

2nd EDITION,
UPDATED &
EXPANDED

A DECLARATION
of INDEPENDENCE
from WALL STREET

AGENDA FOR A NEW ECONOMY

From PHANTOM WEALTH
to REAL WEALTH

DAVID C. KORTEN



An Excerpt From

***Agenda for a New Economy:
From Phantom Wealth to Real Wealth
Second Edition***

by David C. Korten
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PROLOGUE



A QUESTION OF VALUES

I wrote the first edition of this book in late 2008, when Wall Street was in the throes of collapse. The phantom wealth machine had been exposed and its devastating effects on the real economy were apparent everywhere.

The book was published just as a new president and a new Congress were taking power. I hoped they might begin to rein in the Wall Street financial institutions that were causing such pain and set us on the path to a much more sensible economy. Flush with the excitement of the moment, I included a chapter with the economic address to the nation that I hoped our youthful, idealistic, articulate new president might give — one that recognized a need to transform the money system, global corporations, and the rules that determine the behavior of both.

I knew the speech was a fantasy but felt it might help readers see more clearly how the New Economy agenda translates into a redirection of public policy.

In the eighteen months since the first edition of this book came out, we have seen with increasing clarity the extent of Wall Street's hold on Washington. Leadership for transformational change must come, as it always has, from outside the institutions of power. It requires building a powerful social movement based on a shared understanding of the roots of the problem and a shared vision of the path to its resolution.

As a society, we cannot create a future that we cannot see in our collective mind. The first edition of *Agenda for a New*

Economy presented a framing vision drawn largely from material I had written before the crash. This second edition brings in substantial new material and thinking based on a year and a half of revelations about the Wall Street–Washington political axis, additional reflection, and conversations with knowledgeable and thoughtful colleagues.

A NATIONAL CONVERSATION

Few and fortunate are those whose lives have not been directly touched by the September 2008 Wall Street meltdown and its consequences. The meltdown remains at the center of public awareness and concern. People want to understand what went wrong and how we can set it right. Yet the public commentary centers on finger-pointing. Who knew what, when? Which regulators were asleep at the switch, and why?

A few observers — including Dean Baker (*Plunder and Blunder*), William Black (*The Best Way to Rob a Bank Is to Own One*), Charles Morris (*The Trillion Dollar Meltdown*), Kevin Phillips (*Bad Money*), and Gary Weiss (*Born to Steal*) — provided extensive documentation of the corruption of Wall Street’s most powerful institutions even before the September 2008 crash.

There has since been an outpouring of such books and articles, including those by R. P. Bottle (*The Trouble with Markets*), Michael Lewis (*The Big Short*), Martin Lowy (*Debt Spiral*), Simon Johnson and James Kwak (*13 Bankers*), Barry Lynn (*Cornered*), and Janine R. Wedel (*Shadow Elite*). Each pulls back the curtain on Wall Street corruption a bit further and fuels public outrage and disgust with the Wall Street–Washington axis.

Most calls for action, however, seek only to limit the excesses and deceptions of greedy bankers and financiers. We

have yet to engage a much-needed national conversation that addresses essential, yet unasked, questions. For example:

1. Do Wall Street institutions do anything so vital for the national interest as to justify opening the national purse strings and showering them with trillions of dollars in order to save them from the consequences of their own excess?
2. Is it possible that the whole Wall Street edifice is built on an illusion that has no substance yet carries deadly economic, social, and environmental consequences for the larger society?
3. Might there be other ways to provide necessary and beneficial financial services with greater effectiveness and at lower cost?

This edition of *Agenda for a New Economy*, as did the first edition, argues that the correct answers are (1) no, (2) yes, (3) yes.

Ultimately, it comes down to a question of the values we believe the economy should serve. Should it give priority to money, or to life? To the fortunes of the few, or the well-being of all?

