptions of orthodox economics.

- **Individuals are not rational utility-maximisers.** Behavioural economics has shown that we do not have stable preferences which we then seek to satisfy by making rational decisions, as neoclassical economics assumes.
- **Wealth and power inequalities shape economic outcomes.** As Marxist and post-Keynesian analysts recognise, to understand the operation of market economies we must look at who controls the means of production and exchange, and at levels of inequality in wealth and power.
- **In a free market system, wealth and power tends to trickle up, not down.** Contrary to the claims of neoliberals, the evidence of the past few decades suggests that free-market economies tend to concentrate wealth and power.
- **Markets, particularly financial markets, are inherently unstable.** Economists such as Hyman Minsky and John Maynard Keynes have shown how markets tend towards cyclical instability, particularly in highly financialised economies, and not towards equilibrium as orthodox models assume.

- **'Market failures' are the norm, not the exception.** Imperfect information, imperfect competition and externalities are all pervasive features of the operation of markets – not aberrations which can be corrected at the margins.
- **Money is a social relationship; it is not a 'neutral veil' but actively shapes economic outcomes.** Money is a social relationship between debtor and creditor. The creation of money as debt shapes economic outcomes and drives financial instability: it is not simply a neutral facilitator of exchange.
- **Natural resources are often not suited to efficient allocation by markets,** especially where they are 'non-excludable' (i.e. I cannot stop you from using it if you have not paid) and 'non-rival' (i.e. me using it does not prevent you from using it).

Part 2: What is the economy for?

Valuing what matters

The prevailing ideology of neoliberalism is based on a set of values which prioritises individual choice and achievement. Although mainstream economic thinking presents itself as morally neutral, it also reflects a particular system of values, one which fails to give due weight to outcomes for society and the environment. For example:

- It equates individual welfare with material consumption, yet wellbeing evidence demonstrates that non-material factors such as security, social relationships and sense of purpose are much more significant influences on our welfare once basic needs are met. Furthermore, it undervalues the role of public goods and a cohesive society with collective values such as solidarity in achieving welfare.
- It underplays distributional issues, focussing on aggregate 'utility' rather than its distribution. It ignores the winners and losers of policy decisions, thus denying the possibility to consider social justice outcomes.
- It assumes that the value of things is best reflected in market prices – i.e. their exchange value rather than their use value. But these prices reflect and reinforce the existing distribution in income and wealth as they allocate good and services on the basis of ability and willingness to pay. Moreover, the use of money as a universal unit of economic value leads to an undervaluing of things which cannot be monetised.

It is therefore necessary to be honest and explicit about the values which underpin new economic thinking. Work by Stewart Wallis and Jim Wallis for the Global Agenda Council on Values suggests that there are three core sets of values which transcend differences in cultural context:

- The dignity of the human person
- The importance of a common good that transcends individual interests
- The need for stewardship – a concern, not just for ourselves, but for posterity and the health of the natural world.

In other words, we need to reassert the importance of collective values such as solidarity, community and the common good; but this does not mean that we abandon values such as individual freedom and dignity to neoliberals. Rather, it gives us a different approach to those values, which emphasises people's ability to flourish and to live fulfilling lives, and which values freedom from economic exploitation, rather than reducing the idea of freedom to an absence of state interference.

We also reject the growing encroachment of monetary and market values into all areas of social life – recognising that some spheres should be governed by other values, such as reciprocity, care or public service (see e.g. Michael Sandel).[1] Cost-benefit analysis methods which only value that which can be monetised lead to skewed policy outcomes. We need new methods which use different yardsticks, whilst also recognising that 'not everything that counts can be counted – and not everything that can be counted counts'.

Outcomes of the new economy

Neoliberalism focuses on goals which are essentially means to an end (e.g. growth, productivity, employment – see below). This stifles debate about what ultimate outcomes we want the economy to serve, making social and environmental goals subject to the supposed needs of 'the economy' rather than the other way around. Of course, there will be differences in the kinds of vision we have about a desirable society. But we think that there are key outcomes everyone can be agreed on which respond directly to the crises of contemporary capitalism but which also intrinsically matter.

