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THE FAILURES OF BRETTON WOODS

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This essay is adapted from David C. Korten's Keynote address at the 1994 convention of the Environmental Grantmakers Association of America, held at the Mount Washington Hotel, New Hampshire, on the fiftieth anniversary of the famous Bretton Woods conference that created the World Bank, International Monetary Fund, and soon after, the General Agreement on Tariffs and Trade (GATT).

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The fame of Bretton Woods and of this hotel dates from July 1944, when the United Nations Monetary and Financial Conference was held here. The world was in the throes of World War II. Mussolini had been overthrown. The Allies had landed in Normandy, but Hitler would last another ten months. War also continued to rage in the Far East, and Japan would not surrender for another thirteen months. The United Nations Charter was still a year away. In that context, the economic leaders who quietly gathered at this hotel were looking beyond the end of the war with hopes for a world united in peace and prosperity. Their specific goal was to create the institutions that would promote that vision.

The Bretton Woods meeting did create new institutions that have shaped and controlled the world's economic activity since that time, but some theorists will say that the plans for these institutions go back still further to the 1930s and the U.S. Council on Foreign Relations. A meeting ground for powerful members of the U.S. corporate and foreign policy establishments, the council styled itself as a forum for the airing of opposing views, an incubator of leaders and ideas unified in their vision of a global economy dominated by U.S. corporate interests.

Members of this group assessed early on that, at a minimum the U.S. national interest required free access to the markets and raw materials of the Western Hemisphere, the Far East, and the British Empire.

On July 24, 1944, a council memorandum outlined the concept of a grand area: the part of the world that the United States would need to dominate economically and militarily to ensure materials for its industries.

The council also called for the creation of worldwide financial institutions for "stabilizing currencies and facilitating programs of capital investment

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for constructive undertakings in backward and underdeveloped regions". (Holly Sklar, *Trilateralism* 1980)

President Franklin D. Roosevelt was duly apprised of the council's views. Three years later, at the opening session at Bretton Woods, Henry Morgenthau, then U.S. Secretary of the Treasury and president of the conference, read a welcoming message from Roosevelt and gave his own opening speech, which set the tone and spirit of the gathering. Morgenthau envisaged "the creation of a dynamic world economy in which the peoples of every nation will be able to realize their potentialities in peace and enjoy increasingly the fruits of material progress on an earth infinitely blessed with natural riches". He called for participants to embrace the "elementary economic axiom ... that prosperity has no fixed limits. It is not a finite substance to be diminished by division."

Thus Morgenthau set forth one of several underlying assumptions of the economic paradigm that guided the work of the architects of the Bretton Woods system. Many of these assumptions were reasonably valid, but two of the most important were deeply flawed. The first erroneous assumption is that economic growth and enhanced world trade would benefit everyone. The second is that economic growth would not be constrained by the limits of the planet.

By the end of this historic meeting, the World Bank and the International Monetary Fund (IMF) had been founded, and the groundwork had been laid for what later became GATT. In the intervening years, these institutions have held faithfully to their mandate to promote economic growth and globalization. Through structural adjustment programs (SAPs), the World Bank and the IMF have pressured countries of the South to open their borders and change their economies from self-sufficiency to export production. Trade agreements negotiated through GATT have reinforced these actions and opened economies in both North and South to the increasingly free importation of goods and money.

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As we look back fifty years later, we can see that Bretton Woods institutions have indeed met their goals. Economic growth has expanded fivefold. International trade has expanded by roughly twelve times, and foreign direct investment has been expanding at two to three times the rate of trade expansion.

Yet, tragically, while these institutions have met their goals, they have failed in their purpose. The world has more poor people today than ever before. We have an accelerating gap between rich and poor.

Widespread violence is tearing families and communities apart nearly everywhere. And the planet's ecosystems are deteriorating at an alarming rate.

Yet the prevailing wisdom continues to maintain that economic growth offers the answer to poverty, environmental security, and a strong social fabric, and that economic globalization - erasing economic borders to allow free flow of goods and money - is the key to such growth. Indeed, the more severe the economic, environmental, and social crises, the stronger the policy commitment to these same prescriptions, even as evidence mounts that they are not working. In fact, there is a growing consensus outside of official circles that they cannot work, for reasons I will explain.

ECOLOGICAL LIMIT TO GROWTH

As the founder of ecological economics, Herman Daly, regularly reminds us, the human economy is embedded in and dependent on the natural ecosystems of our planet. Until the present moment in human history however, the scale of our economic activity relative to the scale of the ecosystems has been small enough so that, in both economic theory and practice, we could, up to a point, afford to ignore fundamental fact.

Now, however, we have crossed a monumental historical threshold. Because of the fivefold expansion since 1950 the environmental demands of our economic system have filled up the available environmental space of the planet. In other words we live in a "full world".

The first environmental limits that we have confronted and possibly exceeded are not the limits to nonrenewable resource exploitation, as many once anticipated, but rather the limits to renewable resources and to the environment's sink functions - its ability to absorb our wastes. These are limits related to loss of soils, fisheries, forests, and water; to the absorption of CO_2 emissions; and to destruction of the ozone layer. We could argue whether a particular limit was hit at noon yesterday or will be passed at midnight tomorrow, but the details are far less important than the basic truth that we have no real option other than to adapt our economic institutions to the reality of a "full world".

The structure and ideology of the existing Bretton Woods system is geared to an ever-continuing expansion of economic output - economic growth - and to the integration of national economies into a seamless global economy. The consequence is to intensify competition for already overstressed environmental space.

In a "full world", this intensified competition accelerates destruction of the regenerative capacities of the ecosystem on which we and future generations depend; it crowds out all forms of life not needed for immediate human consumption purposes; and it increases competition between rich and poor for control of ecological resources. In a free market - which responds only to money, not needs - the rich win this competition every time. We see it happening all over the world; hundreds of millions of the financially disenfranchised are displaced as their lands, waters, and fisheries are converted to uses serving the wants of the more affluent.