The Wall Street economy we have is highly effective and efficient at converting real living wealth to phantom financial wealth to make rich people richer. It is a path to collective suicide. Our future and that of our children depend on replacing the values and institutions of the Wall Street economy with the culture and institutions of a New Economy designed to provide an adequate and satisfying livelihood for all people in balanced relationship to Earth's biosphere.

I believe that an honest public examination of these questions will lead to a unifying political consensus that, rather than repair and restrain the Wall Street institutions that

brought down the global economy, we can and should replace them with institutions that serve our real values and are appropriate to the needs and realities of the twenty-first century. I have written *Agenda for a New Economy* in the hope that it may help to provoke and frame such a conversation.

Because I am issuing a call to shut down Wall Street, I want to clearly distinguish my position from the declarations of those on the far right who say the “too big to fail” Wall Street banks should be left to collapse as a self-corrective act of market discipline. Although I share the underlying sentiment, I also recognize why those who made the decisions felt compelled to prevent such a collapse. Simply letting the banks fail would almost certainly have brought about a collapse of the global financial system and economy far worse than what we experienced.

Wall Street controls the creation and flow of the money that facilitates the economic transactions on which we depend for meeting most of our material needs. If the institutions of Wall Street suddenly shut down with no alternative in place, we would have only the money in our pockets and would be instantly reduced to bartering for most essentials of daily life, including food and water.

This, of course, is why an otherwise cash-strapped and gridlocked Washington political establishment and a Congress that has difficulty reaching agreement on far smaller issues responded instantly with a massive bailout in the face of public outrage to save Wall Street’s largest banks from collapse.

The process of shutting down Wall Street must parallel action to put in place the institutions of a new system for creating and allocating national currencies in ways more responsive to society’s needs.

THE STORY OF THE FIRST EDITION

I wrote *Agenda for a New Economy* to open a discussion about why a fundamental redesign of our economic institutions is required and what it might involve. The second edition, as the first, is addressed to people who are acutely aware that things are going badly wrong economically, socially, and environmentally and who are looking for real solutions based on new approaches and institutions.

The first edition of *Agenda for a New Economy* was written and published in immediate response to the meltdown. It was launched at a national theological conference at the historic Trinity Church at the foot of Wall Street in New York City on January 23, 2009, just three days after the inauguration of Barack Obama as president of the United States.

Much of the nation was in a state of euphoria born of hope that our new president would deliver on his promise of change. That hope, combined with outrage at Wall Street excesses, had swept Obama into the White House and should have created fertile ground for serious action on economic reform. Yet the strongest reform proposals on the table as of this writing involve little more than tinkering at the margins to restrain the worst of those excesses.

There are evident political explanations for President Obama's failure in this regard, but they are only part of the story. His options have been severely limited by a very practical reality: neither of the two prevailing schools of economic thought — market fundamentalism or Keynesianism — addresses the underlying institutional, social, and environmental foundations of the problem he faces and therefore provide no framework for the needed system redesign. I take this up in more detail in chapter 17.

In any event, the leadership for institutional transformation rarely comes from those who depend on existing

institutions as their base of power. It invariably comes from authentic grassroots movements. Efforts to form a social movement to confront the Wall Street–Washington axis are similarly handicapped, however, by the failure of the prevailing economic models to provide a framework for a comprehensive restructuring.

Most of the elements of the New Economy model are known, but they must be brought together into a coherent guide to action. Fortunately, a number of groups are discussing the problem and organizing to address it. What follows owes much to my participation in these conversations, particularly those of the New Economy Working Group.

WHAT'S NEW?

Much of the second edition is either new or substantially revised to reflect recent events and what I've learned over the past eighteen months.

I've added a new section to chapter 2 on the difference between good debt and bad debt and on Wall Street's language of self-deception. In part II I've also added a new chapter, "Greed Is Not a Virtue; Sharing Is Not a Sin," which provides a brief overview of Wall Street's behavior since the crash and highlights the contrast between the moral values of Wall Street capitalism and those of the New Economy.