Human wellbeing

By human wellbeing we mean how well people's lives are going. There are different perspectives on how this is best measured, ranging from using self-report measures to assess people's experience of their lives, to measuring determinants of wellbeing such as individual income or education.

According to data on self-reported wellbeing, wellbeing in many wealthier countries has not increased in line with gross domestic product (GDP) over recent years. Indeed, in the USA, wellbeing levels have even declined. In other words, economic 'progress' as conventionally understood in Western Industrialised Countries is failing to consistently improve our quality of life.

Equality & social justice

Increasing 'average' wellbeing is not enough if some groups are losing out. We also need to focus on wellbeing inequalities – i.e. ensuring that everyone is equally able to flourish and live a good life. Central to that is inequality of resources and opportunities, and thus of income and wealth (economic inequality), which is particularly relevant today, when the richest 80 people in the world now have more wealth than the bottom half of humanity, 3.5 billion people.[2] As well as being desirable in itself, reducing inequality is fundamental to achieving human wellbeing and sustainability.

Sustainability

Ecological sustainability matters not just from the perspective of intergenerational equity ('meeting the needs of the present without compromising the ability of future generations to meet their own needs'), but also from the perspective of our moral duty to non-human species. Achieving an economic system that remains within environmental limits is crucial.

Scientists now estimate that we are on course for a minimum temperature rise of four degrees centigrade compared to pre-industrial levels. We are also exceeding safe boundaries in biodiversity and the nitrogen cycle (Rockström et al).[3] The 2005 *UN Ecosystems Assessment* report[4] showed that 15 out of 25 major ecosystem services were either in decline or in major decline, including pollination systems, fresh water, top soil and fish stocks. Reversing these trends must be a key objective of a new economic system.

Rethinking progress

All of this suggests that a new economics requires a new understanding of progress – one which recognises that material wealth is only one determinant of wellbeing and replaces the endless pursuit of 'more stuff' with the pursuit of 'enough to live a good life' (Dan O'Neill, Robert Skidelsky).[5] Far from being an economics of sacrifice and austerity, this is an economics of abundance: as Keynes foresaw in his essay 'Economic possibilities for our grandchildren', technological advances have allowed us to meet our needs with less and less labour time.

Instead of responding to this by producing ever-more consumer goods, we can prioritise creating more time for the things which really make life worthwhile – caring, relationships, learning, leisure. This means changing the way we value our time.

This requires a change to the way we *measure* progress: GDP growth, which only values commodified production and exchange, is no longer (if it ever was) an adequate proxy for the ultimate aim of achieving good lives for all within ecological limits. Subsidiary measures of success which are also based on economic output, such as efficiency and productivity, are also unhelpful. For example:

- **Efficiency**: we need to change the way we think about efficiency, placing much more emphasis on our efficiency at turning resources into human wellbeing, rather than at turning money into more money. We also need to place less emphasis on achieving the most 'efficient' economic solutions at any one time, and more emphasis on *sufficiency*, and on resilience to future risks and uncertainties (including ecological resilience), recognising that there is often a trade-off between the two.

- **Productivity**: the pursuit of ever-rising labour productivity helps to embed a growth imperative because, under the current system, consumption needs to continually rise to maintain the same level of employment (Tim Jackson).[6] Moreover, the new economy is likely to involve expanding sectors which do not lend themselves to increasing productivity, such as care work.

The “growth fetish” (a term coined by Clive Hamilton)[7] at national level is linked to growing materialism at individual level. It means we systematically make decisions as societies and individuals that short-change us in terms of other factors, such as social relationships. Rethinking progress therefore means weakening the forces which distort our values, such as the constant exposure to messages around consumption through advertising.

One of our key challenges is to build a new political economy which makes all of this possible. In the next section, we explore some of the ways in which the economy might need to be organised differently to deliver the outcomes we want. We have sought to condense these ideas into five core principles:

1. Democratise power relations
2. Democratise ownership of wealth and resources
3. Revalue and redistribute paid and unpaid time
4. Solidarity, co-operation and mutual aid
5. Respect ecological limits

Part 3: How should the economy be (re)organised?

1) Democratise power relations

Why is this principle needed?

Politics is all about choices: how money is created and for what; how people are rewarded for their contribution to society; how we achieve rapid reductions in greenhouse gas (GHG) emissions.