As long as their resources remain, the

demands of the rich can be met - which may explain why so many of the rich see no problem. The poor experience a very different reality, but in a market economy their experience doesn't count.

The market cannot deal with questions relating to the appropriate scale of economic activity. There are no price signals indicating that the poor are hungry because they have been forced off their lands; nor is there any price signal to tell polluters that too much CO_2 is being released into the air, or that toxins should not be dumped into soils or waters. Steeped in market ideology and highly responsive to corporate interests, the Bretton Woods institutions have demonstrated little capacity to give more than lip service either to environmental concerns or to the needs of the poor. Rather, their efforts have de facto centered on ensuring that people with money have full access to whatever resources remain - with little regard for the broader consequences.

A new Bretton Woods meeting to update the international system would serve a significant visionary need - if its participants were to accept that economic growth is no longer a valid public policy priority. Indeed, whether the global economy grows or shrinks is largely irrelevant.

Having crossed the threshold to a full world, the appropriate concern is whether the available planetary resources are being used in ways that: 1. meet the basic needs of all people; 2. maintain biodiversity; and 3. ensure the sustained availability of comparable resource flows to future generations. Our present economic system fails on all three counts.

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ECONOMIC INJUSTICE

In *How Much Is Enough?*, Alan Durning divided the world into three consumption classes: overconsumers, sustainers, and marginals. The overconsumers are the 20% of the world's people who consume roughly 80% of the world's resources - that is, those of us whose lives are organized around automobiles, airplanes, meat-based diets, and wastefully packaged disposable products. The marginals, also 20% of the world's people, live in absolute deprivation.

If we turn to measurements of income rather than consumption, the figures are even more stark. The United Nations Development Program (UNDP) Human Development Report for 1992 introduces the champagne glass as a graphic metaphor for a world of extreme economic injustice. The bowl of the champagne glass represents the abundance enjoyed by the 20 percent of people who live in the world's richest countries and receive 82.7 percent of the world's income. At the bottom of the stem, where the sediment settles, we find the poorest 20 percent of the world's people, who barely survive on 1.4 percent of the total income. The combined incomes of the top 20 percent are nearly sixty times larger than those of the bottom 20 percent. Furthermore, this gap has doubled since 1950, when the top 20 percent enjoyed only thirty times the income of the bottom 20 percent. And the gap continues to grow.

These figures actually understate the true inequality in the world, because they are based on national averages rather than actual individual incomes. If we take into account the very rich people who live in poor countries and the very poor people who live in rich countries, the incomes of the richest 20 percent of the world's people are approximately 150 times those of the poorest 20 percent. That gap is growing as well.

Robert Reich, the U.S. Secretary of Labor in the Clinton administration, explained in his book *The Work of Nations* (1991), that the economic globalization the Bretton Woods institutions have advanced so successfully has served to separate the interests of the wealthy classes from a sense of national interest and thereby from a sense of concern for and obligation to their less fortunate neighbors. A thin segment of the super rich at the very lip of the champagne glass has formed a stateless alliance that defines global interest as synonymous with the personal and corporate financial interests of its members.

This separation has been occurring in nearly every country in the world to such an extent that it is no longer meaningful to speak of a world divided into northern and southern nations. The meaningful divide is not geography - it is class.

Whether intended or not, the policies so successfully advanced by the Bretton Woods institutions have inexorably empowered the super rich to lay claim to the world's wealth at the expense of other people, other species, and the viability of the planet's ecosystem.

FREEING CORPORATIONS FROM CONTROL

The issue is not the market *per se*. Trying to run an economy without markets is disastrous, as the experience of the Soviet Union demonstrated. However, there is a fundamentally important distinction between markets and free markets.

The struggle between two extremist ideologies has been a central feature of the twentieth century. Communism called for all power to the state. Market capitalism calls for all power to the market - a euphemism for giant corporations. Both ideologies lead to their own distinctive form of tyranny. **The secret of Western success in World War II and the early postwar period was not a free market economy; it was the practice of democratic pluralism built on institutional arrangements that sought to maintain balance between the state and the market and to protect the right of an active citizenry to hold both accountable to the public interest.**

Contrary to the claims of ideologues who preach a form of corporate liberalism, markets need governments to function efficiently. It is well established in economic theory and practice that markets allocate resources efficiently only when markets are competitive and when firms pay for the social and environmental impact of their activity - that is, when they internalize the costs of their production. This requires that governments set and enforce the rules that make cost internalization happen, and, since successful firms invariably grow larger and more monopolistic, governments regularly step in to break them up and restore competition.

For governments to play the necessary role of balancing market and community interests, governmental power must be equal to market power. If markets are national, then there must be strong national government. By expanding the boundaries of the market beyond the boundaries of the nation-state through economic globalization, the concentration of market power moves inevitably beyond the reach of government. This has been a most important consequence of both the structural adjustment programs of the World Bank and IMF and the trade agreements negotiated under GATT.

As a result, governance decisions are transferred from governments, which at least in theory represent the interests of all citizens, to the transnational corporations, which by their nature serve the interests only of their dominant shareholders. Consequently, societies everywhere on the planet are no longer able to address environmental and other needs.

Enormous economic power is being concentrated in the hands of a very few global corporations relieved of constraints to their own growth. Antitrust action to restore market competition by breaking up the concentrations is one of the many casualties of globalization.

Indeed, current policy encourages firms to merge into ever more powerful concentrations to strengthen their position in global markets.

The rapid rate at which large corporations are shedding employees has created an impression in some quarters that the firms are losing their power. It is a misleading impression. The Fortune 500 firms shed 4.4 million jobs between 1980 and 1993. During this same period, their sales increased 1.4 times, assets increased 2.3 times, and CEO compensation increased 6.1 times. Of the world's one hundred largest economies, fifty are now corporations, not including banking and financial institutions.