The most important new contributions are in the latter part of the book, which has been extensively rewritten and expanded. It is reorganized into three parts. Part III frames the New Economy's "Living-Economy Vision." Part IV translates the vision into an action agenda. Part V outlines a mobilization strategy for implementation.

The agenda, now more coherent and fully developed, builds from a stronger ecological systems perspective and

introduces the concept of the living enterprise. I have substantially revised my thinking about the institutional design for a living-wealth money system. The system I'm now proposing is more diverse and decentralized and more supportive of local resilience and self-organization.

There is an assessment in chapter 17 of why President Obama failed to deliver on the hopeful vision of candidate Obama and what we can do about it. I have recast the proposed presidential economic address to the nation (now chapter 15) as the address that we the people must make into a political imperative for either our present or a future president to deliver. If you are looking for an overview of the policy agenda, this is the chapter.

The discussion of story power in chapter 18 goes deeper into the underlying role of culture in shaping collective behavior. A substantially new chapter 19 outlines a three-fold social-learning-oriented implementation strategy and includes a new section on institutional change agendas for media, education, religion, and the arts. The scenarios offering fictional accounts of life and money in a New Economy future are pulled together into an epilogue, "The View from 2084." It addresses the question, How will our children live?

I hope these revisions will serve you, the reader, in making your own contributions to changing the economic story and bringing the New Economy into being where you live.

As in the first edition, I have intentionally avoided going into the complex details of the various Wall Street financial schemes and scams. Such inquiry holds its own fascination but distracts from the bottom line message:

Wall Street operates as a criminal syndicate engaged in financial scams and extortion rackets that impose unbearable costs on society while serving no beneficial function not better served in other ways. The need is not to repair

Wall Street but to replace it with institutions devoted to serving the financial needs of ordinary people in ways that are fair, honest, and consistent with the reality of our human dependence on Earth's biosphere.

For those who want to delve into the arcane details of exactly how the Wall Street scams work, there are other books, such as those mentioned above. *Agenda for a New Economy* is about the bigger picture.

THE PERSONAL STORY THAT FRAMES MY UNDERSTANDING OF HUMAN POSSIBILITY

I grew up in a conservative small town where I learned to value family, community, and nature. I was raised to believe in the special character of America as a middle-class democracy, free from the extremes of wealth and poverty that characterized the world's less advanced nations. In my childhood, my dad, a local retail merchant, taught me that if your primary business purpose is not to serve your customers and community, then you have no business being in business.

My Stanford Business School education taught me to look for the big picture. My doctoral dissertation research in Ethiopia taught me the power of culture in shaping collective behavior.

From my experience as an Air Force captain on the faculty of the Special Air Warfare School and as a military aide in the Office of the Secretary of Defense during the Vietnam War, I learned how the world's most powerful military was thwarted by the self-organizing networks of an ill-equipped peasant army. That experience helps me see the potential of a committed citizenry to likewise thwart the seemingly invincible power of Wall Street.

While serving as a professor on the organization faculty at the Harvard Business School, I learned how the structures of large-scale institutional systems shape behavior and how system structures can be designed to support intended outcomes.

From my fifteen years in Asia with the Ford Foundation and the U.S. Agency for International Development, I experienced the positive power and potential of local community self-organization and the importance of local control of essential economic resources. I learned about strategies for large-scale institutional change from my involvement in both successful and unsuccessful efforts to restructure national resource-management systems in irrigation and forestry to place control in the hands of local communities.

It was during these years in Asia that I became aware of the terrible truth that development models based on economic growth were making a few people fabulously wealthy at an enormous social and environmental cost to the substantial majority. Such things stand out so much more clearly when you are outside your own culture.

