Visions of Regional Economies in a Great Transition World

GTI Paper Series

Frontiers of a Great Transition

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GTI is a global network of engaged thinkers and thoughtful activists who are committed to rigorously assessing and creatively imagining a *great transition* to a future of enriched lives, human solidarity, and a healthy planet. GTI's message of hope aims to counter resignation and pessimism, and help spark a citizens movement for carrying the transition forward. This paper series elaborates the global challenge, future visions, and strategic directions.

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Visions of Regional Economies In a Great Transition World

Introduction

This paper aims to specify three different economic systems that would be consistent with Great Transition values and principles as portrayed in *Great Transition Today: A Report from the Future* (Raskin, 2006a). We envisage a world in which all three of these systems might peacefully coexist and interact fruitfully with one another. One of these systems is a clear descendent of twentieth century capitalism. One is a socialist alternative to capitalism. One is something completely new, a "small is beautiful" alternative theorized by E. M. Schumacher and others that builds on a new conception of modernity particularly appropriate for, although not confined to, agrarian regions of the world.

The GT vision of the global future is rooted in the values of human well-being, solidarity, and environmental sustainability, which we will presume to have supplanted the excessive individualism, consumerism, and domination of nature so characteristic of the present. It is a vision of a world civilization comprised of diverse regions. Although the economic structures differ among these regions, and sometimes even within regions, everywhere the structure of the economy is understood as the means to social, environmental, and cultural ends, rather than an end in itself (Raskin, 2006a, p. 9).

Because economic institutions interact with so many other social and political institutions, this paper draws somewhat arbitrary boundaries between its focus and that of several other papers in this series. Those on trade, politics, climate change, sustainability, well-being, and corporate design are particularly relevant.

We concentrate primarily on what could be called the “supply side” of the economy, rather than on changing patterns of consumption in a GT world, which we discuss only broadly. The focus is on how changes in economic structures can help achieve such social goals as democracy, environmental sustainability, and social justice. We will also consider how laws, policies, and regulation can promote these goals better than they do today. Our emphasis on democratizing the economy leads us to consider how various stakeholders can and should play a role inside and outside various economic institutions.

Since the dissolution of the Soviet Union in the early 1990s, the notion that “free-market” capitalism is the only viable economic system has had few challengers. Yet the fact that billions of people remain mired in extreme poverty, coupled with dramatic evidence that the world’s climate is rapidly changing owing to greenhouse gas emissions, vividly attests to the fact that the global economy operating under “business-as-usual” institutions cannot create an equitable and sustainable society. People urgently need new guiding visions for economic structures that will foster genuine human well-being (Vovk, 2003). The world especially needs to develop new institutional structures for ensuring that *new capital investments* are compatible with sustainable development, since it is these new investments that will primarily shape the future economy.

Achieving these goals will require a central role for civil society (Kriegman, 2006). Numerous non-governmental organizations have become prominent features of the local, national, and international landscape over the last twenty-five years, many of them exhibiting high levels of energy and creativity. These organizations must become prominent participants in

the deliberations of corporate boards, investment boards, technology assessment commissions, regulatory commissions, zoning and planning boards, professional associations, and other economic decision-making organizations, if humanity is to embrace the major transformation required to counter the economic injustices of the present order and prevent ecological catastrophe.

Fortunately, we do not have to start from scratch in imagining alternatives. The past century has been rich with economic experimentation. There are lessons to be learned from the past, positive as well as negative. The next section of this paper will briefly review the theory and practice of the major economic systems that have dominated the latter half of the twentieth century. In the third section, we draw on these lessons to help flesh out the three economic archetypes that we hold to be consistent with basic Great Transition values. In the final section, we draw some brief conclusions.

The Theory and Practice of Modern Economic Systems

Varieties of Capitalism

Capitalism is characterized by three basic institutions: private ownership of the means of production, wage labor, and markets for most goods and services. That is to say, a capitalist economy is one in which most of society's productive assets are privately owned (by individuals or corporations), most of the workforce works for a wage or salary, and relatively free markets govern most of the economic interactions in society. All three of these institutions must be present for a society to be properly deemed "capitalist". (For example, a society of small farmers and artisans is not a capitalist society, since wage labor is absent. A society with private ownership of the means of production and wage labor in which the government sets most prices is not capitalist, since markets are not dominant.) Within this basic type of economy, there are at least three distinct forms, differing primarily with regard to the role that governments play with respect to the economy.

Laissez-Faire "Free Market" Capitalism

Although non-existent in its pure form, laissez-faire capitalism, modeled extensively by neoclassical economists, serves as the inspiration for present-day neoliberal reformers. Laissez-faire as an ideology developed in the nineteenth century and became hegemonic in the West—until the Great Depression shattered the consensus (Polanyi, 2001). Most economists of the immediate post-World-War-II era pronounced the old paradigm dead, but they were wrong, for it came roaring to life again with the election of Margaret Thatcher in 1979 and Ronald Reagan a year later (Harvey, 2005).

Today, the United States is the preeminent example of a country that has consciously embraced this model. The United States remains far from the pure model in practice, but it has been striving for more than two decades to come closer to it. The laissez-faire ideal informs the neoliberal reform agenda, championed by the United States and promoted worldwide, which calls for privatization, deregulation, and a sharp reduction in state-sponsored welfare programs.

What are the structures and policies of *ideal* laissez-faire? Ideal laissez-faire is an economy in which all economic assets are privately own, either by individuals or by enterprises that are themselves owned by individuals, e.g., corporations. The "free market" governs whatever exchanges owners of assets choose to make; that is to say, prices are set by the free interaction of economic agents in accordance with the laws of supply and demand, not by any governmental

agency. Businesses operate to maximize profits. The "invisible hand" of the market determines the prices of goods and services, wages, rents, interest rates, stock and bond prices, exchange rates among currencies, and more. The free market also determines the allocation of capital to investment opportunities, and the distribution of income. The government makes no attempt to influence or alter these market outcomes. In laissez-faire capitalism the role of government in economic affairs is to be kept to a minimum. The government is not entirely absent from the economy, but it is allotted only very specific tasks (Friedman, 2002; Harvey, 2005). It is expected to do the following, but nothing more:

- Enforce contracts and punish fraud, so that markets may function smoothly.

- Define property rights clearly so that everyone knows what is his or hers to sell, and who owns what he or she wants to buy.

- Control the nation's money supply. (This feature separates contemporary laissez-faire from its pre-Great-Depression ancestor, which pledged its allegiance to the gold standard. Today, even the most conservative of economists acknowledge that without at least minor control, a laissez-faire economy can plunge into an economic depression from which it cannot readily emerge.)

- Enforce anti-trust legislation when monopoly power threatens effective competition. (This provision, although part of the theory, is de-emphasized by contemporary neoliberal reformers, who hold that the inherent technological dynamism of a free-market society, particularly when inserted into a free-trade global economy, tends to erode monopoly power. Legal action is rarely necessary.)

- Intervene (reluctantly) when market transactions have "third-party effects", i.e., "externalities". When transactions damage bystanders (e.g., pollution), prices must be adjusted via taxation so that the damage will be rectified within the relevant markets. Neoliberals insist that government intervention itself has third-party effects, and so must be used sparingly.

There are two basic ethical justifications for laissez-faire capitalism. The first, utilitarianism, emerged as a major ethical theory at precisely the time when laissez-faire was taking shape as an economic theory. The theory was (and is) employed to justify the practice (Polanyi, 2001). Advocates acknowledge that laissez-faire will have its human casualties, but these, they claim, are necessary, if the system is to produce the greatest happiness for the greatest number, thus maximizing the social good. They insist that any attempt at mitigating the harsher effects of laissez-faire, however well intended, will only, in the long run, make things worse.

The second major ethical defense of laissez-faire appeals to freedom—freedom defined not positively as the freedom to accomplish certain ends, but negatively as the absence of coercion (Hayek, 1960). Governments coerce people, it is said, whereas markets do not, for all market transactions are "voluntary". Governments can put people in jail. Markets cannot. Although

societies require a certain amount of coercion to function, this force should be kept to a minimum by giving market forces maximal play.

According to the ideology of laissez-faire, so long as no explicit force or fraud is involved, the outcomes of market transactions should be regarded as fair and equitable. Thus, only consumer choice should drive the economy. Private decision-making on either the demand or supply side of the economy should not be second-guessed by governmental paternalism that pretends to know, better than individual citizens, what consumers want, how investments should be channeled, or how incomes should be distributed.

Social Democracy (Social Market Economy)

Social-democratic capitalism, also known as social democracy or (particularly in Europe) as a "social market economy", modifies the basic model of laissez-faire capitalism in many ways to address what it perceives to be laissez-faire's fundamental flaws. The advanced economies of Europe tend toward this second model, with the Scandinavian countries representing its fullest realization (Sackrey and Schneider, 2002). Under social democracy, government is viewed, not as an ever-present danger to liberty, but as a tool to be used positively and constructively to promote human well-being. This model addresses the following flaws of laissez-faire:

- Failure to guarantee the range of social services necessary for a healthy community to *all* citizens.
- Failure to mitigate the power differential between employers and employees.
- Callousness toward the unemployed and those for whom market-wages are too low to sustain a minimally decent standard of living.
- Weak institutions for warding off recessions and for ensuring full-employment.
- Extreme inequalities of income and wealth.
- Insufficient attention to environmental protection and other externalities of production.

