

## Searching for a sustainable future

### Introduction

This discussion paper is a reflection on the current state of politics, society, economics and the environment and the possibilities for a more sustainable future of the type envisaged in the UN's Sustainable Development Goals. These goals are aimed at *"mobilizing efforts to end all forms of poverty, fighting inequalities and tackling climate change, while ensuring that no one is left behind"*<sup>1</sup> – often summarised as being all about *"people, planet, prosperity, peace and partnership"*.



Scotland was one of the first countries to commit to the goals in 2015 and they are incorporated into the National Performance Framework<sup>2</sup>. In the words of Scotland's First Minister: *"The UN Global Goals offer a vision of the world that I believe people in Scotland share. The national and international dimensions to poverty and inequality are interlinked. Scotland cannot act with credibility overseas, if we are blind to inequality here at home. And our ambitions for a fairer Scotland are undermined, without global action to tackle poverty, promote prosperity and to tackle climate change."*<sup>3</sup>

The paper draws on a number of observations and ideas from a range of authors with the aim of providing food for thought and contributing to a discourse of the type recommended by Joseph Stiglitz: *"A nation's wealth depends on the creativity and productivity of its people....And it depends on steady improvements in social, political and economic organisation, discovered through reasoned public discourse."*<sup>4</sup>

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<sup>1</sup> <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

<sup>2</sup> <https://nationalperformance.gov.scot/>

<sup>3</sup> Nicola Sturgeon - NIDOS Conference November 2015 <https://nationalperformance.gov.scot/sustainable-development-goals>

<sup>4</sup> [https://www.theguardian.com/business/2019/apr/10/trump-legacy-selfishness-dshonesty-attack-pillar-society?CMP=Share\\_iOSApp\\_Other](https://www.theguardian.com/business/2019/apr/10/trump-legacy-selfishness-dshonesty-attack-pillar-society?CMP=Share_iOSApp_Other)

It attempts to make connections between different factors to consider the systemic nature of what's happening. It begs the question of what are the links between political discontent, feelings of agency and control, inequality of outcome and opportunity, precarious and unsatisfying jobs, environmental crisis and the way in which the capitalist system and its associated monetary frameworks operate. It also considers ideas for reform that could lead to more sustainable development.

**A question of perspective** - *"In the intersection between perspectives real insights can be gleaned."*<sup>5</sup>

The paper is written from the perspective of an economist (attempting to understand how society can better produce, distribute and exchange the goods and services it needs to improve wellbeing in a fair and sustainable way) and a mediator (aiming to help people engage to gain a better understanding of different views and generate options to move forward positively).

It should also be acknowledged that it is written from the point of view of a relatively well-off white male, of advancing years, with a background in public policy and practice, living in a relatively advanced western society. With this in mind it is accepted that there are many different perspectives and deeply held views, shaped by the situation people find themselves in. It is also recognized that many cognitive traps lay in wait, such as confirmation bias, which leads us to look for supporting evidence and pay less attention to that which contradicts conclusions we have already reached. By way of reassurance it is offered as a genuine contribution to a respectful dialogue that allows people to engage productively to better understand different perspectives and explore ideas for improvement.

In any interconnected system it can be hard to know where to start, so the paper begins with the issue that is currently crowding out most others in British politics.

### **Interdependence and control**

It would be an understatement to say that Brexit currently dominates political discourse in the UK. At its heart it has thrown up the whole question of where, how and by whom important decisions relating the future of a country should be taken and how the benefits of cooperation (particularly at an international level) can be achieved while still maintaining a sense of being in control. As the British Prime Minister at the time put it: *"The profound pooling of sovereignty....permits unprecedentedly deep cooperation, which brings benefits. But it also means that when countries are in the minority they must sometimes accept decisions they do not want."*<sup>6</sup>

Sovereignty is variously defined as the liberty to decide one's actions, freedom from external control, power or authority to rule etc. - it can be pooled at many different levels (family, community, regionally, nationally, internationally) to facilitate cooperation.

There appears to be a strong relationship between greater cooperation and increasing security and prosperity (for example, through the provision of defence and police forces, through social security to cover times of hardship and through facilitating the division of labour, the exchange of knowledge, innovation and the development of markets and trade). This sort of cooperation has been a key feature in human evolution, which allowed a relatively weak species at the level of the individual to survive and prosper<sup>7</sup>. The geographical scale of cooperation has grown as societies have become more interdependent.