In 1992, Fran and I returned to the United States and settled in New York City. There, in our apartment on Union Square between Madison Avenue and Wall Street, I wrote *When Corporations Rule the World*. The research for this book took me into a deep exploration of why the publicly traded limited liability, private-benefit corporation is an inherently destructive anti-market business form. I also came to see how the power of financial markets trumps even the power of global corporations and forces them into the role of economic predator.

In writing *The Post-Corporate World: Life After Capitalism*, I came to see the important distinction between a Wall Street capitalist economy and a Main Street market economy and to appreciate the ways in which properly designed and regulated market systems mimic the organizing dynamics

and principles of healthy living systems, which, contrary to the prevailing story, demonstrate life's extraordinary capacity for cooperative self-organization.

I learned from the experience of my daughters, Diana and Alicia, how difficult the Wall Street reengineering of the economy has made it for today's young professionals to establish themselves economically — in contrast to the far easier experience of my generation.

As a founding member of the International Forum on Globalization, I learned about the power of a new story propagated through global citizen networks to thwart the agenda of the world's most powerful corporations and reshape the course of history.

As the cofounder and board chair of *YES! Magazine*, I have come to realize that every act of resistance against what we don't want must be paired with a positive vision of what we do want.

Writing *The Great Turning: From Empire to Earth Community*, I began to place our current human financial, social, and environmental crises in the historical context of five thousand years of organizing human societies as hierarchies of domination governed by institutions that nurture and reward moral, emotional, and behavioral dysfunction.

As a founding board member of the Business Alliance for Local Living Economies, I have been immersed in the experience of communities all across the United States and Canada that are taking control of their economic futures by rebuilding their local economies as they declare their independence from predatory Wall Street corporations.

All these many themes inform and find expression in *Agenda for a New Economy*. Many of them are developed at greater length in my other books mentioned above.

There are many resources for readers interested in the perspective of other writers who are dealing with important

aspects of the New Economy. These are some of the many that have contributed to my thinking: Gar Alperovitz, *America Beyond Capitalism*; Riane Eisler, *The Real Wealth of Nations*; Van Jones, *The Green Collar Economy*; Bill McKibben, *Deep Economy*; Stacy Mitchell, *Big Box Swindle*; Michael Shuman, *The Small-Mart Revolution*; and James Gustave Speth, *The Bridge at the Edge of the World*.

Another valuable resource for those who are looking for more information on the people and organizations engaged in creating the New Economy and other initiatives intended to create just, sustainable, and compassionate societies is *YES! Magazine* (yesmagazine.org), which I cofounded and serve as board chair. The quarterly magazine provides in-depth examinations of major issues and new ways to solve them; the Web site provides fresh articles tied to headline news every day.

If you want to get involved in developing your local Main Street economy into a model New Economy, two national organizations can be of help: the Business Alliance for Local Living Economies (livingeconomies.org) and the American Independent Business Alliance (amiba.net). Both are active in the United States and Canada, and both are devoted to strengthening local independent businesses and building “local” as a positive branding identity.

BALLE has a particular focus on developing relationships among local independent businesses to strengthen what it calls the building blocks of healthy local living economies: sustainable agriculture, green building, renewable energy, community capital, zero-waste manufacturing, and independent retail. I am a founding member of the BALLE governing board.

AMIBA has paid particular attention to giving local independent businesses a political voice and eliminating special subsidies and exceptions for box stores to level the playing

field for local businesses. I am a member of the AMIBA advisory board.

You also can find a clear articulation of the basic elements of the New Economy on the Web site of the New Economy Working Group, as well as resources and campaigns you can be part of to advance the agenda (neweconomyworkinggroup.org). I blog with modest regularity on yesmagazine.org. You can read about more of my latest activities and thinking on davidkorten.org. You can find group discussion guides for both the first and second editions of *Agenda for a New Economy* and can sign up for our free Great Turning Initiative e-mail newsletter at greatturning.org. I regularly tweet as [dkorten](#) and have a Facebook author page.