Social democratic countries address these flaws in a variety of ways. Social democracy insists that every citizen should have equal access to certain basic goods and services, such as health care, childcare, education, and retirement income, and hence makes them freely available, i.e., paid for out of general tax revenues.

Social democracy guarantees workers the right to form labor unions, so they can bargain more effectively with employers. Social democratic governments sometimes require, via codetermination laws, that unions be represented on corporate boards, so as to have input into governance and investment policies. Similarly, national government agencies often work with businesses to plan new industrial facilities. Social democracy grants unemployment benefits to workers who lose their jobs, and sets up retraining programs. It establishes a minimum wage that employers must pay, and makes available to disadvantaged citizens an array of special benefits,

e.g., food and housing subsidies. It also engages in fiscal as well as monetary policy. That is to say, when lagging demand threatens to bring on a recession, the government not only cuts interest rates (monetary policy), but it also deliberately engages in deficit spending (fiscal policy).

Social democracy does not hesitate to employ progressive income and wealth taxes to keep inequalities in income and wealth from becoming excessive. Laissez-faire sees nothing wrong with inequality *per se*, so long as it is the outcome of non-coercive, non-fraudulent market forces. Social democracy, by contrast, sees greater material equality as desirable. It is willing to tolerate some material inequalities, but only to the degree that these inequalities are necessary to achieve an efficient, dynamic economy. (For an influential statement of social democratic principles of justice, see Rawls, 1999.)

Social democracy does not share laissez-faire's presumption that consumer-driven markets always "know best". Social democratic countries have adopted stricter environmental legislation and regulations than have the more laissez-faire capitalist countries. In addition, they have recently devoted more attention to achieving sustainable development through innovative regional planning, the promotion of renewable energy, and the adoption of environmental taxes that discourage pollution—although, it must be said, none of these countries has actually achieved anything close to sustainability as yet (Athanasiou and Baer, 2002).

State Capitalism

The capitalist model pioneered by Japan, and adopted to one degree or another by other successful East Asian societies, differs markedly from the previous two forms of capitalism that we have discussed. In laissez-faire capitalism, the market dominates the state; in social democracy, the state and the market are seen as co-partners in shaping the economy. In Japanese capitalism, the state dominates the market. This third economic model largely ignores many prescriptions of neoclassical economics. Its basic features include the following:

- *Heavy state control over the allocation of capital*. During Japan's dramatic postwar boom, the Ministry of International Trade and Industry (MITI) actively promoted certain industries, supplying them with the cheap credit that allowed them to become world class operations. This role has recently lessened, but the government, through the Ministry of Finance, continues to monitor the banking sector closely and intervene actively.

- *Zoning and credit restrictions intended to keep consumer spending in check*. For example, zoning limits keep houses small, thus imposing space limitations on consumer purchases. High down-payment requirements compel citizens to save before they spend. The result is large savings with no good investment outlets except for government-owned or government-controlled financial institutions, which can then use the savings for targeted investments.

- *A dual economy*. About one-half of the Japanese economy is dominated by a handful of huge bank-centered conglomerates (*keiretsus*), while the other half consists of thousands of smaller firms that are often linked hierarchically as subcontractors to one another, and to the various *keiretsus*. By coordinating directly with the *keiretsus*, the government can control most of the economy.

- *More harmonious workplace relations (in the keiretsu sector) than are typical in other capitalist economies.* These are characterized by lifetime employment, wages tied tightly to seniority, substantial bonuses linked to company earnings, and significant worker participation in decision-making.

- *Minimal stockholder influence on corporate policy, and modest returns on investments*. Firms traditionally direct their profits largely to reinvestment (deferring stockholder payouts) or increases in employees' wages.

- *Far less income inequality*. Top corporate officials and government bureaucrats are accorded high status, but they receive incomes that are far lower than those of their counterparts in other forms of capitalism. Thus, Japan does not rely on high income taxes to equalize after-tax incomes as social democracies do; high salaries are not paid in the first place.

It should be noted that income inequality in Japan has risen sharply since the bursting of its stock market and real estate bubbles in the early 1990s. Most of the other distinguishing features of the traditional Japanese model have attenuated somewhat since then as well. Japanese capitalism, like social democracy, appears to be moving closer to the laissez-faire model, although both forms remain far from it at this time.

Varieties of Socialism

The term "socialism" has been defined in various ways, but always in contrast to capitalism. Some prefer an ethical definition, defining socialism to be a maximally democratic or maximally egalitarian society; some define it as a society ruled by, or at least in the interests of, the working class; some hold it to be a transitional form between capitalism and a fully communist society that would operate under the principle "from each according to ability, to each according to need". In this paper, we will adopt a simple definition, one that identifies as socialist a modern economy in which the bulk of the means of production are owned by the state, not by private individuals.

Command Socialism

When the Bolsheviks came to power in Russia in 1917, they were vehemently anti-capitalist, but they had no blueprint for an alternative. They were compelled to experiment. They first tried a very radical "war communism" structure—an attempt to abolish material incentives and even money. When this failed, they tried a more moderate "New Economic Policy" that incorporated markets and permitted some aspects of capitalism. The economy recovered, but did not surge ahead as a socialist economy was expected to do. Under Stalin, they finally settled on what became known as "the Soviet model", a non-market "command economy". This model was subsequently adopted by (or imposed upon) all countries ruled by communist parties. Under command socialism, all enterprises are nationalized (owned by the government), and all market structures are abolished. A government bureaucracy sets annual investment and production goals for each industry as part of a multi-year plan for the entire economy. The state establishes the prices of all goods and services, as well as wage and salary rates. Many social services are

provided free of charge—education, health care, childcare, and pensions. Many cultural activities are subsidized. All able, working-age people are guaranteed employment. Indeed, all are *required* to work.

In those countries adopting the command socialism model, employees were allowed little or no input into the decisions that affected their working lives. The state, or at least state-appointed management, determined working conditions. Command-socialist countries regarded independent employee unions as unnecessary because, in theory, the government directly represented the workers.

In most command-socialist economies, agriculture was also "socialized". All land was nationalized; large collective farms replaced small peasant holdings—sometimes in the face of bitter peasant resistance, and often at great social cost. In essence, command socialism was an attempt to replace market relations anywhere and everywhere with conscious human planning. Like the models of capitalism we have surveyed, it claimed to promote the greatest happiness for the greatest number. Markets were seen to be "irrational", and so their replacement by more rational economic mechanisms was expected to increase overall human well-being.

Like social democracy, command socialism valued material equality (at least in theory), but, like social democracy, it was willing to employ material incentives to motivate people. Unlike laissez-faire or social democracy, it did not value economic freedom nor, in practice, democratic decision-making and the other civil and political liberties that have characterized modern, developed capitalist countries. (Whether command socialism as an economic system is compatible with a liberal democratic political order was a question much debated during the middle part of the last century. See, for example, Schumpeter, 1962).

Market Socialism

Market socialism developed as a theory in the 1920s and 1930s, but did not emerge as a functioning system until Yugoslavia broke with the Soviet bloc in 1950 and began charting its own economic course. Later, other Eastern European countries, and even the Soviet Union itself under Gorbachev, began introducing markets (cautiously and experimentally) into their economies, as the defects of central planning became increasingly evident.

The fundamental theoretical insight grounding experiments with market socialism is that *market* economies need not be *capitalist* economies. Under capitalism, private individuals (typically a small capitalist class) own the bulk of society's means of production. But if the state owns the means of production, and either appoints managers or delegates authority to manage businesses to the employees themselves, then such a society would remain *socialist,* even if the market forces of supply and demand—rather than the state agencies—set prices. Socialist enterprises could compete with one another for consumers, thus coming under pressure to use their resources efficiently and to produce the things that consumers want—as opposed to producing the goods and services that a central authority thinks consumers want.

In socialist societies that introduced markets, the state continued to provide the goods and services which competitive markets were not effective at providing, such as education and health care. Private ownership of the means of production continued to be prohibited, except for very small businesses. The government usually retained primary responsibility for setting investment priorities and for making capital investments based on these priorities.

The collapse of communism in Eastern Europe and the Soviet Union, and the breakup of Yugoslavia shortly thereafter, ended the market socialist experiments in that part of the world (prematurely, we would argue).

On the other side of the globe, however, experiments with market socialism continued. China began introducing markets into its collective-based economy in 1978, first in rural areas, later in urban ones. Vietnam also embarked on a course of "market socialism".

The Chinese experiment with markets has steadily deepened and spread. In rural areas, land is still owned by the state, but the collective farms have been dissolved and replaced by a "household responsibility system" that returned the land to households, in the process granting them long-term leases and the right to freely market their own production. Township and village enterprises have been permitted to develop—enterprises owned by the communities, but subject to market forces.

In urban areas, large state-owned enterprises now coexist with private enterprises, some of them newly developed, many of them former state-owned enterprises that have been privatized. (Many former township and village enterprises have also been privatized.) The financial sector, however, is still primarily state-controlled. China now calls itself a "socialist market economy with Chinese characteristics". (China remains a socialist economy by our definition, since, if land is counted as a means of production—as it should be—the bulk of the means of production is still owned by the state.)

A similar process has occurred in Vietnam. These two countries have allowed a genuinely capitalist sector to emerge, which is supposed to remain subordinate to the socialist sector. The result has been rapid aggregate growth, a large reduction in overall poverty, but also growing inequality of wealth and troubling levels of environmental degradation.