Any industry in which five firms control 50 percent or more of the market is considered by economists to be highly monopolistic. *The Economist* recently reported that five firms control more than 50 percent of the global markets in the following industries: consumer durables, automotive, airlines, aerospace, electronic components, electricity, and electronics, and steel. **Five firms control over 40 percent of the global market in oil, personal computers, and - especially alarming in its consequences for public debate on these very issues - media.**

FORUMS FOR ELITE DOMINATION

It is worth adding here that the forums within which the corporate and government elites shape the global policies of the Western world were not limited to Bretton Woods. **In May 1954, a powerful group of North American and European leaders also began meeting as an unofficial, low profile group with no acknowledged membership. Known quite simply as Bilderberg, the group played a significant role in advancing the European Union and shaping the consensus among leaders of the Atlantic nations on key issues facing Western-dominated transnational systems.** Participants included heads of state, other politicians, key industrialists and financiers, and an assortment of intellectuals, trade unionists, diplomats and influential representatives of the press with demonstrated sympathy for establishment views. One Bilderberg insider had observed that "today there are very few figures among governments on both sides of the Atlantic who have not attended at least one of these meetings."

> *"Five firms control over 40 percent of the global market in oil, personal computers, and – especially alarming in its consequences for public debate on these very issues – media."*

As Japan assumed an increasingly powerful and independent role in the global economy, the need became evident for a forum that included the Japanese and had a more formal structure than Bilderberg. In response, the Trilateral Commission was formed in 1973 by David Rockefeller, chair of the Chase Manhattan Bank, and Zbigniew Brzezinski, who served as the commission's director/coordinator until 1977 when he became national security advisor to President Jimmy Carter.

The members of the Trilateral Commission include the heads of four of the world's five largest nonbanking transnational corporations; top officials of five of the world's six largest international banks; and the heads of major media organizations. U.S. presidents Jimmy Carter, George Bush, and Bill Clinton were all members of the Trilateral Commission.

Both Bilderberg and the Trilateral Commission have provided forums in which top executives from the world's leading corporations meet regularly, informally, and privately with top national political figures and opinion leaders to seek consensus on immediate and longer-range problems facing the most powerful members of the Western Alliance.

To some extent, the meetings help maintain "stability" in global policies, but they also deprive the public of meaningful participation and choice - as some participants explicitly intend. Particularly significant about these groups is their bipartisan political membership. Certainly, the participation of both George Bush and Bill Clinton in the Trilateral Commission makes it easier to understand the seamless transition from the Republican Bush administration to the Democratic Clinton administration with regard to U.S. commitment to pass GATT and NAFTA. Clinton's leadership in advancing what many progressives saw as a Bush agenda won him high marks from his colleagues on the Trilateral Commission.

INSTRUMENTS OF CONTROL

Corporations have enormous power, and they are actively using it to reshape the rules of the market in their own favour. The GATT has now become one of the corporations' most powerful tools for reshaping the market.

Under the new GATT agreement, a World Trade Organization, the WTO, has been created with far-reaching powers to provide corporations the legal protection they feel they need to continue expanding their far-flung operations without the responsibility to serve any interest other than their own bottom line.

The WTO will hear disputes brought against the national or local laws of any country that another member country considers to be a trade barrier. Secret panels made up of three unelected trade experts will hear the disputes, and their rulings can be overturned only by a unanimous vote of the member countries.

In general, any health, safety, or environmental standard that exceeds international standards set by industry representatives is likely to be considered a trade barrier, unless the offending government can prove that the standard has a valid scientific basis.

As powerful as the large corporations are, they themselves function increasingly as agents for a global financial system that has become the world's most powerful governance institution. The power in this system lies within a small group of private financial institutions that have only one objective: to make money in massive quantities. A seamless electronic web allows anyone with proper access codes and a personal computer to conduct instantaneous trade involving billions of dollars on any of the world's financial markets. The world of finance itself has become a gigantic computer game. **In this game the smart money does not waste itself on long-term, high quality commitments to productive enterprises engaged in producing real wealth to meet real needs of real people. Rather, it seeks short-term returns from speculation in erratic markets and from simultaneous trades in multiple markets to profit from minute price variations.** In this game the short-term is measured in microseconds, the long term in days. The environmental, social, and even economic consequences of financial decisions involving more than a trillion dollars a day are invisible to those who make them.

Joel Kurtzman, former business editor of the *New York Times* and currently editor of the *Harvard Business Review*, estimates that for every $1 circulating in the productive economy today, $20 to $50 circulates in the world of pure finance. Since these transactions take place through un-monitored international computer networks, no one knows how much is really involved. The $1 trillion that changes hands each day in the world's international currency markets is itself twenty to thirty times the amount required to cover daily trade in actual goods and services.

If the world's most powerful governments act in concert to stabilize exchange rates in these same markets, the best they can manage is a measly $14 billion a day - little more than pocket change compared to the amounts mobilized by speculators and arbitrageurs.

The corporations that invest in real assets (as opposed to ephemeral financial assets) are forced by the resulting pressures to restructure their operations in order to maximize immediate short-term returns to shareholders. One way to do this is by downsizing, streamlining, and automating their operations, using the most advanced technologies to eliminate hundreds of thousands of jobs.

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The result is jobless economic growth.

Contemporary economies simply cannot create jobs faster than technology and dysfunctional economic systems can shed them. In nearly every country in the world there is now a labour surplus, and those lucky enough to have jobs are increasingly members of a contingent workforce without either security or benefits. The resulting fear and insecurity make the jobs-versus-environment issue a crippling barrier to essential environmental action.

Another way to increase corporate profits is to externalize the cost of the firm's operations on the community, pitting localities against one another in a standards-lowering competition to offer subsidies, tax holidays, and freedom from environmental and employment standards. Similarly, workers are pitted against each other in a struggle for survival that pushes wages down to the lowest common denominator. This is the true meaning of global competitiveness - competition among localities. Large corporations, by contrast, minimize their competition through mergers and strategic alliances.