Neoliberalism holds that markets are essentially a democratic way of making these choices, that individuals should exert influence as consumers, rather than as workers or citizens, and that the only alternative is to concentrate power in bureaucracies. In practice, the neoliberal experiment has demonstrated that unfettered markets enable a few firms (and individuals) to concentrate wealth and power, and that economic and political power are mutually reinforcing.

Thus, the shift in power from democratic institutions to private institutions in recent decades – for example through deregulation – has led to the concentration of decision-making power in a small and unaccountable elite. It has also hugely strengthened (and disproportionately favoured) the power of global capital in relation to the power of labour. Challenging these concentrations of unaccountable power is crucial to achieving sustainable, equitable wellbeing.

Because managing the economy involves trade-offs between different interest groups, and decisions in which there will be winners and losers, it needs to involve an element of collective decision-making and debate: we cannot rely on the market or on mathematical models to deliver the 'optimal' solution. Leaving matters to private organisations without any remit to deliver the common good also renders us incapable of addressing collective action problems such as climate change or biodiversity loss, where what is individually 'rational' may be collectively irrational.

What does it look like in practice?

Spreading power more evenly means (re)building institutions – both political and economic – which operate on the principle of 'one person, one vote' as opposed to 'one dollar, one vote'. We can break this down into three key areas:

- Reasserting the ability of governments to intervene in the economy - for example, through co-ordinated industrial policy in the service of economic goals such as the creation of enough good jobs and reductions in carbon emissions; democratic regulation in the service of social and environmental outcomes; or reclaiming democratic control over key decisions such as how money is created and allocated, and over the global movement of capital.

- Democratising political institutions themselves – for example, by restricting the power of big money in politics, promoting more participatory democracy, and taking decisions as close as possible to those they will affect.
- Promoting more democratic economic institutions, both public (e.g. through co-production of public services) and private (e.g. through employee representation within listed companies; co-operatives, mutuals and other alternative corporate forms; and working practices which break down unnecessary hierarchies and give people more control over their work).

This principle needs to be reflected at local, regional and national levels, but we also need effective democratic mechanisms of global governance of the economy and its resources. Without this, the power of globalised finance and corporations will always constrain democratic governments' room for manoeuvre.

Finally, we also need to recognise the ways in which economic and political power interact with identities such as race, gender, class, disability and sexual orientation. Democratising power relations is not just about creating spaces in which people have equal formal rights to participate, but also about addressing structural inequalities and oppressions which prevent people from participating on an equal footing.

How does it help to achieve the outcomes we want?

- *Wellbeing*: Evidence shows that a sense of control over one's life is a key driver of wellbeing. Replacing the unaccountable power of the market with accountable democratic decision-making should therefore enhance wellbeing.
- *Sustainability*: The scale and urgency of environmental challenges mean they cannot be addressed without effective collective action.
- *Equality*: The systemic growth in economic inequality is a structural issue with the current economic system and demands a principle that addresses the root cause of power imbalances.

Questions*:*

Does the language of ‘democratisation’ disguise distinctions between interest groups, for example between capital and labour, or is this inclusiveness a good thing? What does it really mean to ‘democratise’ power relations?

Are restoring power to democratic governments and promoting democratic economic institutions part of a single coherent concept, or should they be treated separately?

2) Democratise ownership of wealth and resources

Why is this principle needed?

Contrary to the neoliberal promise of a share-owning or property-owning democracy, in recent decades wealth has trickled up, not down. As Thomas Piketty[8] has recently argued, ownership of wealth tends to concentrate over time, as 'wealth begets wealth', and at a faster rate than the growth of the economy as a whole. Highly concentrated private ownership of key economic assets, such as land, enables economic rents to be extracted from the rest of society, exacerbating wealth inequalities.

Neoliberalism has intensified this process by demanding the privatisation of public services and utilities; this prescription is now being forced on Greece just as it was on indebted developing countries in previous decades.

In countries like the UK, the economy is increasingly dominated not just by private ownership but by a particular form of private ownership – the shareholder-owned corporation. The changing nature of shareholder ownership means that global capital markets exert growing influence even in countries which still have a more diverse mix of ownership models, such as Germany. Yet the evidence shows that this model is leading to the prioritisation of short-term financial returns at the expense of the real economy and of long-term sustainability.