Lessons from the Past

As we can see from the discussion above, the twentieth century witnessed a plethora of large-scale economic experimentation. These experiments have been studied extensively, using tools of economic, political, and sociological analysis that have become ever more sophisticated. We are thus well positioned to draw some policy conclusions from the theory and practice of the systems we have surveyed.

From Laissez-Faire Capitalism

The record of laissez-faire capitalism suggests several positive lessons:

- Markets have real strengths as well as weaknesses. They can play a major role in organizing vast and complicated economies in a decentralized, non-authoritarian fashion. It is neither necessary nor desirable for government planning agencies to allocate directly many of the human and non-human resources of society, nor to try to determine the "correct" prices that enterprises in most industries should charge for their products. (As we shall see, there are many exceptions to this general principle.)

- Market incentives encourage efficient production and spur technological innovation. They also encourage producers to be sensitive to consumer preferences and to expand the range of consumer choice. (They sometimes encourage less desirable behavior as well, as noted below.)

- A variety of "private ownership" arrangements can coexist in a market economy: single proprietorships, partnerships, corporations whose stock is held by relatively few

individuals, corporations with vast numbers of stockholders whose stock is traded on the open market, worker-owned enterprises, and non-profit enterprises.

There are negative lessons as well. Laissez-faire capitalism is prone to severe problems that cannot be resolved unless society moves beyond laissez-faire's defining parameters.

- Laissez-faire capitalism does not tend toward full employment. It can stagnate at any level of unemployment.

- Laissez-faire is likely to produce a large class of poor people who cannot meet their basic needs. There will be, under laissez-faire, unemployed people who want to work, as well as people who are working for poverty wages. Since laissez-faire pits worker against worker, there is no guarantee that market forces will set wage rates high enough to eliminate poverty.

- Under laissez-faire, inequalities of wealth and income will tend to grow over time, since the wealthy are able to save and invest far more than ordinary people, the latter consuming most of what they earn, sometimes more than they earn. (The "miracle" of compound interest allows wealth to grow exponentially; it also operates in reverse, causing debt to increase exponentially.)

- Laissez-faire creates consumerist and other individualistic values that undermine collective responses to social problems.

- Technological innovation under laissez-faire capitalism will often be used to replace skilled workers with unskilled workers, thus lowering their wages. It will also render large numbers of workers redundant.

- Laissez-faire capital markets are not particularly efficient. A significant amount of capital investment is wasted in creating over-capacity in many industries. Capital markets often fail to direct investments into socially useful industries as opposed to industries which simply yield higher rates of profit. Speculators can sometimes manipulate capital markets. The "herd mentality" of investors can create financial panics that devastate perfectly sound industries and economies. In general, the lack of many types of information about markets and a lack of futures markets for many products lead to significant inefficiencies (Stiglitz, 1994; see also Fullbrook, 2004).

- Laissez-faire capitalism will tend to despoil the environment. In theory, governments can intervene whenever a business is polluting the air, soil, or water, but the laissez-faire presumption against such interference—and the political influence flowing from the accumulated wealth of the capitalist class—make such interventions rare and often ineffective. Government interventions to conserve resources are even rarer, since the free market is presumed adequate to accomplish that end. As resources become scarce, prices

go up sufficiently (it is assumed) to discourage over-consumption. In point of fact, market forces acting alone almost entirely ignore the goals of sustainable development and environmental protection.

- Laissez-faire gives rise to increasingly large privately-owned corporations, which tend toward monopoly, thus undermining the premise of competitive markets upon which the theoretical case for laissez-faire capitalism is built. Moreover, the political clout of these corporations, together with that of the super-rich individuals whose fortunes derive from their ownership of these corporations, tends to undermine the democratic process.

From Social Democracy

As a corrective to laissez-faire, social democracy offers a number of positive lessons:

- Services that enhance human well-being, including high-quality health care, child care, education, elder services, and pensions, can be financed from tax revenues and made available to people quite efficiently outside of markets.

- Government programs can significantly reduce poverty.

- Tax policies can significantly reduce income inequality.

- Regulatory policies can mitigate market variability and enable economies to avoid deep and prolonged depressions—at least for relatively self-contained economies.

- Aggressive government policies can reduce environmental destruction.

However, the social democratic experience suggests that this model, too, has its limitations:

- Governments have not been able to push too far in the direction of more democratic control over capital without provoking a backlash by the owners of capital. For example, a proposal by the Swedish Confederation of Labor (LO) to tax corporate profits and use the revenues to buy shares in companies, eventually giving labor a controlling interest (the Meidner Plan), provoked bitter opposition by the press and by the "twenty families" who controlled the country's large corporations. The scare campaigns that ensued led to the defeat of the Social Democratic Party, long supported by the LO, which had governed Sweden since the Great Depression (Sackrey and Schneider, 2002). In general, owners of capital can, if seriously pressed, use their considerable control over the mass media and the threat of a "capital strike" to bend a government to their will.

- The belief that a suitable combination of monetary and fiscal policies can produce stable, full employment with good wages has turned out to be overly optimistic. Policies that bring unemployment down have tended to generate inflationary pressures that feed on themselves until a recessionary corrective, throwing many out of work, is applied. That is

to say, when unemployment is low, workers press for higher wages, the costs of which companies pass on to consumers, which provokes higher wages, etc. Moreover, policies that grant workers substantial protection against dismissal make firms reluctant to take on new employees, giving rise to severe unemployment among young adults.

- When social democratic economies are forced to compete with more laissez-faire (and low-wage) economies, they feel considerable pressure to cut back on entitlement programs, worker protections, and other social welfare benefits. Social programs come to be seen as "overly generous". Employment rights come to be seen as inhibiting labor "flexibility". (For an account of the "destruction" of the Swedish model by the forces of globalization, see Silverman, 1998.)

- The consumption patterns of social democratic nations have been quite similar to those of more laissez-faire capitalist countries. The environmental impact of such consumption has tended to be less severe, but still significant. Social democratic countries have typically achieved a fifty-percent improvement in greenhouse gas emissions per unit of economic activity relative to the US, but this is much less than necessary to counter the threat of potentially ruinous global climate change (Athanasiou and Baer, 2002).)

From State Capitalism

The Japanese experience shows clearly that:

- Governments are capable of directing massive capital investments so as to enhance long-term economic development.

- Highly sophisticated enterprises can operate efficiently with high levels of employee job security, worker participation in management, and relatively small pay differentials between upper management and average workers.

These are two fundamental positive lessons. However, not all has gone well for Japan, particularly in recent years. Recent experience has shown that:

- A technocratic, state-dominated planning mechanism that allows for little public participation is prone to abuse. When those at the top cease striving to promote the well-being of all and concentrate instead on their own material interests, gaping inequalities can arise, corruption can become widespread, workplace morale can plummet, and people's life satisfaction can decline.

- When enterprises emphasize employees' loyalty to the firm, but cease to stress the reciprocal loyalty of the firm to its employees, a culture of overwork, anomie, and manic consumerism is likely to develop.

From Centrally Planned Socialism

The former Soviet Union certainly showed that a centrally planned socialist economy can transform a semi-feudal, peasant-based society into a major industrial power capable of producing highly sophisticated weaponry, an impressive program of space exploration, world-class scientific research institutions, strong athletic programs, great ballet and music, subway systems, and other accomplishments amenable to central direction. It also demonstrated that a full-employment economy is possible.

However, the experience of the Soviet Union and the many countries in the post-World War II period that adopted this model also demonstrated that central planning is woefully inadequate at producing the array of consumer goods desired by its citizenry, utilizing its human and non-human resources efficiently, and developing new technologies, except in a few targeted areas.

These defects can be attributed to two fundamental flaws of the economic model itself. It is now clear that there exists under command socialism an information problem and an incentive problem: once an economy reaches a certain degree of complexity, it becomes impossible for a central planning bureau *to know*, both qualitatively and quantitatively, what people really want to consume. In theory, central planning is simple. Determine what people want, then allocate resources to satisfy these wants. This is a plausible project when needs and desires are very basic, but once an economy develops the capacity to satisfy an ever-more-sophisticated set of needs and desires, it becomes impossible to plan effectively in the absence of the kind of continuous feedback that markets provide (even with the aid of advanced computer technology).

Closely related to the information problem, and even more significant, is the incentive problem. Under command socialism, the central authorities determine what is to be produced. They ascertain the productive capacities of the nation's enterprises, and then give each enterprise a quota to fulfill. Enterprises themselves have no incentive to try to find out what consumers most prefer, no incentive to use their resources effectively (so long as they meet their quotas), and little incentive to engage in technological development.

On balance, the fundamental lesson of the command socialism experience is negative. A modern economy, if it is to be efficient, dynamic, and sensitive to consumer desires whenever possible, must employ markets. Not in all areas, and not without suitable regulation, but the dream of an advanced, complex, efficient non-market economy must be regarded as unrealizable.

One major question remains unresolved. The Soviet Union demonstrated that a full-employment economy is possible. No market economy has achieved this goal. (Sweden experienced full-employment for several decades after World War II, but those happy days are long gone.) Is full-employment possible in a market economy? Empirically this question remains open.

From Market Socialism

It does not follow from the failure of command socialism that some form of capitalism is humanity's only viable option. The experience of market socialism suggests that markets can function effectively in a socialist context and that such economies can generate impressive growth over many years. Between 1952 and 1960, Yugoslavia recorded the highest growth rate of any country in the world. Between 1960 and 1980, it ranked third in growth-per-capita among all low- and middle-income countries. China has been even more impressive, maintaining an astonishing growth rate of nearly ten percent per annum for nearly thirty years. As Singapore's former ambassador to the U. N. remarked, "To watch the most populous society in the world

experiencing the most rapid economic growth is like seeing the fattest boy in class winning the 100-meter hurdle" (Mahbubani, 2005).

