

# Factor Five – A New Cycle for the World Economy

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The authors led by Professor Ernst von Weizsäcker, a member of the Club of Rome, assert that markets are inefficient, often even counter productive, when it comes to protecting the commons and steering innovation onto a long term sustainable direction. The central thesis of Factor five is to consciously create a new economy, in effect, a global green new deal. Citing the findings of the HSBC report: *A Climate for Recovery*<sup>1</sup>, the author proposes that most investments in a low carbon economy lead to strong economic multipliers. The South Korean economic recovery package (which had a sustainability component of 80% compared to the average of 10%) is cited as an example for a global new deal. Also with the new sense of partnership derived from the G20 London summit in 2009, that cooperation to redesign the world economy is a possibility.

The book presents a model and means on how the world can move to a green economy and also why it is essential that we do so now. The new economy is to be based on efficiencies in resource use and productivity along with a shift to taxation on production/extraction rather than taxation of labour.

Weizsäcker et al, say that we are at the dawn of a new long term cycle or wave of innovation and cites the ideas of the Austrian economist Joseph Schumpeter who saw business cycles and long term cycles as associated with major technological innovations. He goes further to discuss the Kondratiev Cycle which is in effect, a super wave in the economic system equivalent to forty and fifty year occurrences. These waves result from a reorientation of industrial organization and management based on technologies that underlie the existing economic cycle. Waves ebb as technological innovations fade in relevance for generating bursts of growth roughly twenty to thirty years after their release. Weizsäcker asserts that we are at the end of a cycle and that waves generated by present technologies are no longer strong enough to support world-wide economic growth, so we need to generate a new wave.

As the greening of production and consumption has become a powerful method of renewing a country's fabric it is logical that if we want the world economy to gain strength "new wave of technologies" might be the biggest hope for the world in the present economic paradigm.

To launch this new Kondratiev wave three factors are necessary: 1. Fading excitement with old technologies; 2. Rising demand for and affordable supplies of, the new goods and services; and 3. Some exciting new technologies. Presently, energy and natural

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<sup>1</sup> N Robbins, R Clover and C Singh (2009) *A Climate for Recovery – The Colour of Stimulus Goes Green*, London: HSBC Global Research.

resources are in short supply and the scarcity is worsening, so the situation also calls for a reversal of the emphasis on “technological” progress toward resource productivity.

For the next cycle to really take off some political decisions on the framing conditions will be necessary, along with the encouragement of new innovations and efficiencies. Taking the systems approach to do so would mean redesigning the systems of industry, transport, construction and agriculture that are found to be destructive to the climate and the environment. The process of redesigning the framework can be a gradual and smooth one, encouraged by prudently designed and predictably changing “framing conditions”. Achieving the transition to the new economic paradigm will be as much a technical challenge as it is a social one. The authors believe such a conscious effort to do this is possible and that we do not need to lose much of the physical or financial capital that is invested in our industrialized world. We only have to avoid investing fresh money into outdated destructive operations and technologies and generate the will for a conscious redesign of the system.