As well as this general problem, there are also particular kinds of assets for which the neoliberal approach to ownership is not appropriate. As is recognised by growing international movements, there are some forms of wealth which belong to all – or none – and which should be owned in common and managed for the good of all, including future generations. These include some natural resources, such as clean air and oceans, as well as shared social creations such as public spaces and ideas.

What does it look like in practice?

Democratising ownership means both spreading wealth into more people's hands, and – crucially – promoting more democratic ownership models. Piketty recommends an international wealth tax to counter the tendency of wealth to concentrate, but we cannot rely solely on correcting these outcomes 'after the fact' – we also need to find ways to prevent them arising in the first place, by challenging existing patterns of ownership in relation to key public goods, such as natural resources.

This does not just mean state ownership, but a whole range of economic alternatives – including in relation to intellectual property (e.g. 'open source' software and 'creative commons licenses'), resources (e.g. shared and common ownership, community land trusts, community energy projects), and corporate form (e.g. co-operatives and mutuals). Of course, this is not to exclude state ownership of certain resources and/or state provision of public goods (which remains popular even in highly liberalised countries such as the UK). Taken together, these will redress the balance between private and other forms of ownership, yielding a more diverse ownership structure - which also has the benefit of making our economies more resilient.

This principle is closely linked to Principle 1, as many of these models help to democratise decision-making power as well as ownership itself: co-operative and mutual ownership is linked to governance mechanisms which rebalance economic power and engage individuals as workers and citizens.

How does it help to achieve the outcomes we want?

- *Wellbeing*: Making firms responsive to a wider range of stakeholders should also improve those stakeholders' wellbeing (e.g. better working conditions for employees). More diverse and democratic ownership models should also help to make communities more resilient and less susceptible to volatility in global markets, thus making people feel more secure.
- *Equality*: democratising ownership will help to disperse economic power more widely and counter the 'trickle-up' effect whereby wealth and power concentrate in fewer and fewer hands.
- *Sustainability*: Democratic ownership of natural resources could aid sustainability by removing them from market-driven incentives to maximise short-term profits, and giving those with a stake in the land a say in decisions about it.

Questions*:*

Is it right to distinguish democratic governance and democratic ownership as two separate principles?

Is this the right way to deal with questions of ownership? Is the language of 'democracy' the right one?

3) Revalue and redistribute paid and unpaid time

Why is this principle needed?

A successful economy must provide meaningful work for all in the right quantities. While mainstream economics treats people first and foremost as consumers, a new economics would recognise that work matters - not just as a source of income to buy consumer goods, but as a livelihood that gives a sense of meaning, purpose and a place in society.

Features of good jobs include a decent income, job security, opportunities for progression, satisfying work, a voice at work, decent conditions and a good work-life balance. As technology advances, providing enough good jobs is likely to involve reducing and redistributing working hours.

The other side of this coin is the need to revalue and expand the sphere of unpaid work – the many ways we use our time and provide for each other which do not involve wage labour. Many schools of heterodox economic thought emphasise that the economy depends on unpaid and uncommodified work: the family, neighbourhood, community and civil society are responsible for the provision of a range of goods essential for human flourishing.

Feminist political economy argues that the continuing availability of labour depends on the 'social reproduction' which occurs in the home, often referred to as the core economy (Goodwin, Fraser) – work which is disproportionately carried out by women.

What might it mean in practice?

These uncommodified spheres operate according to social laws of "obligation and reciprocity" (Cahn)[9] rather than market rules – and should be protected and expanded on their own terms, rather than being commodified and forced into the market (for example, the expansion of low-paid care work as excessive working hours elsewhere in the economy leave people without time to look after their relatives).

So this is not about 'valuing' unpaid work by monetising it or turning it into paid work – rather the opposite. This is about explicitly recognising the limits of markets and reorienting the economy so that unpaid time is treated as a valuable social resource to be protected and expanded. More generally, we need to consider time – and people's control over their own work and time – much more explicitly as a dimension of social and economic activity.