Unfortunately, the Yugoslav experiment collapsed as poisonous inter-ethnic nationalism erupted into civil war, and the fate of China remains highly uncertain—whether it can survive the social and environmental strains its rapid growth has exacerbated, and whether it will prove to be an important alternative to capitalism, or simply a form of state capitalism is not clear.

From a theoretical perspective, it seems clear that there are models of market socialism that should be economically feasible (Schweickart, 1993 and 2002; Roemer, 1994). Private ownership of the means of production is not essential to a competitive market economy. Corporate managers can, in principle, be made accountable to society-at-large, or to an enterprise's workers, rather than to absentee stockholders. Investment funds can be generated by taxation instead of from the savings of a capitalist class, and thus will enrich only this class. (Since the function of the capitalist *qua capitalist* is to provide capital, a capitalist class is unnecessary.)

In addition, there would seem to be no good economic arguments against extending democracy both to the workplace and to society's major investment decisions, while there are many moral and practical arguments for doing so. To be sure, actual large-scale experiments with market socialism have been inconclusive so far, but attempts to develop genuinely new forms of economic organization on a mass scale can scarcely be expected to proceed smoothly and without mistakes—particularly not in the politically and ideologically charged world in which we live.

In summary, the evolution of forms of both social democracy and market socialism, suitably designed for twenty-first century complexities and requirements, remain very live options for those striving for a GT future.

Great Transition Economic Prototypes

Future economic systems that build on the historical experience of the past century, while adhering to Great Transition values, can be expected to share several common characteristics:

- Such economies will stress achieving sustainable ecosystems and a stabilized climate. Fulfilling this goal will require that the use of natural resources, particularly fossil fuels, and the disposal of waste remain within the regenerative capacity of the environment. The reuse/recycling of material goods will, therefore, become a high priority. The scale and composition of material flow through production and consumption systems will need to be aligned with sustainability criteria. Material consumption may even decline, at least in the currently affluent parts of the world. More comprehensive social services and the creative use of free time will better foster human well-being than will increased consumption.

- These economic systems will strive to achieve equitable outcomes for all its citizens, not just abstract "equal opportunity". Reaching this goal will require policies that ensure that nobody need live in poverty, as well as policies that narrow the range of income and wealth compared to most contemporary societies. Economies will retain sufficient personal financial incentives to spark creativity, entrepreneurship and innovation, but

they will take care to ensure that material inequalities do not become so excessive as to endanger basic GT values of solidarity, community, and conviviality.

- GT economic systems will allow for greater democratic input at all levels, within private firms as well as within government agencies, than is common today. GT economic systems will strongly encourage democratic input from informed stakeholders. While requiring significant social resources, enhanced democratic decision-making will likely yield a broader consensus on complex policy issues, and can be expected to contribute, on a net basis, to a more efficient economy.

- In different ways in different regions, governments will play a greater role in GT economies than is sanctioned by either laissez-faire or current social-democratic capitalism. It will enforce stringent environmental and labor regulations. It will guarantee such basic services as childcare, education, health care, pensions, and care for the aged. It will redistribute income to keep inequalities from becoming excessive. It will fund basic and applied research, especially with regard to technologies needed to facilitate the achievement of human and ecological well-being. Since new capital investments are the key determinants of the economy of a future society, government would need to play a greater role in directing and/or allocating these investments.

- To avoid excessive bureaucracy, and to humanize these new decision-making processes, GT economic systems consciously favor the principle of *subsidiarity*: decisions and activities that can be feasibly undertaken locally should be. So far as possible, governmental involvement will be decentralized. Only when decisions are required that cannot be made at a given level of society will decision-making move to the next higher level—from the community to the sub-region to the region to the world.

- Although governmental and economic structures may differ among regions, all citizens share the historically novel attribute of citizenship in a global community.

As our analysis of twentieth-century economic systems has revealed, appropriately regulated markets, rather than centrally planned government monopolies, can most efficiently provide most of the goods and services that society needs and desires. Thus, GT systems will allow regulated markets to govern large sectors of the economy. Markets comprise a core element of GT societies, but their current deification is replaced by a more pragmatic view of their strengths and limitations in achieving social goals in different sectors of the economy.

The experiences of twentieth-century economic systems show that the production of many goods and the provision of many services have substantial environmental and social costs that have not been (and cannot adequately be) reflected in market prices. These sectors of the economy must be much more strictly regulated than they are at present. Indeed, certain industries create such a major environmental and social "footprint"—e.g., the chemical industry—that governance systems will need to devise new mechanisms for setting and enforcing limits on impacts. In general, GT economies will follow a principle of commensurability: the greater the

negative impact a particular industry has on sustainable development, the greater the oversight needed.

Although economies in GT regions[*] will share many common characteristics, viable economic systems can take many different forms. As noted in the introduction to this series,

> We envisage a planetary society comprised of hundreds of regional economies, which are astonishingly diverse in character and size. Some may correspond to the national boundaries of twentieth century states, while other regions will be federations of earlier states. Still other regions will be parts of former states, forging a common identity around the boundaries of river basins and other ecosystems (so-called "bio-regions"), around urban centers, and around cultural traditions (Raskin, 2006a).

The economies of most GT regions will likely resemble one of three major archetypes, which we will call *Agoria*, *Ecodemia*, and *Arcadia*, although few regions will be pure cases of any archetype. (See the summary of the three archetypal societies in the text box below.) These prototypical societies build on twentieth-century social democratic, market socialist, and localist ("small is beautiful") philosophies.

[*] The use of the term "region" rather than "nation" follows the view from the future in Raskin (2006): "After much discussion, the term 'region`, rather than 'nation' was officially adopted for these subglobal demarcations. While some argued that this was a mere linguistic change, others saw a significant political point in underscoring the deep transformation of the role of the nation-states in the *Great Transition* and the muting of nationalist ideologies. The aim was to signal that the era of inter-state wars, empire and nativism was drawing to a close". (p. 4).

Regions in a Great Transition World*

Agoria

These regions would be most recognizable to a visitor from the year 2000. Some call *Agoria* "Sweden Supreme", with Agoria's more conventional consumer patterns, lifestyles and institutions, and its economies dominated by large shareholder corporations. However, when compared to even the most exemplary social democracies of the last century, the commitment to social equality, the environment, and democratic engagement from the level of the firm to the globe is of a different order. The key is a vast array of policies and regulations, supported by popular values, that align corporate behavior with social goals, stimulate sustainable technology, and moderate material consumption in order to maintain highly equitable, responsible, and environmentally-sustainable societies.

Ecodemia

The distinguishing feature of *Ecodemia* is its fundamental departure from the capitalist economic system. The new system, often referred to as "economic democracy", banishes capitalism from two key arenas of economic life. First, capitalist firms comprised of private owners and hired workers have been replaced for the most part by worker self-managed firms. Democracy has been extended to the workplace. Second, private capitalist markets have given way to socialized investment processes. Publicly-controlled sub-regional and community investment banks, supported by participatory regulatory processes, oversee the distribution of tax-generated investment funds. Firms seeking capital funding must satisfy social and environmental criteria in addition to traditional financial criteria.

Arcadia

More so than other regions, *Arcadian* societies emphasize economic self-reliance, small enterprises, face-to-face democracy (at least in cyberspace), community engagement, and love of nature. Lifestyles tend toward frugal material sufficiency, a love of folk crafts, and reverence for tradition. While the local is emphasized, most people are highly connected with cosmopolitan culture and world affairs through advanced communication technology and transportation systems. *Arcadia* has centers of innovation in some technologies (organic agriculture, modular solar devices, human-scale transport devices, etc.) and arts (new music, craft products, etc.). Exports of these products, along with eco-tourism, supports the modest trade requirements of these relatively time-rich and slow-moving societies.

* Summarized from Raskin (2006a).

Let us suppose that we have been transported into a GT future. Here is how the economic systems of our new world might look:

Agoria

Agorian economies will be the most recognizable to someone transported from the year 2000 to the GT future. Agoria is a fairly straightforward development of the most advanced social democratic societies of the twentieth century. Agoria is a capitalist society, but one in which the interests of capital have been tamed through governmental regulation and oversight. Most businesses remain privately owned. Large shareholder corporations dominate the economy. Private banks and other capital markets continue to function as the mechanisms by which these businesses raise capital, but the government sector is somewhat larger and more economically proactive than it was in twentieth-century social democracies. However, the level of economic and environmental regulation is kept to a minimum, consistent with achieving sustainable development as determined by global deliberations and agreements and by additional criteria defined by democratic processes within each society.

Seven key institutional modifications allow for much higher levels of democracy, equity, and ecological sustainability than existed in earlier social democratic economies:

- A powerful Ministry of Sustainable Development is charged with formulating a comprehensive, long-term Sustainable Development Plan, which must be reviewed and approved each year by the regional legislature. The plan is developed with input from all relevant government ministries. Both the Ministry and the legislature hold public hearings on the plan to get stakeholder input. This plan includes guidelines for the development of new industries and products in those areas of the economy that most directly impact progress towards sustainable development. The Ministry also enforces compliance with global environmental responsibilities and existing environmental legislation; it proposes new legislation when deemed appropriate; it issues guidelines for international trade to ensure that this trade is consistent with sustainable development.