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<sup>5</sup> "Wilful Blindness" – Margaret Heffernan (2012)

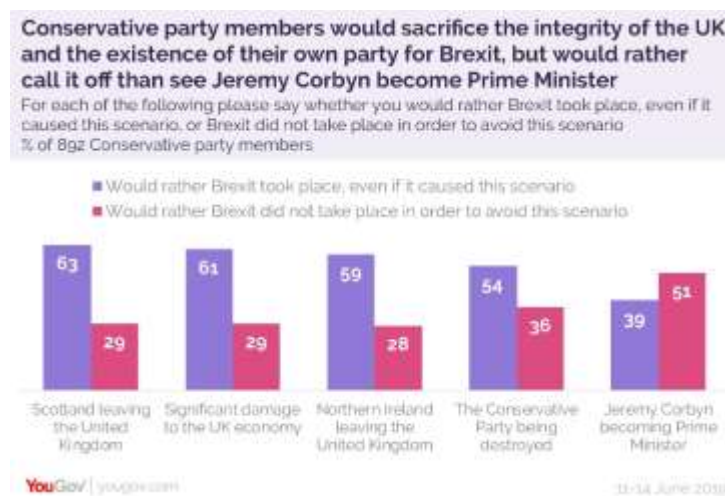
<sup>6</sup> Theresa May - Florence speech, September 2017

<sup>7</sup> "Supercooperators: Altruism, Evolution, and Why We Need Each Other to Succeed" – Martin Nowak and Roger Highfield (2012)

There can be many different degrees of cooperation and pooling of sovereignty and there is a significant distinction between pooling sovereignty where all the parties to the arrangement participate in decision making (in the EU's case either by unanimity or qualified majority, depending on the issue) and surrendering sovereignty, where you are subject to the decisions of others.

This distinction, which seems to be at the heart of the Brexit debate, is probably partly a question of framing and perspective, but it might also indicate deeper concerns that may have something to do with how involved individuals feel they are in decision making, either directly or via their representatives. This links to the importance of a feeling of agency for an individual's sense of wellbeing<sup>8</sup>. Perhaps this was why 'take back control' was so powerful in the EU Referendum. The independence campaign in Scotland worked with a similar idea in 'Scotland's future in Scotland's hands', although 'take back control' had the added impact of relating to recovering something that was felt to have been lost (loss aversion is a significant cognitive bias).

If the pooling of sovereignty is felt to be more akin to surrender people may well be willing to trade off less prosperity and security for a feeling of greater freedom and control. This was exemplified by one leave voting businessman in Southampton, interviewed by Alan Little, who said *"Why can't we make our own rules? It's not easy being told what to do by another country"* - while at the same time recognising that continuing the business he currently did in other EU countries might become much harder as a result of Brexit<sup>9</sup>. Similar sentiments were reflected in poll of Conservative members that put leaving the EU ahead of the health of the economy, maintaining the United Kingdom and the survival of their party!<sup>10</sup>



As the world becomes ever more interdependent, effective global cooperation will be even more necessary to tackle cross border issues. However, as Dani Rodrick highlighted<sup>11</sup>, this throws up something of a trilemma, where there are trade-offs between national sovereignty, economic integration and democracy. Rodrick argues you can have any two of the three but not all three together. *"Pretending that we can have all three simultaneously leaves us in an unstable no-man's land."*

<sup>8</sup> Improving lives in Scotland : a wellbeing approach

[https://strathprints.strath.ac.uk/54784/1/FEC\\_39\\_2\\_2015\\_WoodsCJarvieD.pdf](https://strathprints.strath.ac.uk/54784/1/FEC_39_2_2015_WoodsCJarvieD.pdf)

<sup>9</sup> [https://www.bbc.co.uk/news/resources/1dt-sh/looking\\_for\\_brexitland](https://www.bbc.co.uk/news/resources/1dt-sh/looking_for_brexitland)

<sup>10</sup> <https://yougov.co.uk/topics/politics/articles-reports/2019/06/18/most-conservative-members-would-see-party-destroye>

<sup>11</sup> [https://rodrik.typepad.com/dani\\_rodriks\\_weblog/2007/06/the-inescapable.html](https://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html)

A similar point is made by Julian Baggini in his review of different world philosophies<sup>12</sup> - from the eastern emphasis on the harmony of society to the western focus on individual liberty. He concludes that: *"Values of autonomy, harmony, community and individuality all have a legitimacy but there is no way to live that allows us to maximise all of them. There is more than one way for humans to flourish and trade-offs are inevitable."* In this context he also emphasises the importance of trying to view things from multiple perspectives to arrive at a more objective understanding of what is happening and what the possibilities for the future might lie.