Any corporation that does not play this game to its limits is likely to become a takeover target by a corporate raider who will buy out the company and profit by taking the actions that the previous management - perhaps in a fit of social conscience and loyalty to workers and community - failed to take. The reconstruction of the global economic system makes it impossible for even highly socially conscious and committed managers to operate a corporation responsibly in the public interest.

We are caught in a terrible dilemma. We have reached a point in history where we must rethink the very nature and meaning of human progress; yet the vision and decisions that emerged some fifty years ago are catalyzed events that have transformed the governance processes of societies everywhere such that the necessary changes in thought and structure seem very difficult to achieve.

It has happened so quickly that few among us even realize what has happened. The real issues are seldom discussed in a media dependent on corporate advertising.

"Powerful interests stand resolutely in the way of achieving such a reversal of current trends. The biggest barrier, however, is the limited extent of public discussion on the subject. The starting point must be to get the issues on the table and bring them into the mainstream policy debates in a way that books like this may help to achieve."

Nonetheless, the fact is that sustainability in a growth-dependent global economy is what Herman Daly calls an impossibility theorem. What is the alternative ? Among those of us who are devoting significant attention to this question, the answer is the opposite of globalization. It lies in promoting greater economic localization - breaking economic activities down to smaller, more manageable pieces that link the people who make decisions in ways both positive and negative. It means rooting capital to a place and distributing its control among as many people as possible.

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This essay was one of two introductions to ***The Case Against the Global Economy****, edited by Jerry Mander and Edward Goldsmith and published in 1996 by Sierra Club Books of San Francisco. It is reproduced here - on a one-time non-exclusive use basis - with permission from Sierra Club Books.*

Editorial comment: Readers may like to refer to ***TSC*** *issues, Nov-Dec. 1997, Vol. 76, No. 6, (A. R. Orage on World Government), Jan-Feb. 1998, Vol. 77, No. 1, (Herman Daly and Growth), March-April 1998, Vol. 77, No. 2, (Multilateral Agreement on Investment), and July-Aug. 1998, Vol. 77, No. 4, (On-the-scene report of the recent Bilderberg Conference at Turnberry, Ayrshire), for supplementary comment on the issues raised in this essay.*

SOCIAL CREDIT AND ENVIRONMENTAL SUSTAINABILITY

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INTRODUCTION

In formulating his A+B theorem Douglas sought to demonstrate the workings of the financial mechanisms necessitating economic growth. In his view, an enormous waste of human effort and the earth's resources was expended in the maintenance of the productive process merely in order to distribute incomes and avoid unemployment. Douglas drew his evidence from observation of accounting procedures during World War I. With the aid of early tabulating machines he noted that Farnborough Aircraft Factory, like one hundred other large businesses in the UK, was generating costs at a much faster rate than it was distributing incomes. In other words, only a part of the final product could be distributed through income (wages, salaries, and dividends) generated *in the final stage of production*. Distribution of the remainder depended upon work in progress on *future* production. Lengthy production processes resulting from technological change extended the time gap between payment of incomes in respect of the early stages of production and the appearance of the final product on the market. At that stage current incomes could only purchase a fraction of the final product. Distribution of the remainder depended upon work in progress on *future* production. As loan credits, export credits and consumer borrowing financed future production, industrial and financial power became increasingly centralised. Production had to be constantly expanded, becoming increasingly dependent on debt-financing. The pursuit of "full employment" necessitated an enormous waste of human resources and the earth's resources. Constant economic growth resulted in environmental degradation, leading inevitably to economic and military warfare (Douglas 1919).

The strength and vehemence of the rejection of Douglas' theories are puzzling phenomena. If he was so completely mistaken, his widespread popularity over *two decades* cannot easily be dismissed as mere wishful thinking on the part of the economically disadvantaged. The standard objections to Douglas' thesis were contradictory. According to some, the cost-income gap was an illusion. Douglas had failed to realise that all costs represented sums paid out as incomes in previous periods, thus ignoring the time factor, the essence of his analysis. Others objected that Douglas merely stated the obvious: the monetary and economic system must inevitably operate in this way to stimulate new production and maintain employment. The latter ignored Douglas' key proposition that the objective of production should be to meet a *sufficiency* of consumer wants: "employment" or profit should not be ends in themselves (Douglas 1919). Social credit non-equilibrium economics arose through Douglas' collaboration with A. R. Orage, the guild socialist editor of *The New Age* between 1918 and 1922.

SOME SHORTCOMINGS IN NEOCLASSICAL THEORY

The theoretical division between neoclassical theory and Douglas economics could stem from logical flaws in either body of analysis. Here we examine the shortcomings of general equilibrium theory. In the Douglas analysis, technological advance offered the potential for reduction in work hours for all, accompanied by an increase in time available for cultivation of arts, crafts and learning. Instead technological advance was already, by the 1920s, leading to simultaneous increases in production and unemployment, accompanied by prodigal consumerism, dumping of "surplus" foods and export of that most wasteful of all

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forms of production, armaments, as a means to maintain a viable economy. The option to produce and consume *less* was not on offer. General equilibrium theory cannot handle the concept of sufficiency. While acknowledging resources to be finite, it assumes material wants to be infinite, purporting to be the science of the efficient allocation of those finite resources in order to maximise welfare.

There is, however, no evidence to link increased material consumption with higher welfare. While it is possible to link growth in production with greater profitability, simultaneous increases in pressure on the social and environmental fabric upon which economic activity ultimately depends can be observed. The orthodox economic way of thinking, which builds up "aggregative stories from individual decisions" (Krugman 1996: 4) leads to deceptively neat models, purporting to offer a "scientific" basis to the study of economics. However, physical and biological phenomena are attributes of the natural world. They can be examined, even within limits affected or controlled by human agency, but in the last resort they are "givens". The key difference between economics and any science is that economic institutions are created by people. Douglas' "sin" was to tread on hallowed ground by declaring finance to be a man-made institution and hence capable of adaptation by intelligent human action.