- Multi-stakeholder zoning and land-use boards strongly influence government and private investments in infrastructure, housing, new manufacturing plants, and commercial buildings. These local agencies interact with the Ministry of Sustainable Development so their decisions can be consistent with the regional Sustainable Development Plan.

- Agoria has established strict cap-and-trade schemes for controlling emissions of greenhouse gases. In accordance with global agreements, each region has been assigned an allowable quantity of emissions (the "cap"). The Agorian government then auctions off emissions permits to enterprises whose production processes or products contribute to greenhouse gas emissions; each permit allows an enterprise to emit a certain share of the overall total acceptable quantity. Once an enterprise purchases these emission "allowances" from the government, they are then free to sell them to other enterprises at whatever price is agreed upon by buyer and seller. The ultimate costs of these allowances are, of course, passed on to consumers, making the products whose manufacture has caused the emissions more expensive, thus providing an incentive to reduce consumption.

- Agoria imposes much higher taxes on other pollutants and non-renewable or endangered natural resources than did social democracies of the past. These ecological taxes—which have significantly raised the prices of items using these materials and/or made by polluting technologies—have made consumers much more inclined to use these resources sparingly, and have encouraged producers to seek out technologies that minimize resource use.

- Indeed most government revenues now derive from these "green taxes", rather than from income or sales taxes. Household income for families in the bottom half of the income distribution is not taxed at all. Taxes on wealth and on higher incomes keep inequalities within reasonable bounds, and, supplementing the revenue from green taxes, allow for even more comprehensive social services than twentieth-century social democracies supplied. In addition, tax revenues fund ecologically-oriented research and development of, and subsidies for, renewable energy and enhanced efficiency. Perverse tax subsidies which favored the overuse of natural resources have long been eliminated.

- The standard workweek in Agoria has been significantly reduced from what it was in twentieth century social democracies.

- Although large shareholder corporations continue to dominate the economy, employee-ownership is more common than it was in the twentieth century, and the non-profit sector has soared. Pension fund investments have given workers control of many private firms, and a major influence in many more. Corporate-governance reform legislation has also given employees and other stakeholders more authority within traditional firms. Communities also have more input into corporate decision-making (see White, 2006).

Let us elaborate some of these points more fully:

Sustainable Development

Agoria has a powerful Ministry of Sustainable Development that acts as a superagency empowered to harmonize planning for sustainable development among all key government agencies at the sub-regional and local levels. The Ministry of Sustainable Development operates openly and democratically. It conducts all its deliberations in public; it holds regular hearings to solicit direct input from civil society as well as from other ministries and government agencies. The Ministry of Sustainable Development uses these hearings to gather and refine the information needed to create its annual Sustainable Development Plan. Throughout the process, the ministry engages in comprehensive publicity campaigns to keep the public well informed about its agenda, and to solicit views and proposals from the public-at-large.

The ministry relies on various indicators of human and environmental well-being to establish specific sustainability targets, and to measure the region's success or failure in achieving its goals. The ministry modifies these indicators and targets as needed during the annual sustainable development planning process, based on the prior year's performance of each sub-region in meeting the targets. Because most of the economy remains in private hands, the ministry uses economic incentives (subsidies and taxes) whenever possible to guide the private sector in the desired directions indicated by the Plan's guidelines. The ministry consults regularly with those industries having the largest environmental and social footprints. It attempts to influence the next generation of investments in order to maximize the chances that those industries will meet their sustainability targets.

The Ministry of Sustainable Development oversees other aspects of environmental protection as well, strictly enforcing a wide range of laws and regulations and encouraging (sometimes even funding) residents and civil society organizations to uncover violations. Government environmental programs also attempt to reverse damage to regional ecosystems, whenever possible, at reasonable cost.

Local Processes for Land Use and Government Investments

Agoria has also established local consultative processes paralleling those used for regional sustainable development planning to oversee local land use and local government investment. A zoning board in each locality tracks the land-use plans of both private enterprise and government, coordinates the siting of these investments, and monitors their environmental and social impact. Zoning boards must approve the siting of all new major facilities. These boards hold site-specific hearings to allow public stakeholder input whenever warranted, as was traditional in the past.

Each local zoning board issues an annual land-use plan, as well as decisions for the siting of all new major facilities. The annual zoning plans are forwarded to the Ministry of Sustainable Development, which vets them for consistency with the regional Sustainable Development Plan, then incorporates them, as far as possible, into that Plan. Each local zoning board holds site-specific hearings to allow public stakeholder input whenever warranted, as was traditional in the past.

Ecological Taxes, Increased Leisure

Agoria has shifted most taxes from labor to pollution and natural-resource consumption, as proponents of ecological-economic policies have long advocated. Its cap-and-trade scheme for greenhouse gas emissions generates considerable public revenue. Because these caps are quite low (in line with global adjudicated constraints and allocations), intense competition for allowances to emit greenhouse gases has pushed their purchase prices to high levels. Revenues from the annual auction of greenhouse gas allowances—along with taxes on other types of pollution and natural-resource consumption—finance most governmental social and environmental programs.

High taxes on pollution and natural resources make the recycling and/or reuse of most materials highly cost-effective. These taxes also make many consumer goods more expensive than they were at the end of the twentieth century, when the price of most goods did not reflect their full costs to society. High prices for material goods have curbed overall consumption, but have also fostered higher *quality* consumer products, since the incremental cost of achieving higher quality has fallen relative to total production costs. This has enhanced the longevity of consumer goods and, thus, has further reduced the pressure on natural resources. High environmental taxes have also shifted most Agorian economies further toward services rather than manufacturing.

The high cost of material goods—along with weakening cultural pressure to consume ever more—has led to an overall decline in demand for these goods. To counter the threat of unemployment, Agoria has legislated a lower maximum workweek (typically about thirty hours), so that cut-backs in production need not require layoffs. Agoria also offers substantial job retraining to workers made redundant by the shift away from material consumption, and financial incentives to companies willing to employ these retrained workers.

Greater Income and Wealth Equity with Added Social Services

Revenues from ecological taxes allow Agoria to eliminate income and payroll taxes for the bottom half of the population, as well as all sales taxes, except on luxury items. Graduated income and wealth taxes, designed to keep material inequalities from becoming excessive, supplement the "green" taxes.

Agoria provides a wider array of government social services than was common even in the best twentieth-century social democracies. The successful programs of free, universal education, health care, and child care have been maintained and sometimes even upgraded, as have basic social security provisions, unemployment compensation, and job retraining. In addition, the government ensures universal access to basic communication utilities by providing free-of-charge core services, giving all citizens equal access to the latest information and other communication necessities, allowing them to participate more fully in political and social processes.

Other enhanced social services include special attention to the elderly. Continued advances in medical technologies have extended the average life spans and increased the overall percent of

elderly people in the population. Many remain active and vigorous throughout their lives. Various cultural and educational programs have been set up to enhance the quality of life of those who have retired. Those who wish to do so are encouraged to work part-time. Free home health care is available to all. Affordable, high-quality assisted living facilities have been established in every community.

Employee Participation in Corporate Governance

Agorian policies give employees and other stakeholders a greater voice in corporate governance than was common in twentieth-century social democracies. Most corporations in Agoria have unionized workforces. All corporations are required to have employee, community, and other key stakeholder representatives on their Boards of Directors. All are also required to have employee representatives on those internal management committees that bear on employee interests. These provisions give employees direct input into important corporate decisions, including compensation, thus encouraging businesses to share profits equitably among stockholders, management, workers, and the communities in which they are located. As a consequence, the gap between executive compensation and that for other employees has narrowed significantly from previous eras.

Labor influence in private corporate decision-making has also increased because employee pension funds now own a substantial fraction of all corporate stock, thus giving labor representatives even more seats on corporate boards. Provisions for public financing allow employees to buy the businesses they work for more readily than in the past, when a lack of available financing for employee buyouts was a major hindrance (White, 2006).

Ecodemia

The basic economic institutions of Ecodemia represent a more significant break from those of twentieth-century economies than do the Agorian institutions. Ecodemia is a form of socialism. The citizens of Ecodemia believe that the natural resources and major means of production in their society should be owned by society as a whole, not by private individuals. They also hold that the defining function of a capitalist in a capitalist society, namely the provision of capital for new investment, is better served by more democratic mechanisms.

Ecodemia is a form of *market* socialism. Its citizens agree that markets, at least for most goods and services, are necessary to foster efficient production and encourage innovation. They deem competition to be healthy—at least certain forms of competition within appropriately regulated markets. They realize that different industries require very different amounts of regulation.

The citizens of Ecodemia believe that the paradigmatic form of enterprise governance should be *workplace democracy*. They also place a high value on democratic input into determining the direction of their economy and, in particular, into the allocation of investment funds, which are generated via taxation and allocated via public banks (Schweickart, 1993, 2002).