As we confront the challenges of trying to reconcile the need for greater global cooperation with the demand for greater local control of national interests it is perhaps worth reflecting on the words of the US Secretary to the Treasury at the conclusion of the Bretton Woods Conference seventy five years ago, which established a new international economic order at the end of the second world war. *"There is a curious notion that the protection of national interests and the development of international cooperation are conflicting philosophies... We have come to recognize that the wisest and most effective way to protect our national interests is through international cooperation ....the peoples of the earth are inseparably linked to one another by a deep, underlying community of purpose."*<sup>13</sup>

## **Trust**

To make the pooling of sovereignty and cooperation more effective, within or between countries, requires trust, rules, laws, custom and practice, checks and balances, institutions etc. to help ensure fairness and help prevent, and be seen to prevent, such things as rent seeking (influencing public policy to increase profits) and free riding (taking advantage of something such as public goods without contributing to them). The larger and more diverse the polity the more this has to be formalized and transparent.

Looking forward increased levels of trust in society is probably one of the most important requirements. Alan Little reaches a stark conclusion while 'Looking for Brexitland': *"Whatever emerges in the years that lie ahead, the UK has some work to do in repairing its democracy, in restoring trust between the institutions of political power and the governed."*

Colin Woodard's book 'American Character'<sup>14</sup> charts the history of the relationship between the objectives of individual freedom and the common good in the context of American politics. He contends that a well-functioning society needs to balance sufficient personal freedom and agency with the benefits of a society that works together and looks after each other when needed. This balance is often in tension and without the right sort of dialogue can break down as positions become entrenched and get in the way of developing a real understanding of where underlining needs and interests are shared (or indeed are genuinely different).

## **Integrating the private and the social – an environmental emergency**

The institutions of governance have a key role to play in facilitating this dialogue. One specific role is in addressing how effectively markets operate on behalf of society as a whole. In particular in

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<sup>12</sup> "How the world thinks" – Julian Baggini (2018)

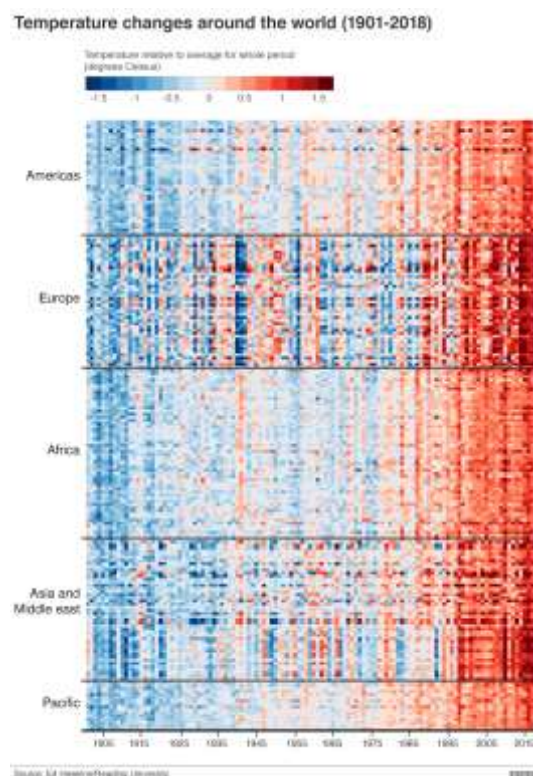
<sup>13</sup> [https://www.cvce.eu/content/publication/2003/12/12/b88b1fe7-8fec-4da6-ae22-fa33eddd08ab6/publishable\\_en.pdf](https://www.cvce.eu/content/publication/2003/12/12/b88b1fe7-8fec-4da6-ae22-fa33eddd08ab6/publishable_en.pdf)

<sup>14</sup> "American Character - A History of the Epic Struggle Between Individual Liberty and the Common Good" - Colin Woodard (2017)

tackling what are called, in the economist's jargon, positive and negative externalities - where private costs and benefits differ from wider social costs and benefits and may well lead to activities and investment that are socially sub-optimal. Examples include pollution, where the costs to society are much greater than to the polluter, or under investment in research and development, where the returns to the individual are less than to society as a whole.