Neoclassical theorists argue that economics, like any other science, uses measurement and prediction to create models and predict outcomes. Finance is a matter for accountants. Economics is the study of market equilibrium: supply and demand are brought into equilibrium by utility on the one hand and profitability on the other. Freed from normative values, this "objective" science purports to model what people actually do.

According to general equilibrium theory, income accrues to individuals by virtue of their ownership of a factor of production which is in demand. Hence ownership of land, capital or labour is rewarded to the extent that the owners can supply the factor in response to demand. Conventional economists treat endowment of ownership of factors as given exogenous, non-economic datum. Reward to a factor is deemed appropriate to recompense the loss or disutility of parting with a stated quantity of the factor owned. Since the majority of incomes derive from the sale of the factor labour, we examine neoclassical theory on the demand for and supply of labour.

LABOUR AS UTILITY

Traditionally, it is assumed that, holding technology and market conditions constant, the demand schedule based on the marginal productivity of labour will slope downwards from left to right, while the supply schedule based on the marginal disutility of work will slope upwards. An equilibrium price for labour (wage) is achieved at the point of intersection of the two functions. If technology changes, enabling capital to be substituted for labour, a different demand schedule may result in a lower equilibrium wage. It is customary for attention to focus on variations in the demand for labour, with analysis of their effects upon wage rates and employment. Throughout, labour is assumed to be a pure disutility. Hence individuals respond "rationally" to fluctuations in wages, giving rise to an upward sloping supply curve for labour. Under normal conditions, as wages rise, more labour comes forward to offer its services, and more will be prepared to work longer hours. Exceptions may occur: for example, the opportunity cost of leisure time required to spend higher income may on occasions generate a backward-sloping schedule. Nevertheless the basic relationship is held to be generally positive, so that higher wages induce more labour supply by compensating for the higher marginal disutility of work. Labour as disutility is an essential core assumption in general equilibrium theory.

However, once a subsistence minimum has been achieved, the simple utility/disutility dichotomy possesses little practical relevance. People gain satisfaction (utility) from work. Satisfactions may include a sense of security, professional pride, continuation of family tradition, social contact, contribution to society, a sense of service, learning new skills, prestige, status, power over people and events, personal growth in skills, emotions and intellect, creativity, and a structure and rhythm to life (Dominguez and Robin 1992). In this scenario, financial reward is one factor among many drawing "labour" onto the market. Price is not the sole, or even necessarily the dominant factor. Consequently, the supply schedule for labour may well run horizontally, or even in reverse: there is no evidence that it *must* slope upwards and so intersect with the demand curve in line with general competitive equilibrium theory.

Pure disutility of labour belongs to the slave state. Where the master/employer owns the means of production, the labourers being denied access to land, tools, skills and time, a simple reward and punishment system may apply. Neoclassical theory operates on an extension to this system, regarding "labour" as the factor/wage-slave to be bought and sold as a commodity. In the "instrumental" view of work, labour, "necessarily painful, is a means to an end, considered to be desirable or pleasurable, such as earning money, which in turn is a means to other desirable ends, like buying goods or gaining leisure" (Lee 1989: 231). Within this system labour is rewarded by a basket of commodities which, beyond a basic subsistence minimum, are "wants" artificially stimulated by the system (Hodgson 1988: 20).

INTERNAL AND EXTERNAL GOODS

According to Lee, the system "celebrates acquisitiveness, egoism, and destructive competition" while it represses cooperation and intrinsic satisfaction in a task well done (Lee 1989: 236). In Lee's view, "such a set of ecologically insensitive values (E<u>S</u>V) ... is not consonant with the laws of thermodynamics and the principles of ecology. A social, moral theory embodying such values, which are at odds with so established and fundamental a science as thermodynamics, must be judged, therefore, to be wrong, inadequate, misleading and, indeed, even fantastic ... A new type of social arrangement, reflecting [ecologically sensitive values], ought to replace the existing social arrangement which embodies E<u>S</u>Vs" (Lee 1989: 197).

The principles of ecology, in keeping with the laws of thermodynamics, indicate the absolute scarcity of the "low entropic energy and matter" from which beefburgers and cars are produced, resulting in entropy, waste and pollution (Lee 1989: 204). As it causes an ever-increasing rate of consumption, exponential economic growth hastens this depletion. It is not physically possible for all members of present and future generations to continue to follow the imperatives of economic growth. Consumption of resources at an escalating rate must lead to ecological bankruptcy and increasing inequality in a "zero-sum, divisive, competitive game, necessarily with few winners and many losers" (Lee 1989: 226). Nobody is content, for the emphasis is on ever-increasing possession and consumption of material artifacts.

In this game, satisfaction is gained from the mere legal ownership of goods and their conspicuous consumption: things are status symbols, Veblen's (1899) "conspicuous consumption."

By contrast, Lee draws attention to the existence of "internal goods", skills in arts, languages, music and so on. Acquisition of these internal goods requires time and some minimal access to external goods in the form, for example, of a musical instrument. However, acquisition does not deprive others of access to the same goods. Indeed, a skilful musician or linguist may add to total utility by imparting skills to others on a cooperative, win-win basis, increasing the general stock of skills and knowledge with minimal ecological impact (Lee 1989: 210-226).

DYNAMICS OF DEBT FINANCE

By noting the significance of debt finance over time in uniting the twin processes of production and distribution, Douglas progressed towards the creation of Lee's "new type of social arrangement" capable of accommodating "ecologically sensitive values". In orthodox analysis factors of production float in a free market void, awaiting demand determined by utility to set them into productive motion. By contrast, in actually existing capitalist economies, production and distribution are initiated by finance capital.

Land, labour and machinery remain unemployed unless and until the factors are united through finance capital. The "factor sequence theory" states that among the factors of production, capital must be secured first so that land can be rented and labour hired. In unregulated free market conditions "competition tends to maximise the income of capital" (Fountain 1996: 8). Significantly, the level of output and its nature (guns for the few at the opportunity cost of food for the many) are determined by the profitable use of capital.