The key features of Ecodemia are these:

- Like all GT economic systems, Ecodemia is strongly committed to achieving sustainable development. It employs many of the same legal and regulatory mechanisms that are employed in Agoria to achieve this goal, and more. It, too, has a powerful Ministry of

Sustainable Development, which creates an annual Sustainable Development Plan (SDP), which is approved by the regional legislature. It, too, imposes high taxes on pollutants and non-renewable or endangered natural resources, including land. However, it does not employ a cap-and-trade emissions policy for greenhouse gases. Instead of auctioning off emission permits to the highest bidders and allowing wide-scale trading of these permits, Ecodemia's Ministry of Sustainable Development allocates to each industry a share of permissible emissions based on its overall production targets established in the SDP. Enterprises within the industry must purchase these permits at a price determined by the Ministry. (Ecodemia allows some residual trading of allowances between firms *within* any given industry only to provide individual firms some flexibility.)[*]

- Like Agoria, Ecodemia offers the same wide array of tax-financed public benefits, equal to or exceeding the best practices of twentieth century social democracies.

- In contrast to Agoria, most businesses operating in the market sector of the economy are governed democratically by their employees: one-person, one-vote. Workers elect a workers' council, which plays much the same role that the board of directors plays in a capitalist corporation. The workers' council appoints and monitors management and must approve all major enterprise decisions. These businesses would have some of the characteristics of twentieth century non-profits.

- There are other enterprise categories in Ecodemia and other forms of employment, including those more similar to the non-profit institutions of the past. Public sector departments, like worker-self-managed firms, also have workers' councils to allow for democratic input into the operation of their departments. But, since their incomes derive from general tax revenues, public sector workers do not have the same degree of autonomy as workers in worker-controlled firms. There also exists a sector of owner-operated small businesses employing a limited number of wage laborers. Finally, there exists an entrepreneurial capitalist sector—firms set up by one or more individuals who are active in the firm's management–which focus on inventing and developing new technologies and/or new products. These firms are not required to be run democratically. However, when the founders leave such a firm, their equity shares are purchased by the regional government, which then converts the enterprise into a worker-controlled firm.

In contrast to Agoria, investment capital in Ecodemia is publicly, not privately, generated. Hence, capital is subject to democratic control. Investment funds come not from the savings of private individuals, but from a special tax—a capital assets tax. This is a flat-rate tax imposed on the capital assets of all businesses. The revenue from this tax is kept separate from other tax revenues. All of this tax revenue is reinvested in the economy.

[*] We have given Ecodemia a different greenhouse gas control policy than Agoria's in order to indicate that different options exist. Ecodemia could have also adopted a cap-and-trade policy; some Agorian regions might choose the Ecodemian model. However, Ecodemia would seem to have a natural affinity for a policy that involves more conscious planning than the cap-and-trade "free-market" solution entails.

- This tax revenue, which constitutes society's main investment fund, is allocated by the regional legislature to sub-regions and communities, typically on a *per capita* basis. That is to say, if a sub-region has X percent of the region's population, it receives X percent of the investment fund. This allocation mechanism helps to prevent inequities from developing among sub-regions. These funds are allocated to sub-regional public banks, known as Development Banks (DBs), which then loan them out to existing enterprises that want to expand production, upgrade their technology, or develop a new production line, as well as to entrepreneurial collectives or individuals wanting to start up new businesses.

- Industry Regulatory Boards (IRBs) have also been established, one for each major industry in Ecodemia, to provide input to the DBs. Each board, with input from local zoning and land-use boards, reviews all *major* loan requests for capital investment funds by individual companies within its industry in order to ensure that the proposed projects are consistent with both the regional Sustainable Development Plan and community development policies. *IRB approval of all major investments is necessary for the loan applications to the Development Banks to go forward.*[*] The IRBs are also responsible for issuing the greenhouse gas emission permits received from the Ministry of Sustainable Development in a given industry to specific enterprises in a manner consistent with their needs, and for monitoring and enforcing whatever industry-wide regulations have been adopted by the regional legislature that are relevant to new investments.

- Since Ecodemians consider meaningful work to be vital for human fulfillment, and since a market economy cannot guarantee jobs for all who want to work, the Ecodemian government serves as the *employer-of-last-resort* for those unable to find employment in other sectors of the economy. These are relatively low-wage jobs, presumed to be temporary, but designed so that the job holder is performing a useful public service.

- Since Ecodemians support competition among producers to satisfy consumers' perceived needs as efficiently as possible, but *not* competition among workers to see who will work for the lowest wage nor competition among regions to see who can best avoid costly environmental restrictions, they have instituted a system of *socialist protectionism* aimed at regulating international trade in such away that its workers are shielded from "unfair" socially-destructive competition. This form of trade restriction is fully consistent with the general GT principles regarding interregional trade (Raskin, 2006a; Halle, 2006).

There are a number of key differences between Ecodemia and Agoria worth elaborating in more detail:

Workplace Democracy

Most enterprises in Ecodemia are worker-self-managed. Workers elect a workers' council, which appoints upper management. Instead of wages or salaries, all employees receive a defined share of the enterprise's net profit. These shares need not be equal. Indeed, they rarely are.

[*] The regional legislature defines what would count as a "major" investment. Typically, a monetary value is specified. Requests for funds exceeding this value would have to pass the appropriate IRB.

Income differentials, set by the workers' council, typically reflect levels of skill, seniority, and managerial responsibility. Since incomes are directly tied to enterprise profit, all workers have an incentive to work conscientiously and to monitor the efforts of their co-workers. Thus worker-self-managed enterprises tend to be highly efficient.

Although workers control their enterprise, they do not *own* it. The assets of the firm are considered to be communal property that is leased to the workforce. (The capital assets tax may be viewed as a leasing fee for worker-controlled businesses.) Workers are required by law to maintain the value of this property, which means they must set aside from their gross profits a depreciation allowance to cover the eventual replacement costs of their capital assets. They may invest this money in their firm as they see fit, but they may not pay it out to their members as income.

These firms are, of course, subject to general laws common to all GTI societies; e.g., they must refrain from job discrimination, false advertising, monopolistic collusion, producing unsafe products, etc.

The Expansionary Dynamic: Democratic Firms in Comparison with Capitalist Firms

An important technical point: since worker-self-managed firms want to maximize profit-per-worker rather than total profits, they are inherently less expansionary than are capitalist firms. In general, if expanding production means taking on more workers, worker self-managed firms are reluctant to do so, since the extra profits must be shared with the extra workers and might not raise the average incomes of the existing workforce at all.[*] (Capitalist firms face fewer such inhibitions. So long as the wages of new workers are less than the value added of the increased output these workers generate, the firm will expand.) Increasing the number of employees also dilutes the democratic influence within the firm of the existing members. In general, democratic workplaces expand when economies of scale allow all employees to be better off, but not when returns to scale are constant. Indeed, democratic firms, when they reach a certain size, often choose to subdivide, or to have certain departments become independent, so as to avoid the bureaucratization and depersonalization that larger size often entails.

This structural difference has a number of important consequences:

- Democratic firms tend to be smaller than comparable capitalist firms, and since the bigger fish tend not to swallow the smaller fish for the reason cited above, there is less of a tendency toward monopoly. A democratic firm usually competes with other firms to maintain its market share and perhaps expand it a little, but it has little interest in driving its competitors out of business.

- Since democratic firms are less expansionary than capitalist firms, the Ecodemian economy as a whole is less so and, hence, more immediately compatible with ecological sustainability. Democratic firms certainly do not operate under a "grow-or- die" imperative. Therefore, Ecodemia does not fear that if consumption levels off, the economy will slip into recession.

[*] This argument assumes there are no clear economies of scope or scale at issue. When there are significant economies of scale to be had, worker-self-managed firms will expand.

- The less expansionary character of democratic firms could make unemployment an even more serious problem in Ecodemia than in Agoria, unless countervailing policies are put in place. Ecodemia addresses this problem in two ways. Since public development banks allocate investment funds, they give priority when deciding among loan requests to those projects that will increase employment. Secondly, if the investment-allocation process does not create enough jobs to employ all citizens who want to work, the government steps in, as noted above, as the employer-of-last-resort. (Since full-employment has always been a basic aspiration of the socialist tradition, Ecodemians are more predisposed to this mechanism than are Agorians, who tend to regard a certain amount of unemployment as necessary to healthy capitalism. Agorians rely on unemployment benefits—not public jobs—to counter the ill effects of unemployment on those who cannot find work.)

Public Versus Private Investment Funding

Generating capital investment funds by taxation, rather than mobilizing private sources of capital, has at least two significant implications:

- Ecodemia need not fear capital flight, since these funds are public funds and are mandated by law to be reinvested in the region. In contrast, if Agorian capitalists should be inclined to seek greener pastures for their investments in other regions, special laws would have to be passed to prevent them from doing so, if such capital mobility threatens the general interest. In Ecodemia, no such laws are necessary.

- In capitalist countries, firms pay both interest on their loans and bonds, as well as stock dividends to private individuals. These payments constitute a major source of income for the capitalist class. Since Ecodemia does not rely on private savings for its investment fund, these payments are not necessary, thus eliminating a major source of income inequality. This reduces the burden on tax policies and other measures for controlling excessive inequalities of income and wealth. (Income differentials within enterprises also tend to be less in Ecodemia than in Agoria, since these differentials must be approved by the worker-elected representatives to the workers' council.)

Allocating these public investment funds via the Development Banks (DBs) instead of through private financial markets also has significant consequences:

- Since almost all funds for major new investments are public funds, it is easier to coordinate new capital investment in each key industry with the requirements of the Sustainable Development Plan. The DBs look at the “big picture” for each region and sub-region when weighing which investment proposals approved by the IRBs to fund.

