Beyond the Bailout:

Agenda for a New Economy

by David Korten

photo: creighton.edu

The financial crisis has put to rest the myths that our economic institutions are sound and markets work best when deregulated. Our economic institutions have failed, not only financially, but also socially and environmentally. With the election of a new president with a mandate for change, we have an opportune moment to rethink and redesign.

The real need is a bottom-up transformation of our economic values and institutions to align with the imperatives and opportunities of the 21st century. It involves a five-part agenda: clean up Wall Street, play by market rules, self-finance the real economy, measure what we really want and convert to debt-free money.

The financial services needs of Main Street economies are best served by a federally regulated network of independent, locally owned community banks

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

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

We must hold Wall Street accountable, recover some of our losses from those responsible, and preclude another credit collapse. Additional steps will be needed to break up concentrations of corporate power, beginning with Wall Street, and to hold the remaining banks accountable to the public interest. Treasury Secretary Henry Paulson's decision to buy a government equity stake in troubled banks is a positive step that may open the way to a deeper restructuring of the financial system.

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

Socially efficient market allocation depends on a number of important conditions that Wall Street and those economists devoted to the ideology of neoliberal market fundamentalism routinely ignore. These include:

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

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

The only legitimate function of an economic system is to serve life. We are now paying the price for years of managing the economy for financial performance, that is, making rich people richer.

We can continue to track GDP as a useful indicator of the economic cost of producing a given level of health and well-being. But we must recognize that GDP represents cost, not gain.

A number of researchers have been pointing out that happiness, as well as other indicators of human, social and environmental health, have been declining even as GDP increased. The shock of financial collapse creates an opportunity to draw attention to this substantial anomaly. We will know we have turned an important corner when business news reporters happily announce, "It has been a successful quarter. Happiness rose by two points and GDP is down by one point."

This is a condensed version of an article written as part of Sustainable Happiness*, the Winter 2009 issue of* YES! Magazine. *David is author of* When Corporations Rule the World *and* The Great Turning: From Empire to Earth Community. *His new book,* Agenda for a New Economy: From Phantom Wealth to Real Wealth, *is due out in early 2009.*