In particular, this might mean promoting shorter working hours, and promoting good jobs. It also means working towards a more equal distribution of paid and unpaid time (as opposed to some being overworked and others unemployed), including addressing gender inequalities (such as the tendency for women to have less control over their time and more unpaid caring responsibilities). Achieving this will require strengthening the power and share of economic value enjoyed by labour, which has been eroded in many European countries in recent decades (see Principle 1).

How does it help to achieve the outcomes we want?

- *Wellbeing*: evidence shows that social relationships are vital to our wellbeing. Recognition of the value of care and other uncommodified activities should also enhance the wellbeing of people engaging in these activities.
- *Sustainability*: redistributing paid and unpaid time contributes to sustainability by reducing the growth imperative arising from increasing labour productivity, and giving people the scope to live in ways that are more time-intensive and less resource-intensive – for instance, to craft and repair rather than buy and throw away.
- *Equality*: redistributing paid and unpaid work, and control over one's work and time, has the potential to promote greater equity and social justice, especially if combined with a concern for gender equality. Control over one's time is currently distributed very unequally through the economy.

Questions*:*

The ideas in this principle are described using many different terms, such as the core economy, the uncommodified economy, the reproductive economy, provisioning, etc. What is the best way to describe this principle? Is talking about work and time too specific?

4) Solidarity, co-operation and mutual aid

Why is this principle needed?

The new economics recognises that human beings are fundamentally social creatures; that our wellbeing depends on others, individually and collectively; and that co-operation and collective action are natural, effective and legitimate means of achieving social goals.

Similarly, it acknowledges that a successful economy depends on everyone in it – not on a small number of entrepreneurial 'wealth creators' – and that mutual dependence is part of the human condition, not a pejorative term to be applied to an underclass of unproductive or lazy 'dependents'.

This is the inverse of the individualism which dominates conventional economics. Neoclassical economics takes the atomised utility-maximising individual as its unit of analysis – and assumes that consumption choices are the means through which utility is maximised. It therefore treats people first and foremost as consumers (rather than as producers, carers, citizens) and prescribes competition as the way to maximise social welfare by driving down consumer prices. Co-operation is equated with cartelisation and collective action is equated with bureaucratic and unjust state intervention.

Politically, this has been linked to an individualisation of risk (the residualisation of welfare systems and the demonisation of benefit claimants, particularly in more liberalised countries like the UK) and reward (the claim that wage inequality is the result of individual talent or effort, and that progressive taxation amounts to illegitimate theft from 'wealth creators').

What might it mean in practice?

This principle has implications in a variety of spheres. For instance, it suggests that pooling risks and resources through collective insurance (e.g. via national social security systems and decentralised mutual institutions) is preferable to leaving individuals to 'sink or swim' in the markets. It legitimises collective action, through the state and other collective institutions in pursuit of shared societal goals.

This pooling of resources makes feasible investments to prevent future negative social outcomes, for example investing in early years, or improving public health. And, by recognising that there is not a straightforward relationship between market rewards and the social value of work, it points towards more active intervention to address income inequality – both through progressive taxation and through more 'upstream' measures to tackle excessively high and low pay.

It also means that production and exchange should be based as far as possible on relationships of equality and respect for human dignity, rather than exploitation. This might point towards more co-operative forms of organisation at firm level (see Principle 2), or at community level – for example, mutual aid networks and the sharing economy.

This principle applies at international as well as national level. For example, global co-operation is essential to deal with the challenge of climate change, and this must be on the basis of a fair distribution of burdens and benefits, between the developed and the developing world. It also applies at intergenerational level: a serious commitment to sustainability implies solidarity with future generations. Achieving this will require significant cultural and institutional changes.

How does it help to achieve the outcomes we want?

- *Wellbeing*: evidence shows that social relationships are a key determinant of our wellbeing, while consumption is relatively unimportant. This fundamentally undermines the neoclassical account of individual and social welfare: 'There is such a thing as society'. Security is also an important component of high wellbeing in society.
- *Sustainability*: solidarity, both with others in the global economy and with future generations, is an important underpinning for action to address environmental crises in a socially just way. The scale and urgency of these challenges mean they cannot be addressed without effective collective action.
- *Equality*: This principle enables both the acknowledgement of reducing inequality as an important societal goal, and the collective actions required to achieve it.