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PART I

THE CASE FOR A NEW ECONOMY



If we look upstream for the ultimate cause of the economic crisis that is tearing so many lives apart, we find an illusion: the belief that money — a mere number created with a simple accounting entry that has no reality outside the human mind — is wealth. Because money represents a claim on so many things essential to our survival and well-being, we easily slip into evaluating economic performance in terms of the rate of financial return to money, essentially the rate at which money is growing, rather than by the economy’s contribution to the long-term well-being of people and nature.

We can trace each of the major failures of our economic system to the misperception of money as wealth: the boom-and-bust cycles; the decimation of the middle class; families forced to choose between paying the rent, putting food on the table, and caring for their children; the decline of community life; and the wanton destruction of nature.

Once the belief that money is wealth is implanted firmly in the mind, it is easy to accept the idea that money is a storehouse of value rather than simply a storehouse of expectations, and that “making money” is the equivalent of “creating wealth.” Because Wall Street makes money in breathtaking quantities, we have allowed it to assume control of the whole economy — and therein lies the source of our problem.

Financial collapse pulled away the curtain on the Wall

Street alchemists to reveal an illusion factory that pays its managers outrageous sums for creating phantom wealth unrelated to the production of anything of real value. They merely create claims on the real wealth created by others — otherwise known as counterfeiting, a form of theft.

Spending trillions of dollars trying to fix Wall Street is a fool's errand. Our hope lies not with the Wall Street phantom-wealth machine, but rather with the real-world economy of Main Street, where people engage in the production and exchange of real goods and services to meet the real needs of their children, families, and communities, and where they have a natural interest in maintaining the health and vitality of their natural environment.

Ironically, it turns out that the solution to a failed capitalist economy is a real-market economy much in line with the true vision of Adam Smith. Building a new real-wealth economy on the foundation of the Main Street economy will require far more than adjustments at the margins. It will require a complete bottom-to-top redesign of our economic assumptions, values, and institutions.

Chapter 1, "Looking Upstream," spells out what it means to treat causes rather than symptoms and why restructuring the economy's most powerful institutions is essential.

Chapter 2, "Modern Alchemists and the Sport of Monymaking," looks at the reality behind Wall Street's illusions and the variety of its methods for making money without the exertion of creating anything of real value in return.

Chapter 3, "A Real-Market Alternative," contrasts the Wall Street and Main Street economies and puts to rest the fallacy that the only alternative to rule by Wall Street capitalists is rule by communist bureaucrats.

Chapter 4, "More Than Tinkering at the Margins," spells out why the "adjustment at the margins" approach favored by establishment interests cannot stabilize the economy, reduce economic inequality, or prevent environmental collapse.

CHAPTER 1



LOOKING UPSTREAM

A man was standing beside a stream when he saw a baby struggling in the water. Without a thought he jumped in and saved it. No sooner had he placed it gently on the shore than he saw another and jumped in to save it, then another and another. Totally focused on saving babies, he never thought to look upstream to answer the obvious question: Where were the babies coming from, and how did they get in the water?

ANONYMOUS

Our economic system has failed in every dimension: financial, environmental, and social. Moreover, the current financial collapse provides an incontestable demonstration that it is unable to self-correct.

Bloomberg News estimated in March 2009 that total federal bank bailout commitments and guarantees topped \$12.8 trillion, nearly the equivalent of the total U.S. GDP.¹ Yet private bank credit still wasn't flowing into the real economy more than a year later.

The Bush administration's response to the financial crisis focused on bailing out the Wall Street institutions that bore primary responsibility for creating the crisis; its hope was that if the government picked up enough of those institutions' losses and toxic assets, the banks might decide to open the tap and get credit flowing again. It did not happen, because Wall Street is not in the business of financing the real economy.

The failure of the credit system is only one manifestation of a failed economic system that is wildly out of balance with, and devastatingly harmful to, both humans and the natural environment.