The body of economic theory known as Douglas Social Credit was globally popular in the interwar years (see Hutchinson and Burkitt 1997a). Douglas demonstrated through his much maligned A+B theorem that decisions relating to the production and distribution of wealth, and hence to the welfare of all, were dependent upon an archaic system of accounting dating back to the pre-industrial era of single-stage production. According to orthodox theory, e.g. Say's (1804) law, goods and services exchange in barter-like conditions where markets clear. In reality, money (unlike barter) enables a time lag to develop between purchases and sales. Consequently finance capital plays a determining role in defining the ownership and use of the common heritage of goods, resources, skills, and knowledge accumulated by society as a whole over untold past generations. Financial viability determines choices even when needs go unmet and resources lie idle.

The "credit" which provides the motive power for the economy is divided into two categories, "financial credit" and "real credit". "'Financial' credit is simply an estimate of the capacity to pay money" (Douglas 1922: 35). Purchasing power is created on financial criteria. Producers of goods can borrow to initiate production if they are also potential producers of money.

"If we say that Real Credit concerns the supply of goods while Financial Credit concerns the supply of money, the distinction may be a little clearer. Real Credit is not measured by the actual supply of goods, but by their *potential* supply. The measure of Real Credit is, in fact, the correct estimate of the ability to produce and deliver goods as and when required ... by the potential consumer" (Douglas 1920: 156-7. Emphasis original).

"The measure of Real Credit is, in fact, the correct estimate of the ability to produce and deliver goods as and when required ... by the potential consumer."

Real credit "is a measure of the effective reserve of energy belonging to the community ... The banking system has been allowed to become the administrator of this credit and its financial derivatives with the result that the creative energy of mankind has been subjected to fetters which have no relation whatever to the real demands of existence" (Douglas 1919: 118). The potential real wealth of society is communal in origin, and should therefore belong to the entire community. The financial system is administered by the banking system "primarily for the purpose of private profit, whereas it is most definitely communal property" (Douglas 1919: 118).

The properties of money are central to the operation of the economy. If we ask ourselves: "Why do we produce now? The answer is ... to 'make' money. Why do we want to make money? The answer is twofold. First, to get goods and services, afterwards to give expression, often perverted, to the creative instinct through power" (Douglas 1922: 53-4). The initiation of production is determined through the control of credit-issue. Thereafter, articles can be forced on a "misguided public" by "advertisement and monopoly". According to Douglas, under the present system the public has no "valid, flexible, active control" over the initiation, development and modification of production (Douglas 1920: 91-2).

In the same vein, Freeman and Carchedi note that the distinctive feature of modern economics, namely money, is eliminated by general equilibrium theory. "(It) is reintroduced *post hoc* as the subject of a distinct branch of theory, monetary economics, so that the economy is neatly divided into two self-contained and allegedly self-determined sectors, the 'real' economy or goods market and the 'nominal' economy or 'money' market" (Freeman and Carchedi 1996: xii).

General free market equilibrium analysis holds that ownership of factors of production gives entitlement to income through the process of market exchange. The endowment of ownership of factors is a non-issue for such orthodoxy. Whereas Marxists would propose state ownership of the means of production as the ethical alternative to private capitalist exploitation of labour, Douglas adopted a novel stance, advocating common ownership on the basis of the communal cultural heritage.

OWNERSHIP AND PROPERTY RIGHTS

Although excised from neoclassical theory, property rights are fundamental to the operation of any economic system. "Property is a triadic social relation involving benefit streams, rights holders and duty bearers" (Bromley 1991: 2). Bromley adopts a Kantian position: the state should not support the rights of individuals, compensating them for loss, as liberal economists claim in relation to environmental degradation. Rather, rights are collective, within the state. There are no "natural rights" without the collective. This has always been the case since human society began, under the ancient social contract of ordered social relations.

"There is no such thing as a common property *resource* - there are only natural resources controlled and managed as common property, or as state property, or as private property. Or ... there are resources over which *no property rights* have been recognised" (Bromley 1991: 2. Emphasis original).

Bromley observed that the so-called "tragedy of the commons" (Hardin 1973) arose from terminological confusion of common property with open access regimes in which there are no property rights. "Property ... is a benefit (or income) stream, and a property right is a claim to a benefit stream that the state will agree to protect through the assignment of duty to others who may covet ... the benefit stream" (Bromley 1991: 2). Bromley presented the case for restoration of common property regimes on a local scale, criticising those economists who remain wedded to the misconception that institutions can be regarded as exogenous parameters providing a fixed (institutional) environment. In similar vein Polanyi (1944) noted that free market economics is not a natural system ordained by God. On the contrary, legislation created a legal framework enabling land to be bought and sold, enshrining denial of common rights of access to the means of subsistence by self-reliant peasant farmers. While Polanyi argued the case for removing land, labour and money from the market in order to leave it free to operate in response to consumer choice (Polanyi 1944: 241-2), Douglas showed how this could be done.

According to Douglas finance should, in fact as well as in theory, become a neutral arbitrator between demand and supply. Like Bromley, he held that individual private contributions to wealth creation were minuscule and hence deserving of no individual reward. Wealth is created in cooperation with others and draws upon the vast "cultural heritage" of skills, processes, materials and knowledge developed by countless generations of the past. Douglas was scathing of the notion that invention (the true source of wealth), whether in arts, science or technology, could be stimulated through the carrot and stick of the pay packet.

Since individuals contribute to society for the reasons previously outlined, they will continue to offer service largely independent of financial incentives. A popular feature of his programme was a system of "consumer credits" or a "national dividend" payable to all citizens on the strength of the common cultural heritage. Central to social credit theory was the quest for community control over production and distribution through endorsement of community banking and finance (Hutchinson and Burkitt 1997a, 1997b).