Questions*:*

If co-operation and solidarity tend to occur most naturally within social groups (including nation states), how can we extend the spirit of co-operation beyond these borders?

Is this principle sufficiently clear and actionable?

5) Respect ecological limits

Why is this principle needed?

The greatest challenge for the new economic system is that we know we are now already exceeding the earth's carrying capacity in relation to three 'planetary boundaries': climate change, the nitrogen cycle, and biodiversity loss (Rockström). No longer can the economy be considered as a system operating in a theoretical vacuum. Rather, it must be seen as a subset of the biosphere: the economy rests on a healthy, strong, well-functioning set of natural systems. This means taking seriously the idea of environmental limits to economic growth - understanding that there are real thresholds, and non-linear irreversible changes that have fundamental consequences for humans and other species.

It also means that we need to go beyond the conventional approach which treats environmental degradation as an 'externality', a form of market failure which can be addressed by being priced into existing markets, or by creating new ones. Instead we must recognise that natural resources are the ultimate source of all economic inputs (Daly, Douthwaite)[10], and are not substitutable for other forms of capital, as assumed in neoclassical economics.

Our approach to natural systems must be grounded in the physical laws by which they operate. Rather than simply focussing on reducing our negative impact on the environment, we should seek to positively *strengthen* and maintain the economy's ecological foundations. Among other things, this requires institutions which can take a long-term perspective in decision-making and represent the rights of future generations to a healthy environment.

What might it mean in practice?

This principle implies that environmental impacts should by default be factored into decision making processes, in a way that takes into full account the potential impacts of exceeding environmental 'tipping points'. In other words, it is not enough to monetise these impacts and trade them off against other expected costs and benefits. Rather, staying within environmental limits must be a non-negotiable goal of economic policy.

This points towards policies such as hard caps on carbon emissions and resource use, rather than simply relying on tools such as taxes and carbon pricing, which do not by themselves guarantee that we will stay within ecological limits. Other economic targets – such as growth rates – must be subject to these limits, rather than the other way around.

We also need to apply the "precautionary principle" when dealing with systems, like the climate system, which we do not fully understand, and which are characterised by positive feedback loops and non-linearity. This is particularly important when we are so close to, or have already crossed, environmental limits (e.g. Rockström). For example, we should not make rash assumptions about technological innovation and its ability to reduce the environmental impacts of economic activity, and we should focus investment on prevention and restoration.

However, it is important to emphasise that this is not simply a technocratic agenda: as discussed earlier in the paper, strong democratic institutions and a concern for global social justice will be essential to dealing with the environmental challenges we face in a way which lives up to our other values.

In practice, respecting ecological limits might imply new mechanisms to govern the global commons, for example via environmental regulation and/or common ownership of resources (see Principles 1 and 2). This should enable specific actions to restore and strengthen natural systems, such as halting overfishing to allow fish stocks to recover, or protecting and restoring biodiversity by conserving ecosystems.

How does it help to achieve the outcomes we want?

- *Wellbeing*: strengthening natural systems is obviously an essential condition for protecting the wellbeing of future generations. Evidence also shows that the quality of the environment directly affects our wellbeing; the 'biophilia' hypothesis (Fromm, Wilson)[11] suggests that connection with the rest of the natural world is a fundamental human need.
- *Sustainability*: strengthening natural systems is clearly essential to remaining within environmental limits. This principle also recognises the non-substitutability of natural resources for manufactured capital, and therefore points to the application of 'strong sustainability' conditions.
- *Equality*: It is often the poorest who suffer most from the degradation of natural systems, as we see with climate change. Of course, sustainability also has to be achieved in an equitable and socially just way (see Principle 4).

Questions*:*

Are ideas about the 'regenerative economy' or the 'circular economy' important to operationalise this principle?

What are the key changes to the political economy needed to ensure that we remain within ecological limits?

Innovation and creativity: an important part of the story?

Some participants at our roundtables felt that any new narrative about the economy had to counter the neoliberal story about innovation: i.e. that free-market capitalism is inherently more dynamic than other ways of organising the economy, and that innovation comes from competition between profit-maximising firms, or between exceptional individuals. Although we reject the idea that ecological challenges such as climate change can be solved purely through technology, meeting these challenges will clearly require a system that is able to innovate and adapt.