Wages are falling in the face of volatile food and energy prices. Consumer debt, housing foreclosures, and executive pay are setting historic records. The middle class is shrinking. The unconscionable and growing worldwide gap between rich and poor, with its related alienation, is eroding the social fabric to the point of fueling terrorism, genocide, and other violent criminal activity.

At the same time, excessive consumption is pushing Earth's ecosystems into collapse. Climate change and the related increase in droughts, floods, and wildfires are serious threats. Scientists are in almost universal agreement that human activity bears substantial responsibility. We face severe water shortages, the erosion of topsoil, the loss of species, and the end of the fossil fuel subsidy. In each instance, a failed economic system that takes no account of the social and environmental costs of monetary profits bears major responsibility.

Spending trillions of dollars in an effort to restore a failed system to normal function is a reckless waste of time and resources and, in the absence of action to replace the failed system, is the greatest misuse of federal government credit in history. The more intelligent course is to acknowledge the failure and to set about redesigning our economic system from the bottom up to align with the realities and opportunities of the twenty-first century.

We face a monumental economic challenge that goes far beyond anything being discussed by the administration, the U.S. Congress, or the corporate press.

Hope that an Obama administration would take serious action to rein in Wall Street in favor of Main Street began to die even before he took office, when he announced his initial picks for the country's top economic posts. That hope

SYSTEMIC FAILURE

The failure of the phantom-wealth casino economy is evident in:

1. An **economic crisis** created by an unstable global financial system that favors speculation in asset bubbles over investment in the production of beneficial goods and services, drives continuing cycles of boom and bust, mires people and governments in debts they cannot pay, and holds national governments hostage to the interests of global financiers concerned only with maximizing their own profits.
2. A **social crisis** of extreme and growing inequality within and among nations created by a focus on maximizing returns to money—which means to the people who already have the most money. A tiny minority of executives and financiers experience soaring incomes and accumulate grand fortunes at the expense of working people whose wages are largely stagnant or falling relative to the cost of living. The enormous disparities undermine institutional legitimacy, human health, and the social fabric of families and communities and thereby feed violence.
3. An **environmental crisis** of climate chaos, loss of fertile soil, shortages of clean freshwater, disappearing forests, and collapsing fisheries created by an economic system prone to collapse if excessive forms of consumption do not continuously grow. This crisis is reducing Earth's capacity to support life and is creating large-scale human displacement and hardship that further fuel social breakdowns.

continued to fall, along with President Obama's poll numbers, as he backed off from pushing essential Wall Street reforms. Even the Obama administration's \$787 billion economic stimulus package did nothing to address the deeper structural causes of our financial, social, and environmental crisis.

On the positive side, however, the financial crisis has put to rest the myths that our economic institutions are sound and that markets work best when deregulated. This opens a window of opportunity to initiate a national conversation about what we can and must do to create an economic system that can work for all people for all time. That window will

REAL WEALTH/LIVING WEALTH

Real wealth has intrinsic value, as contrasted to exchange value. Life, not money, is the measure of real-wealth value. Examples include land, labor, knowledge, and physical infrastructure.

The most important forms of wealth are beyond price and are unavailable for market purchase. These include healthy, happy children, loving families, caring communities, and a beautiful, healthy, natural environment.

Real wealth also includes all the many things of intrinsic artistic, spiritual, or utilitarian value that are essential to maintaining the various forms of living wealth. These may or may not have a market price. They include healthful food, fertile land, pure water, clean air, caring relationships and loving parents, education, health care, fulfilling opportunities for service, and time for meditation and spiritual reflection. For most purposes, real wealth is living wealth, and living wealth is real wealth. Money is neither.

remain open for as long as the nation remains mired in unemployment, housing foreclosures, and unpayable debts — which in the absence of action to implement the New Economy agenda spelled out in part IV, is likely to be a very long time.