- Since the rate of investment in Ecodemia is not dependent on the caprice of an investing class, Ecodemia is less prone to "irrational exuberance” and, hence, to boom-bust cycles, than is Agoria (Shiller, 2000). The latter must rely on fiscal and monetary policy to counteract these natural tendencies of capitalism. By controlling the rate of investment directly through the asset tax rate, Ecodemia can better control these cyclical tendencies.

- Each year sub-regional and local governments within Ecodemia receive a share of the regional investment funds from the legislature. These governments first decide how much to use for public investments in schools, parks, and other infrastructure before deciding how much to make available to DBs for enterprises in the market sector. This fresh source of capital each year allows for considerable experimentation on the part of sub-regional and local governments with regard to the development of their sub-regions and communities. This possibility for experimentation greatly stimulates public participation in communal decision-making. People who want to "make things happen" in their community have the opportunity to do so.

- Since there are few, if any, significant sources of venture capital outside the Development Banks, Ecodemia is not as inherently innovative as Agoria, at least regarding the introduction of new products or technologies in the market sector. The DBs tend to be more risk averse than traditional capital markets when it comes to funding new, unproven ventures, but they suffer fewer significant losses, as well. Some Ecodemian regions address this lack of venture capital (when they perceive it to be a problem) by specifying certain DBs as "venture capital" banks, specifically charged with taking risks. Others are content with a slower rate of endogenous innovation, preferring a less frenetic pace of development, and confident that they can adopt worthwhile innovations developed elsewhere, if they so desire.

A New Regulatory Process for Big Business – The Industry Regulatory Board

In Ecodemia the regional legislature has created an Industry Regulatory Board (IRB) for each major industry that has significant ecological or social impact. Most IRBs have sub-regional branches to handle more localized concerns. Most of the larger Ecodemian regions have chosen to create these IRBs so as to counteract some of the negative features of market competition and to ensure a more complete airing of key policy issues that impact on sustainable development and other important social concerns than would otherwise be possible. While Ecodemians want to maintain as high a degree of efficiency as possible in their economy, they have come to realize that careful review of major investment proposals and other issues by the IRBs is well worth any time delays for new investments that may result, since (1) the final results usually meet with greater public acceptability, (2) improvements from all stakeholders' perspectives to the original investment proposals are often made during the IRB process, and (3) the relatively small incremental social costs of the IRB process itself are usually more than offset by these improvements and related cost reductions.[*]

As discussed above, the IRBs are not merely advisory. Like public utility commissions in the twentieth-century United States, their decisions carry the force of law. These boards hear many types of cases at the individual company level, including those concerning mergers and acquisitions, the pricing of non-competitive products, and the human health and environmental impacts of products, in addition to *major* capital investment proposals. (As noted above, although the development banks make the final determination as to which investment proposals receive funding, no major proposal can be funded without the relevant IRBs first giving

[*] The IRB process is structured in a way such that only about one percent of the investment proposal is expended (using public funds) on the process itself. Thus, bigger proposed investments receive a more intensive review process.

approval. Enterprise investment loan applications require extensive information on the likely environmental, community, labor, and market impacts of the proposed investment. The IRBs will approve applications only if they are compatible with the regional Sustainable Development Plan and the aspirations of the affected local communities.)

IRBs hold open democratic hearings and take sworn expert and non-expert testimony on basic policy issues and when considering the technical aspects of specific investment proposals. These IRB hearings are structured to help the public become better informed as to the many complex tradeoffs that most major investments involve relative to their impact on society and the earth's ecology.

Strict legal guidelines govern these hearings, with precise schedules for adjudicating each case. All stakeholder groups from civil society, as well as government agencies and other affected companies, may participate. Specialized civil society organizations, such as environmental groups, play an active role in the IRB hearings regarding investment proposals that have major effects within their areas of expertise. Such civil society groups are compensated for the costs of participating, based on the quality of their input, so they have a fair chance of competing with businesses and government agencies for a Board's attention. The process is highly transparent, with all stakeholders having access to the information they need for their analyses on which their testimony is based. In part, it is this access to all relevant information which leads to the greater public acceptance of final IRB decisions than would occur if similar decisions were made privately by businesses. Occasionally, appellate courts agree to hear challenges to the Board's rulings.

IRBs are widely thought by Ecodemians to offer effective democratic input into macro-scale investment decisions in a sufficiently timely fashion. The possibility of real influence on these decisions helps to stimulate the development of civil-society organizations.

The Consumption-Leisure Tradeoff

There is less need for legislation to reduce the workweek in Ecodemia than in Agoria. In particular, the consumption-leisure tradeoff is more readily available as a policy option within an employee self-managed firm. For example, if a new technology makes it possible to produce more output with less labor in such a firm, the workers must decide whether to cut their own hours of work while maintaining previous production levels (and, hence, maintaining their own income levels) or to produce more in hopes of selling more (thus increasing their incomes). In Ecodemia, the choice is typically weighted toward more leisure, especially since having to sell more may not be easy in a society that is trying to discourage excessive consumption. By contrast, stockholders in capitalist firms gain nothing if production is not increased. Thus, achieving workweek reductions in a capitalist society typically requires legislation, whereas workweek reductions in Ecodemia are more spontaneous.

Trade Policy

Ecodemia's conception of fair trade precludes international competition based on wages, so it practices "social protectionism". That is, it levies an adjustable tariff on goods imported from countries where workers are paid less than workers in Ecodemia—to negate the competitive price advantage conferred by the lower wages alone. Decades of divisiveness over the issue of outsourcing and the injurious effects of globalization on workers' wages have been overcome through a broad consensus that trade ultimately must serve the disparate interests of all people, not just people as consumers. When trade occurs despite the tariff, Ecodemia rebates the resulting revenues from the tariff to the lower-wage country to further aid its development. This

policy protects workers in Ecodemia, while also ensuring that consumers cannot indirectly pressure workers elsewhere to lower their wages. While low-wage countries lose a certain percentage of sales to richer countries due to this tariff, they benefit substantially from the tariffs that are rebated to them when they have a true "comparative advantage". In effect, poorer countries sell fewer goods to richer countries than they would under a free trade regime, but they receive higher prices for the goods they do sell (Schweickart, 2002).

This policy accords with Ecodemia's general view that economic competition *per se* is neither always good nor always bad. Certain forms of competition are good: competition to produce efficiently, competition to best satisfy consumers, and competition to introduce more effective technologies. But other forms of competition must be discouraged: wage competition that pits worker against worker, or competition that advantages regions that are lax in their environmental regulations. So long as its trading partners have comparable income levels and environmental legislation, Ecodemia welcomes free trade. However, it does not embrace free trade when the partners are unequal. It will protect its own workers from destructive forms of competition, while seeking other means of helping poorer countries to develop.

Less developed Ecodemian regions also impose tariffs to protect their agriculture and industries from imports of goods that are much cheaper than those domestically produced because they come from regions that are far more advanced in their technical capabilities. Policymakers attempt to keep these trade barriers low enough to subject their own industries to enough competition to compel them to be efficient, but high enough to keep their industries from being destroyed—not an easy task, but, as history has shown, not an impossible one. Indeed, such a strategy was employed by virtually every country that had become highly developed by the end of the twentieth century (Chang, 2002).

Arcadia

In 1973 E. M. Schumacher, a top economist in charge of planning at the British Coal Board, published a remarkable book (Schumacher, 1973). *Small is Beautiful: Economics as if People Mattered* resonated strongly with three sorts of people at the time: 1) those disturbed by the seemingly unchecked growth of mega-cities and giant corporations, which seemed to be undermining small businesses, family farms, and local communities, generating anomie and other social pathologies in the process; 2) those interested in Third World development who were troubled by the failure of the programs being urged on poor countries by Western experts; and 3) those identifying themselves with the newly emergent environmental movement. He proposed, among other recommendations, that economies operate at a more "human scale".

Schumacher was deeply critical of politicians and policymakers who identify human progress with economic growth and high levels of consumption: "The substance of man cannot be measured by Gross National Product" (p. 20). He was also critical of those who saw urbanization and the complementary replacement of small farms by agribusiness as both inevitable and desirable and of those who saw the living world as simply a "quarry for exploitation" (p. 112). Also, he opposed those economists who urged export-led growth as the preferred development strategy for the Third World.

Schumacher even questioned the "efficiency" of modern industry. Consider the United States, he wrote:

> An industrial system which used forty percent of the world's primary resources to supply less than six percent of the world's population could be called efficient only if it obtained strikingly successful results in terms of human happiness, well-being, culture, peace and harmony. I do not need to dwell on the fact that the American system fails to do this, or that there are not the slightest prospects that it could do so *if only* it achieved a higher rate of growth (p. 119).

Schumacher advocated more nationalization of industry in the developed world, building on the wave of nationalization that had swept through much of post-war Europe. But he advocated nationalization of a decentralized sort, subject to the principle of subsidiarity. Schumacher argued that nationalized industries should aim at making a profit, but not only at that. They should also be required "to serve the public interest in all respects", including the interests of its employees, the local community, and consumers (pp. 269-70).

Schumacher argued passionately for "intermediate-scale" technologies as vital to successful Third World development, both to solve their unemployment problem and to prevent massive, destructive migrations to the cities:

- Workplaces have to be created in areas where people are living now, and not primarily in metropolitan areas into which they tend to migrate.

- The workplaces must be, on average, cheap enough so that they can be created in large numbers without this calling for an unattainable level of capital formation and imports.

- The production methods employed must be relatively simple, so that the demands for high skills are minimized, not only in the production process itself, but also in matters of organization, raw materials supply, financing, marketing, and so forth.