They also felt it was important to stress the need for liberation and autonomy, as well as for more collectivism and community: neoliberalism should not have a monopoly on the idea of individual freedom. In the rest of this paper we have talked about ideas such as freedom from exploitation or oppression and control over one's own labour, which offer a distinctive approach to these ideas. But might this also be relevant to the question of how we approach innovation and creativity?

The neoliberal story about innovation and change can be challenged on a number of levels:

- *Is innovation always desirable?* There is ample evidence that profit-making innovations are not always socially useful: for example, financial innovation in the 1990s and 2000s created 'financial weapons of mass destruction' which helped to produce the crisis of 2008. Pharmaceutical companies have been shown to focus their research & development on 'me-too drugs' (patenting slight variations on existing treatments) and on lucrative markets such as cosmetics, rather than on developing life-saving treatments for conditions like malaria. What we want is **socially useful innovation** – not innovation for its own sake – and it is far from clear the existing system is the most efficient way to provide this. And might the obsession with innovation risk blinding us to the need to rediscover ancient wisdom and wrongly discarded ways of doing things?
- *Does innovation always come from the private sector?* Economists such as Mariana Mazzucato have challenged the idea that the private sector is dynamic and innovative while the public sector is slow and unable to change. In fact, she argues, private sector firms are often too subject to short-term profit-maximising pressures to fund basic research – it tends to be the state which can have this long-term vision. Mazzucato shows how the key elements of innovations like smartphones were all developed by **state-funded research institutions**.[12]

- *How do we enable people to create and innovate?* The neoliberal story emphasises competition between individuals as the source of innovation. But we could argue that in fact innovation most often comes from co-operation and collaboration (see Principle 4), in a context where people are liberated from unnecessary hierarchies and empowered to make their best contribution (see Principle 1). Our vision of a new economy is not just about making space for co-operation, but also about **liberating people from oppressive structures which constrain their creativity.**
- *How do we create systems that are able to adapt and innovate?* Here we can draw on principles from disciplines like ecology, learning from what makes a resilient and adaptable ecological system. Key to this is **diversity** - at both institutional and individual level. Neoliberalism has promoted a 'monoculture' of privately-held, profit-maximising firms by eroding other forms of economic organisation. It has also favoured 'mega corporations' and other large institutions by constantly seeking economies of scale, rather than '**appropriate scale'**. By promoting greater diversity – both in terms of corporate form, and in terms of the scale of economic activity, from the small-scale community level to large-scale international co-operation – we can actually enhance the system's potential for experimentation and adaptation.
- *Who controls and benefits from innovation?* As discussed in relation to Principle 3, there are big questions about the implications of the current wave of technological innovation for the world of work. The current economic system produces **innovations which enable capital to replace labour with technology**. Recent commentary has speculated that robotisation will fundamentally change the labour market. How should we engage with these debates? Should such innovation be resisted for destroying jobs, or embraced for its potential to enhance our leisure time? The answer perhaps depends on whether we can successfully transition to a new way of organising the economy which is able to translate labour-saving technology into more leisure rather than more profit or more consumption.

Questions*:*

Is innovation important?

There are a number of key related concepts here: socially useful innovation, adaptive systems (including ideas about diversity and appropriate scale), and individual autonomy or creativity. How should these ideas be incorporated into a set of principles for a new economy?

What next?

This is a working paper designed to provoke discussions at the Summit, and within the European New Economics Research and Policy Network about the ideas which might unite those working for systemic economic change, and the disruptive issues which could help us to advance that change.

Comments or challenges about the format or the content of the paper are welcomed. In addition to the specific questions outlined at the end of each section, there are also some general questions we would appreciate your thoughts on:

- Have we emphasised the right issues, ideas and principles? Are there key issues you think we have missed out?
- To what extent are these ideas applicable to all European countries? To the global economy? At what level should we try to seek alignment about the changes needed to transform our economy beyond neoliberalism?
- Are there thinkers or schools of thought that we have not taken into account, or that should be referenced?
- Currently the status of this paper is that it remains a discussion working paper for internal use by the network - should it be developed as an external document?

Endnotes

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