TREAT THE SYSTEM, NOT THE SYMPTOM

As a student in business school, I learned a basic rule of effective problem solving that has shaped much of my professional life. Our professors constantly admonished us to “look at

Because of the essential role of caring relationships, the monetization and commodification of real wealth, which generally translates into the monetization and commodification of relationships, tends to diminish their real value. The monetization and commodification of relationships does, however, translate into growth in the gross domestic product and new opportunities for corporate profits. Replacing parental caregivers with paid child care workers is an example.

In contrast to a phantom-wealth economy, money in a real-wealth or living economy is not used as a measure or a storehouse of value but solely as a convenient medium of exchange. A phantom-wealth economy seeks to monetize and commodify relationships to increase dependence on money; a real-wealth economy favors strengthening relationships based on mutual caring to reduce dependence on money.

the big picture.” Treat the visible problem — a defective product or an underperforming employee — as the symptom of a deeper system failure. *Look upstream to find the source of the problem and correct the system so the problem will not recur.* It is perhaps the most important lesson I learned in more than twenty-six years of formal education.

Many years after I left academia, an observation by a wise Canadian friend and colleague, Tim Brodhead, reminded me of this lesson when he explained why most efforts fail to end poverty. “They stop at treating the symptoms of poverty, such as hunger and poor health, with food programs and clinics, without ever asking the obvious question: Why do a few people enjoy effortless abundance while billions of others who work far harder experience extreme deprivation?” He summed it up with this simple statement: “If you act to correct a problem without a theory about its cause, you inevitably treat only the symptoms.” It is the same lesson my business professors were drumming into my brain many years earlier.

I was trained to apply this lesson within the confines of the business enterprise. Tim’s observation made me realize that I had been applying it in my work as a development professional in Africa, Asia, and Latin America. For years, I had been asking the question: What is the underlying cause of persistent poverty? Eventually, I came to realize that poverty is not the only significant unsolved human problem, and I enlarged the question to ask: Why is our economic system consigning billions of people to degrading poverty, destroying Earth’s ecosystem, and tearing up the social fabric of civilized community? How must that system and the institutions it comprises change if we are to have a world that works for all people and the whole of life?

Pleading with people to do the right thing is not going to get us where we need to go so long as we have a culture that celebrates, and institutions that reward, the destructive

PHANTOM WEALTH

Also called illusory wealth, this is wealth that appears or disappears as if by magic. The term generally denotes money created by accounting entries or the inflation of asset bubbles unrelated to the creation of anything of real value or utility. The high-tech-stock and housing bubbles are examples.

Phantom wealth also includes financial assets created by debt pyramids in which financial institutions engage in complex trading and lending schemes using fictitious or overvalued assets as collateral for loans in order to feed and inflate asset bubbles to create more phantom collateral to support more borrowing to further feed the bubble to justify outsized management fees.

Those engaged in creating phantom wealth collect handsome “performance” fees for their services at each step and walk away with their gains. When the bubble bursts, borrowers default on debts they cannot pay and the debt pyramid collapses, along with the bubble, in a cascade of bankruptcies.

Those who had no part in creating or profiting from the scam are then left to absorb the losses and to sort out the phantom-wealth claims still held by the perpetrators against the marketable real wealth of the larger society. It is all legal, which makes it a perfect crime.

behaviors we must now put behind us. It is so much more sensible to direct our attention to making the right thing easy and pleasurable by working together to create a culture that celebrates positive values and to foster institutions that reward positive behavior.

WORSE THAN NO THEORY

What my wise colleague did not mention is that placing too much faith in a “bad” theory or story, one that offers incorrect explanations, may be even worse than acting with no theory at all. A bad theory can lead us to false solutions that amplify the actions that caused the problem in the first place. Indeed, a bad theory or story can lead whole societies to persist in self-destructive behavior to the point of self-extinction.