THE FINANCE OF PRODUCTION, DISTRIBUTION AND EXCHANGE

Like Galbraith (1975) and Niggle (1990), Douglas reviewed the origins of money and observed the financial mechanisms involved in its circulation, noting that the ways in which money enters the economy are crucial to the entire process of production, distribution and exchange. In a pre-industrial economy, with low division of labour and single-stage production, money could function purely to facilitate exchange. However, in an advanced industrial economy money is constantly being created in respect of *future* production. The process, undertaken by banks and monitored by economists, was conducted as if the rules of the pre-industrial barter economy held good under conditions of industrial production. Nationalisation of the banking system would merely provoke a shift of private bankers to the nationalised banks, which would be operated on the same presuppositions.

The alternative, as outlined in the Draft Mining Scheme (Douglas 1920: 147-212), was to adapt the present system to take account of present reality. Essentially, the proposal was to devolve responsibility for finance to the most local level on an industrial basis. The concept flowed from guild socialist theories of industry-based trade unions where manual, clerical and managerial workers combined to run an industry as a cooperative venture. In these guild socialist proposals the term "industry" was very loosely interpreted to include not only mining, as in the Draft Mining Scheme, but also the medical "industry", teaching, transport workers, and so forth (see, e.g. Hobson 1919: 152-169). The common factor was a locally based, vertically integrated guild, overseeing all stages of production through control over its financing, supported by a central clearing-house.

Although the detail of the Draft Mining Scheme may no longer be relevant, finance administered locally for local purposes, overseen by a central clearing house, is a novel alternative to the debt-driven growth-economics of global finance. Theoretically compatible with both Local Exchange Trading Schemes (LETs) and ethical investment (Sparkes 1995), local "industry" based finance extends these initiatives into a broader context in which ecological sustainability becomes economically feasible.

CONCLUSION

Douglas was more than a mere monetary reformer. He owed a great debt to Thorstein Veblen, the founding father of institutional economics, whose work he quoted frequently, stressing the communal character of all wealth production. In his view, progress in the "industrial arts" could be used to benefit the community as a whole by providing security of provision and sufficiency for all. Instead, technological progress was diverted to wasteful production so that a few might amass great wealth and power. Douglas predicted the increasing centralisation of power in the hands of vast corporations. Over the decades since the publication of his work powerful corporations have emerged capable of dictating terms to elected national governments. Trade-Related Property Rights (TRIPs) and the patenting of life forms represent a consolidation of the power of finance over the common cultural inheritance (see e.g. Lang and Hines 1992, Korten 1995, Baumann et al 1996). Consequently, Douglas' texts continue to provide vital insights necessary for a re-evaluation of the role of finance in the formation of economic policy.

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THE CIVIL COMMONS

John McMurtry

WHEN MONEY EATS THE WORLD

As the wheels come off the global market juggernaut, we need to understand that the unfolding collapse has been programmed into the machine. Stay the course of capital deregulation long enough and a truly momentous wreck is guaranteed. The fact is that our political and market leaderships have ensured no intelligent thought relating to the actual life needs of societies has been listened to for 15 years. "No alternative", they have incanted without a break since the Reagan revolution of mindless government first began stripping social infrastructures by even lower tax rates for the rich and 20% compound interest rates on public debt.

Even now as the government of France pulls out of the MAI declaration of rights for unaccountable borderless capital, Ottawa is still prating about "sticking to its commitments" to the meltdown program. The problem is a generalized mind-seizure. As money-to-more-money circuits have become increasingly autonomous, public consciousness has fetishized money demand as the sovereign authority of the world. The lifeblood of societies has been circulated away as fast as possible to "pay off deficits as a national emergency", "reduce social costs to attract investors", "cool down the employment rate to ward off currency devaluation", "deregulate the labour and resource markets economy for greater afficiencies", and so on. The litany for expropriation of societies' common heritage and infrastructure has been recited every hour for almost twenty years, and it has always and everywhere been the disguise for highly leveraged money-sequences to feed on the social life substance across the planet.

But even as the meltdown progresses across continents, the unseen seat of the disease is not yet whispered - that money sequences are overloaded far beyond the capacity of social and environmental capacities to feed them, and that they increasingly attack life-serving functions to continue their decoupled cycles.

Because these money sequences are increasingly without productive outcome of any kind, redistribute more and more wealth to the economically parasitic while stripping the civil commons and the poor, and progressively demand ever more revenue extraction from social and environmental hosts, their reproduction has become increasingly incompatible with civil and planetary life.

The overloading of the life-system by ever more ravenous money sequences is, in truth, behind every crisis people face today in the global market; behind the stressing and breaking of the planetary environment's carrying capacities; behind government debt and deficit loads and crises across the world; behind the ceaseless mergers, acquisitions and job-sheddings by corporate finance departments; behind the speed-ups of every process of work and resource extraction; behind the privatisation and enclosure of evolved civil commons in every culture, and behind now the Asian meltdown and the great slump of Japan.

We need not summarize all the symptoms. But consider some figures of money-demand aggregates increasing exponentially on life systems at every level, every new unit of the escalating load requiring "more competitive performance" or "more competitive cost cutting" from individual, social and environmental life-hosts, with no limit set to what will be demanded next.

Bear in mind that the meaning of "discounted cash flow" which is the moving line and reference body of global market value, means that what is today $100 in real terms is the same as $100 plus compound interest in one year ($110), two years ($121) or twenty years from now as the starting base from which every "worthwhile enterprise" is calculated. The system is a horizonlessly expanding money-demand machine engineering all that lives to extract more money value from it.

If the victim societies melt under the "free circulation" of the hot money flows, then this is because they did not "adapt effectively". If the atmosphere itself can no longer hold the pollutants dumped into it, then this is the occasion for issuing "pollution credits" to make more business out of the earth's collapse. Canada's Pension Plan itself is now being fed to the hungry money circuits. The reason is simple. Since money grows money, why not put our national pension funds into the global market to make it pay for future pensions. Consider the rate of multiplication. An input of $10,614 in 1955 yields an output of compound-interest-plus multiplication to $5,309,000 in 1998. (1)

That is, an over 500 times increase in 43 years. This 500-times increase is what goes to "the investor" who performs no function in the increase, nor in the productive economy, to receive this increase, nor in serving the life of any life organization, to be entitled to all further exponential multiplications of this money demand seeking to be still more. This is called "market freedom".

