Foreword by David Suzuki

GRAEME MAXTON & JORGEN RANDERS

REINVENTING

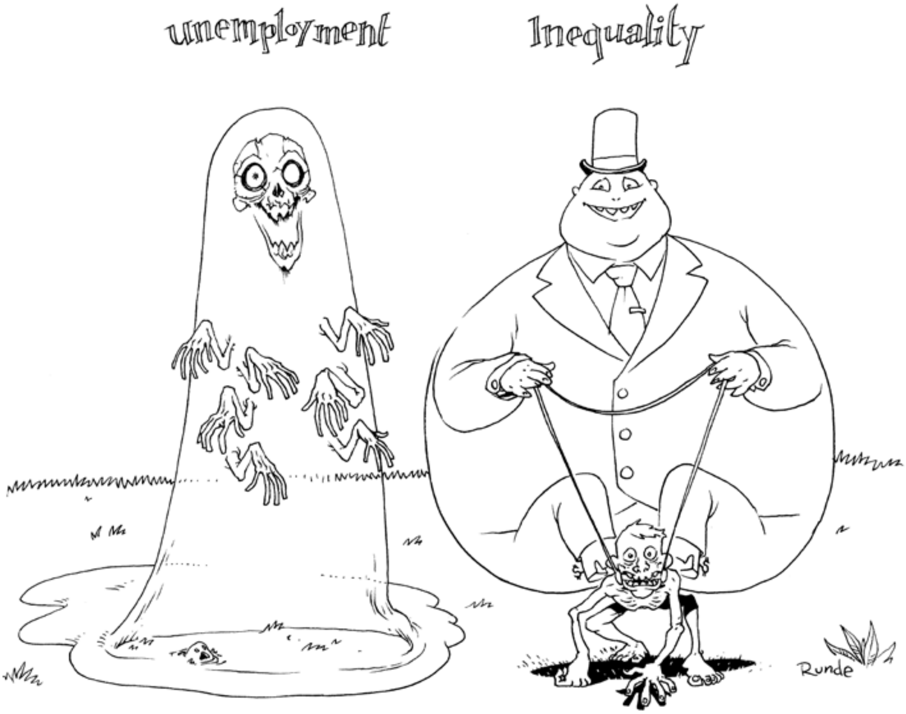
PROSPERITY

Managing Economic Growth to Reduce Unemployment, Inequality, and Climate Change

A Report to the Club of Rome

DAVID SUZUKI INSTITUTE
GREYSTONE BOOKS
Vancouver/Berkeley

— CHAPTER 1 —



TWO URGENT PROBLEMS IN THE RICH WORLD

Two of the most urgent problems facing the modern rich world are persistent unemployment and rising inequality.

IN THE RICH world, the gap between rich and poor has been widening.[1] As there has been strong economic growth for most of the last thirty years, this is something of a puzzle. Economic growth was meant to reduce inequality. The trickle-down effect, where the spending by the rich descends through some sort of economic filtration into the pockets of the poor, should have fortified the general population and raised living standards for everyone.

Yet millions of people in the rich world today live in conditions more like those of Victorian Britain. In the United States, 49 million people—out of a total population of 320 million—live in poverty.[2] In Europe, it is one in every seven.[3] In Eastern Europe, Spain, and Greece, poverty affects one in five, with women, single-parent families, and the young worst affected. Including those on very low incomes, a quarter of the population of the developed—rich—world is currently classified as being "at risk of poverty or exclusion." That is almost 200 million people.

As the gap between rich and poor has widened, unemployment has also risen throughout the rich world, and it remains stubbornly high. Particularly badly afflicted are those under the age of twenty-five, though millions of baby-boomers in their fifties and sixties have found themselves without any income, pension, or work prospects too. And there has been a huge increase in the number of under-employed, those who want to work more but cannot find a paid full-time job.

At a time of record global wealth, and after so many decades of healthy economic growth, none of this should be. For decades, economists told people that economic growth would bring jobs, better incomes, and higher standards of living. But it has not.

What on earth is going on?

British charity Oxfam puts it simply. There has been a "power grab"[4] by the rich, it says.[5] It accuses the world's fattest fat cats of manipulating the political system to rig the rules of the game in their favor, so that they are taxed less, regulated less, and scrutinized less. As a result, wealth and income have been moving in the opposite direction from what people believed.