The cultural historian Jared Diamond tells of the Viking colony on the coast of Greenland that perished of hunger next to waters abundant with fish; it had a cultural theory, or story, that eating fish was not “civilized.”² On a much larger scale, the human future is now in question and the cause can be traced, in part, to economic theories that serve the narrow interests of a few and result in devastating consequences for all.

As we are perplexed by the behavior of the Vikings who perished because of their unwillingness to give up an obviously foolish theory, so future generations may be perplexed by our foolish embrace of some absurd theories of our own, including the theory that financial speculation and the inflation of financial bubbles create real wealth and make us richer. No need to be concerned that we are trashing Earth’s life support system and destroying the social bonds of family and community, because eventually, or so the theory goes, we will have enough money to heal the environment and end poverty.

This theory led to economic policies that for decades served to create a mirage of phantom wealth that vanished before our eyes as the subprime mortgage crisis unfolded. It also led us to give control of our political and economic systems to institutions devoted to creating phantom wealth for the exclusive private benefit of their most powerful players.

Even with Wall Street’s dramatic demonstration that we

were chasing a phantom, most observers have yet to acknowledge that the financial speculation was not creating wealth at all. Rather it was merely increasing the claims of financial speculators on the shrinking pool of everyone else's real wealth.

A NEW STORY FOR A NEW ECONOMY

A theory, of course, is nothing more than a fancy name for a story that presumes to explain how things work. It is now commonly acknowledged that we humans are on a course of self-destruction. Climate chaos, the end of cheap oil, collapsing fisheries, dead rivers, falling water tables, terrorism, genocidal wars, financial collapse, species extinction, thirty thousand child deaths daily from poverty — and, in the richest country in the world, millions squeezed out of the middle class — are all evidence of the monumental failure of our existing cultural stories and the institutions to which they give rise. We have good reason to fear for our future.

At first, each of the many disasters that confront us appears distinct. In fact, they all have a common origin that our feeble “solutions” fail to address for lack of an adequate theory. *Agenda for a New Economy* is a big-picture story, or theory, of where we went wrong in the design of our economic institutions and what we can do about it. We do, in fact, have the means to create an economic system that takes life as its defining value and fulfills six criteria of true economic health. Such a system would

1. provide every person with the opportunity for a healthy, dignified, and fulfilling life;
2. restore and maintain the vitality of Earth's natural systems;

3. nurture the relationships of strong, caring communities;
4. encourage economic cooperation in service to the public interest and democratically determined priorities;
5. allocate resources equitably to socially and environmentally beneficial uses; and
6. root economic power in people- and place-based communities to support the democratic ideal of one-person, one-vote citizen sovereignty.

A BOOK FOR THOSE LOOKING UPSTREAM

Agenda for a New Economy is a book for people who are looking upstream, not to place blame, but to find real solutions that fulfill a shared human dream of a world that works for all in perpetuity. At its core, it is about the cultural stories that shape our collective values and the institutional systems that shape our relationships with one another and with Earth. The relevance is global, but the primary focus is on the United States because U.S. economic values and institutions are somewhat distinctive and have a powerful global influence.

The justified public outrage against the breathtaking excesses of Wall Street creates an opportunity to mobilize political support for a New Economy that shifts our economic priorities from making money for rich people to creating better lives for all and that reallocates our economic resources from destructive, or merely wasteful, uses to beneficial ones.

To create an economic system that works for all, we need a different design grounded in different values and a different understanding of wealth, our human nature, and the sources of human happiness and well-being. The basic design elements of the New Economy we seek are known, as I will elaborate in subsequent chapters.

We face an urgent need for a national and international discourse on economic policy choices that support a bottom-to-top structural transformation of the economy to strengthen community and reallocate resources to where they best serve. I have written *Agenda for a New Economy* as a contribution to this discourse. I hope you will be encouraged to engage your friends, colleagues, community, and media contacts in discussion about the foundational economic policy choices at hand and will find this book a useful tool.

this material has been excerpted from

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From Phantom Wealth to Real Wealth
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by David C. Korten

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