- Production should be mainly from local materials and mainly for local use (p. 175).

He granted that developing countries "cannot do without a modern sector", but "what needs to be questioned is the implicit assumption that the modern sector can be expanded to absorb virtually the entire population" (p. 167).

Of course, few of Schumacher's proposals were implemented at the time. Indeed, his ideas soon began to appear hopelessly utopian, as the neoliberal counteroffensive got underway in the 1970s and 1980s, re-privatizing those once nationalized industries in both the developed and developing world, and eliminating those tariffs that protected local industries and agricultural communities from being destroyed by cheap imports, thus pushing countries to focus on producing for rich-country markets.

It was not until the first decades of the twenty-first century that the pendulum began to swing the other way. The wreckage affected by neoliberalism was becoming ever clearer, and its promises ever more hollow. The environmental movement regained its momentum, energized by the now undeniable threat of global warming and the consequences of peak global oil production. Rich country consumers began to create a demand for organic produce and localized

production. Communities started to defend themselves from the ravages of Wal-Mart and other big-box retailers by supporting local retailers and producers.

Of even greater significance, poor countries with hundreds of millions of poverty-stricken peasants began to re-think their previous commitment to the Western (neoliberal) development paradigm. In 2005, the Chinese government urged a revaluation of China's "growth at any cost" policy, calling for a more "scientific" conception of growth that linked it more directly to environmental sustainability and human well-being. The following year China's government called for "A New Socialist Countryside", echoing ideas that had been fermenting in China's New Left about an alternative conception of "modernity"—namely, one that does not entail the massive migration of peasants to the cities (Wang, 2003). At the same time, in certain rich countries, localist experiments which had been germinating for decades mushroomed in the context of the shift in prevailing values.

From these beginnings sprang this third Great Transition economic model. Unlike Agoria and Ecodemia, the Arcadian model is not, in essence, a model for an entire regional economy. To be sure, some small regions have adopted the Arcadian model *tout court,* and some sections of existing larger regions were granted the political independence to develop on their own according to this model. But, more commonly, various sub-regions within much larger Agorian or Ecodemian regions developed Arcadian economies.

Relative to the two other economic archetypes, the bias in Arcadia is toward locally self-reliant economies, small enterprises, direct democracy in decision-making (at least in cyberspace), community engagement, and love of nature. This lifestyle tends to emphasize very modest consumption of material goods, an appreciation for folk crafts, and a reverence for tradition (Raskin, 2006a). Although the local economy is emphasized in Arcadia, most people are highly connected with cosmopolitan culture and world affairs via advanced communication technologies. Many Arcadians take advantage of their ample leisure time to travel outside their regions. Arcadia has centers of innovation oriented to technologies that are particularly relevant to their overall philosophy (organic agriculture, modular renewable energy devices, human-scale transportation devices, zero emissions of key pollutants, etc.). The export of Arcadian products and services, along with eco-tourism, supports the modest trade requirements of these relatively time-rich, resource conserving, and relatively slow-moving societies.

The populations in Arcadian regions (or sub-regions) are predominantly rural, with citizens usually living in relatively small villages, although there are also towns and even small cities within some regions. Land tends to be farmed by cooperatives or individual households. There are few if any large industrial farms in Arcadian regions. In the towns and cities, there is a mix of enterprises: single-proprietorships employing a few people, producer and retail cooperatives, township- and village-owned enterprises, even some relatively large shareholder-owned firms. Many of the latter have adopted a proposal of Schumacher's making them quasi-nationalized: for each share of private stock issued, a share is also issued, free of charge, to the communities in which they are located. The community shares are non-voting, so control resides with the private shareholders, but the community shares receive dividends, which help fund community services and projects. A special "Social Council" in each town, representing business, labor, professional associations and the community-at-large, presides over the disposition of these revenues.

The farms that provide the backbone of Arcadian agricultural tend to be relatively small and labor-intensive, with a focus on growing a rich mix of crops and livestock on each farm with

minimal dependence on heavy, energy-intensive equipment or chemical fertilizers and insecticides. Here sustainable agriculture is clearly achieved. These farms not only give Arcadian regions self-sufficiency of food, but also provide much food to the Agorian or Ecodemian regions of which they are a part, allowing these regions themselves to be nearly self-sufficient in food. The income that Arcadia receives from this trade tends to translate into more leisure and better working conditions, rather than into more consumption. That is to say, although Arcadian agriculture is more "labor-intensive" than non-Arcadian agriculture, as opposed to "capital intensive", Arcadian farmers do not work longer hours. More people work each acre of land than is typical in non-Arcadian agriculture, but each worker works fewer hours. Moreover, most of their work is done with "appropriate technologies" that have eliminated the more onerous features of small-scale agriculture.

Arcadians believe that social and environmental justice is best served by true local, democratic control of the economy. They believe that local democratic control leads to both sustainable development and a more equitable distribution of income and wealth. Typically, Arcadian sub-regions that are part of a larger Agorian or Ecodemian region are allowed to opt out of the larger regional systems of education, health care, day care, and elder care if they feel they can better provide these services on their own. If they choose to opt out of a given program, they receive their share of the general tax revenues that would have been used to provide these services to their sub-region.

Arcadian regions that are autonomous, and not sub-regions of Agorian or Ecodemian regions, have decided to impose very high environmental taxes on land, energy, and natural resources in order to help achieve sustainable development, making an exception for agricultural land. The Arcadian government has set these taxes even higher than in Agoria and Ecodemia, thus making the use of virgin natural resources extremely expensive compared with reuse and recycling. These taxes forestall environmental damages as well as curb the consumption of material goods—both restrictions in accord with core Arcadian values. Very high taxes on energy consumption also help reinforce Arcadians' preference for local goods and services, as interregional transportation has become quite expensive. High taxes on land have also been levied and help minimize the social impacts of local construction. Because revenues from environmental taxes are substantial, Arcadia assesses few other taxes except a wealth tax, having eliminated taxes on sales, income, and labor, and various user taxes. However, high real estate taxes (in addition to land taxes) are also an important source of income for local Arcadian governments. These taxes also encourage the construction of smaller dwellings and less commercial floor space per capita. This reduction in building sizes further helps conserve natural resources and energy.

Since Arcadians believe with Schumacher, that "the existence of inordinately rich people in any society today is a very great evil, [since] excessive wealth, like excessive power, tends to corrupt", (p. 179), they impose local wealth taxes so as to diminish economic inequality whenever they feel that it threatens to exceed the bounds they deem acceptable.

Those Arcadian enclaves that are sub-regions of Agorias or Ecodemias have often imposed supplemental taxes on their inhabitants, for the same reasons that Arcadian regions have imposed their high taxes. Many Arcadian sub-regions have also established their own currencies to help ensure that a significant portion of the income and capital generated locally remains there (Douthwaite, 1999). Residents can thus compound local economic success over time—although perhaps at the expense of other localities within the larger regions in which they are located. This is a choice that residents of Arcadia have made.

Arcadian sub-regions are, of course, subjected to the same environmental restrictions imposed by laws and regulations under the overall regional Sustainable Development Plan. Indeed, given their deep commitment to their land and to nature in general, Arcadian regions are often sources of ecological innovation, and serve as models for the rest of the regions.

Concluding Remarks

Given the relatively short time (a matter of a few decades) that our world has remaining to achieve such critical goals as climate stabilization and ecological sustainability, it is clear that all future regional economic systems will have to constrain and direct new investments to a much greater extent than nations have in the recent past. We have seen that this can be accomplished in a variety of ways that are compatible with more equitable social policies. Great Transition societies all face the challenge of setting and meeting environmental and social planning goals that are compatible with global responsibilities and democratically determined priorities. This means setting boundaries on market forces to a considerable degree.

These restrictions not only keep market forces in check, but also serve to deepen the democratic character of our GTI societies. Whether the basic economic actors are private stockholder-owned corporations, socially-owned, worker-controlled businesses, or small businesses and cooperatives, key investment decisions that determine the shape of a society's future must be made through processes that balance the concerns of multiple stakeholders representing different perspectives. Appropriately structured, these decision-making procedures can be expected to produce optimal results, maintaining efficient economies while reflecting non-economic considerations, not the least of which our responsibility to deliver a sustainable future to unborn generations. As current research continues to demonstrate, "the many are smarter than the few" (Surowiecki, 2004).

To get there, the world will need to evolve democratic governance mechanisms at global and regional levels. At sub-global levels, sustainable development plans need to be created, implemented, and enforced by powerful governmental ministries. Nothing less will do in any region of the globe. How these coordinated sustainable development plans are implemented, and what precise values they embody, will differ from region to region, as people struggle to find solutions to pressing problems and to meet their global obligations. Regional successes and failures will doubtless be closely monitored for new “lessons learned”, so that subsequent planning can be steadily improved.

We can no longer pretend that the current “emperor” has clothes. Measured against the goals of sustainability, equity, peace, and quality-of-life, neoliberal capitalism has failed. We cannot continue down that road. Time is too short, and our human and ecological needs are too great. Major structural changes are required. As we have seen in this paper, we can lay out the broad contours of alternative economic institutions for a different path to the future.

The main unresolved issue is *how to bring about* such changes, given the huge financial and other interests vested in the existing economic order. This key question is taken up in some of the other papers in this GTI series. (See, for example, Rajan, 2006; Kriegman, 2006; Raskin, 2006b; Stutz, 2006; and White, 2006.)

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