Without change, this situation will not improve. The rich will continue to get richer because, as we will explain, that is what the current economic system does. Proponents of today's free-market model like to claim that it promotes a more egalitarian society. In reality, though, as we will show, it has created a society that is more like a gigantic casino where the outcome is rigged in favor of the rich.

In his groundbreaking book *Capital in the Twenty-First Century,* French economist Thomas Piketty predicts that if nothing changes, much of the developed world will gradually return to something more like the nineteenth century, to a time when factory owners, entrepreneurs, and bankers controlled most of the wealth and everyone else struggled to survive. He sees a future in which the rich world's middle classes effectively disappear.

This raises a fundamental and troubling question. Were the few decades after World War II, when the gap between rich and poor greatly declined, an anomaly caused by a particular set of circumstances? Is it possible that the natural order is more like the world of the past, more like that which reigned for most of human history, where a tiny minority controlled almost all the wealth and the vast majority were very poor?

It is an increasingly difficult question to answer. For most of the last seventy years, a rich world dominated by a middle class has seemed so natural and so right. Yet, historically, it is an oddity. At no other time in the last two thousand years has a middle class existed on such a scale.

Unless there is a radical shift in economic direction, Piketty says, "the past will devour the future," and the few decades of comparative comfort enjoyed by the middle classes during the second half of the twentieth century will be consigned to the history books as little more than an interesting, but temporary, social phenomenon.

Piketty's solution is a global wealth tax. He believes that there should be much greater cooperation between national tax authorities to exchange and share data on individual wealth, as well as a more "equitable tax system" for governments to invest in infrastructure and education. Taxation should be used to redistribute wealth and create a more balanced society, he says.

This will be difficult to implement, though, because it would require the rich world's politicians to do the opposite of what they have done for the last thirty years: to tax their biggest financial supporters and most powerful citizens more.

Other economists have suggested that the inequality and unemployment problems should be tackled by boosting infrastructure spending, to create jobs; by changing intellectual property rights, to create more opportunities for people to access new technologies and ideas; and by changing the education system, to encourage more entrepreneurs.

None of these solutions addresses the underlying problem, however. Offering large numbers of people the chance to work—to build new roads or tunnels or to set themselves up in business, for example—gives them work and the opportunity to earn an income. But it does not change a system in which wealth gradually flows from the majority to the rich, as we will explain.

Such proposals offer only a temporary fix, helping the poor to earn more and the unemployed to find some work, without offering long-term change.

We believe the solution needs to be more radical. Rich-world nations will need to change their economic systems. They will need to step back from today's economic mantra, which promotes individual freedom, applauds free markets and free trade, and minimizes state influence, and instead rearrange their economies to boost average well-being. Markets and trade should not be left largely unregulated any longer but actively managed. Governments should also be "right sized"—that is, small enough to ensure that they operate efficiently but big enough to be able to do their job well and tackle the challenges that lie ahead.

There is one other problem, however. The current economic system also requires continuous growth in the throughput of natural resources to function. This is built into the system's DNA. People need to consume ever more, and manufacturers need to produce ever more to stop unemployment rising and keep the system functioning.

The trouble is, this process is generating ever-greater quantities of greenhouse gases, and these are causing the climate of the planet to change. This has already become so bad that global weather patterns will continue to worsen for decades and sea levels will rise, regardless of what is done now.

Yet any attempt to manage economic growth, and so slow down the environmental damage, shuts off the fuel that keeps the economic engine running. A slowing economy increases unemployment, as well as inequality and poverty, even more.

The current economic system has put the developed world on a treadmill that is driving society in a hopeless social and environmental direction, yet any conventional attempt to stop what is happening only makes the situation worse.

Conventional solutions cannot reduce inequality and joblessness (or climate change). Nor will a wealth tax, boosting infrastructure spending, or encouraging more entrepreneurs.

What are needed are unconventional solutions that will be attractive to the majority of people, so that they will welcome the transition.

The proposals in this book do this. They boost average well-being while at the same time cutting unemployment and reducing inequality, while offering an immediate benefit to the majority. That they also happen to reduce the rate of climate change (though not fix it) might be incidental to many readers. But it is not incidental to us.

It is the reason we wrote this book.