In 1998, the combined money-demand value of US pension and mutual funds to whom this multiplication is promised was $9 trillion, or 30 times the net money worth of the US's 60 richest market agents, with more new money-demand then going into these funds every quarter than all the US super-rich own together.(2) These were predicted to grow at a sustained or rising rate. At the same time, both British and Canadian national pension funds planned to redistribute all of their public funds into the global market of transnational money sequences as well, instead of, as in the past, lending to governments, investing in jobs for the young, or committing to any defence or growth of life at all. Meanwhile the poverty of children, dead-end youth prospects and the slips in environmental carrying capacity in both societies continued to climb. (3)

During this collapse of life-system bearings and money-sequence metastasis, even the once mighty machine shop of the world, Japan, came to the end of the line. It reached the surplus money wall in the early 1990s, performing as a harbinger of the disorder few saw. When speculatively driven prices of real estate and Nikkei stocks plunged, and the richest banks in the world could not find productive enterprises to invest in and steward as their successful automobile and electronic industries had done since 1950 by long-term, careful, financial ministry planning, Japan's money sequences had no way out. When the hundreds of billions of uncommitted money demand first invaded and then exited Asian stocks and currencies in 1997/98, leaving societies there on average halved in their money access to means of existence, Japan was left with hundreds of billions of debt that could not be paid by the lenders, and with no outlets in place for money-sequence advances behind the armed forces of land clearances and forced borderless markets favoured by the US corporate axis. Japan controlled $12trillion in loose money with no real function to perform except to become more. But with its unmoored banks loaded with $1000 billions in bad loans, Japan's government naturally had to pump over $200 billion more in public funds to back up the decoupled financial circuits. (4)

Robotically lock-stepping to the unhinged market paradigm, the IMF and the US government demanded still more borderless financial deregulation from Japan, just as they had prescribed for all the economies of Asia that had already been melted down by such financial deregulation. Japan's government, not recognizing the gallows wit and still locked in the paradigm themselves, promised "a big bang" of more deregulation in financial markets.

We've been getting the big bang now for a long time, and it only gets bigger. When a long-dominant paradigm fails in its prescriptions, and it calls for more of its failed prescriptions to solve its failures, its circularity becomes terminal.

What is not recognised is the underlying principle of the escalating failures: that financial crises always follow from money-value delinked from real value, which has many names but no understanding of what it is. Value is what serves life itself, and the global market paradigm has no place in its metric for the life factor at any level.

NOTES

1. "Illustration of an Assumed Investment of $10,000", *Templeton Growth Fund Limited Annual Report*, April 30, 1998, p.3.
2. Peter Drucker, "The Idol Rich" *Report On Business Magazine*, January 1998, p.88.
3. In the 1998 Competitiveness Rankings by the World Economic Forum, the growth of child poverty, youth unemployment, environmental depletion and degradation, and every other indicator of societies in serious life-slippage is simply excluded from the index. This is how the value metric of the global market paradigm is systematically life-blind, and how nations which follow it can be hollowed out while believing they are ever more competitive.
4. The figures referred to above are drawn from across the special issue of *Newsweek* (Feb.2, 1998) devoted to the Asia financial crisis, "How Big Is Asia" *The Economist*, Feb.7 1998, p.72, *The Wall Street Journal*, Feb.17,1998 and Marcus Gee, "The Real End of Japan Inc." *The Globe and Mail*, Apr.18,1998 p.D4

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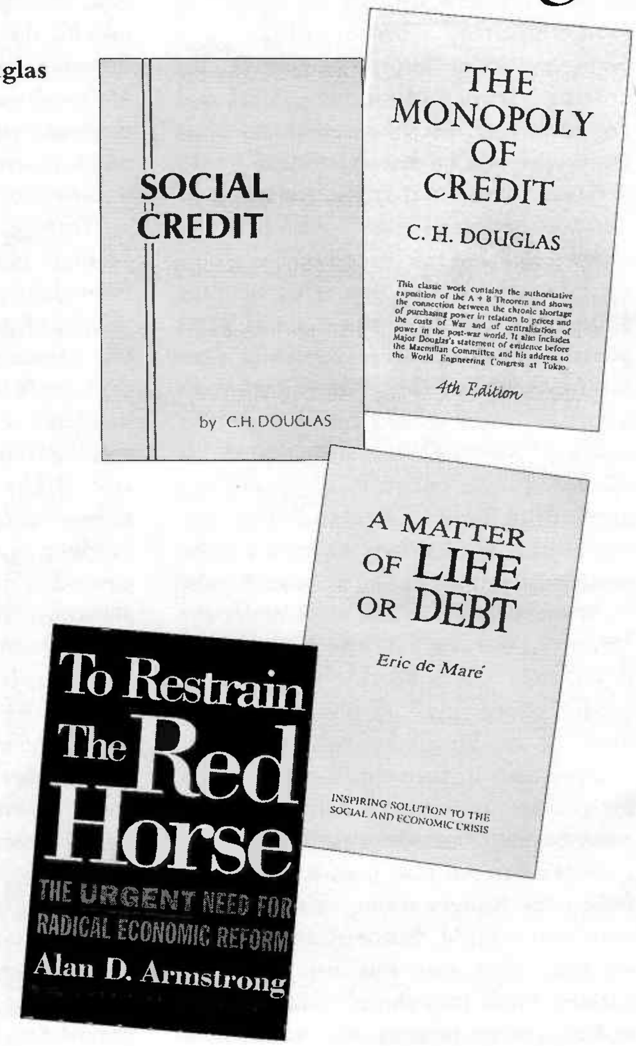

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