The most significant externalities at play at the moment relate to the impact of climate change<sup>15</sup> and other environmental crises, where the consequences of private action spread far beyond borders. This was set out starkly in a recent UN report on species extinction and its impact on society – “*We are eroding the very foundations of our economies, livelihoods, food security, health and quality of life worldwide.*”<sup>16</sup> Collective action and pooling of sovereignty will be required at a global level to significantly reduce carbon emissions and tackle other environmental challenges such as maintaining biodiversity.

The extent to which the planet has warmed over the century has been represented graphically by Ed Hawkins<sup>17</sup> who has developed the concept of ‘climate stripes’ to show temperature changes for each country of the world for this period relative to the average for the period as a whole. While there are a number of variations related to El Nino events and other phenomena the overall trend appears clear.



The impact of climate change is increasingly being felt by all sectors of society and the economy. As Sarah Breeden, a Bank of England director, recently put it: “*Climate change poses significant risks to the economy and to the financial system, and while these risks may seem abstract and far away, they*

<sup>15</sup> “The Uninhabitable Earth – a story of the future” – David Wallace-Wells (2019)

<sup>16</sup> <https://www.ipbes.net/news/Media-Release-Global-Assessment>

<sup>17</sup> <http://www.climate-lab-book.ac.uk/>

*are in fact very real, fast approaching, and in need of action today.*<sup>18</sup> This was a message followed up by her boss Governor Mark Carney in an open letter co-authored with the Governor of the Bank of France.<sup>19</sup>

Breeden and Carney also warned of a potential ‘Minsky moment’ (a sudden, significant fall in asset values) if financial asset prices respond quickly to expectations of potential losses due to carbon reserves becoming unburnable. In a similar vein the UK’s largest money manager recently issued a warning to firms about likely shareholder reaction against firms failing to make a meaningful contribution to tackling climate change<sup>20</sup>.

The scale and nature of the environmental crisis has already led to significant international cooperation as demonstrated by the UN panel on climate change<sup>21</sup>, the Paris accord<sup>22</sup> and perhaps most surprisingly the coalition of central banks in the Network for Greening the Financial System<sup>23</sup>. The challenge is to widen participation and take action on the ground to sufficiently reduce carbon emissions and to base our economy on renewable resources. Movements such as the ‘Green New Deal’<sup>24</sup> are trying to link the tackling of climate change with wider economic objectives. While the issue has been given an increasing sense of urgency by the ‘Extinction Rebellion’ and the fears of future generations expressed through the school climate strikes.

### **Reframing taxation – a force for good**

The taxation system is one of the most direct methods of dealing with externalities such as carbon emissions, by making sure the negative social costs are felt directly by the private firms or individuals responsible for them (the most obvious being a carbon tax) or incentivising the positive (e.g. allowance for renewable energy and R&D to encourage investment beyond that which private returns alone would justify).

The IMF’s Fiscal Monitor for 2019<sup>25</sup> considers the role of fiscal policy in mitigating climate change. It concludes that the average carbon tax levied by its member states increased from \$2 a ton to \$75 a ton. They also recommend using revenue raised to help offset the impact of higher fuel prices on those less able to cope and to invest in alternative sources of energy.

*“To make carbon taxes politically feasible and economically efficient, governments need to choose how to use the new revenue. Options include cutting other kinds of taxes, supporting vulnerable households and communities, increasing investment in green energy or simply returning the money to people as a dividend.”*<sup>26</sup>

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<sup>18</sup> “Avoiding the storm: Climate change and the financial system” - Sarah Breeden, Executive Director, International Banks Supervision, April 2019 <https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/avoiding-the-storm-climate-change-and-the-financial-system-speech-by-sarah-breeden.pdf?la=en&hash=AC28DFEFED7B14A197E6B0CB48044D06F4E38E84>

<sup>19</sup> <https://www.bankofengland.co.uk/news/2019/april/open-letter-on-climate-related-financial-risks>

<sup>20</sup> <https://www.bbc.co.uk/news/business-47941180>

<sup>21</sup> <https://www.ipcc.ch>

<sup>22</sup> <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

<sup>23</sup> <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system>

<sup>24</sup> <https://neweconomics.org/campaigns/green-new-deal>

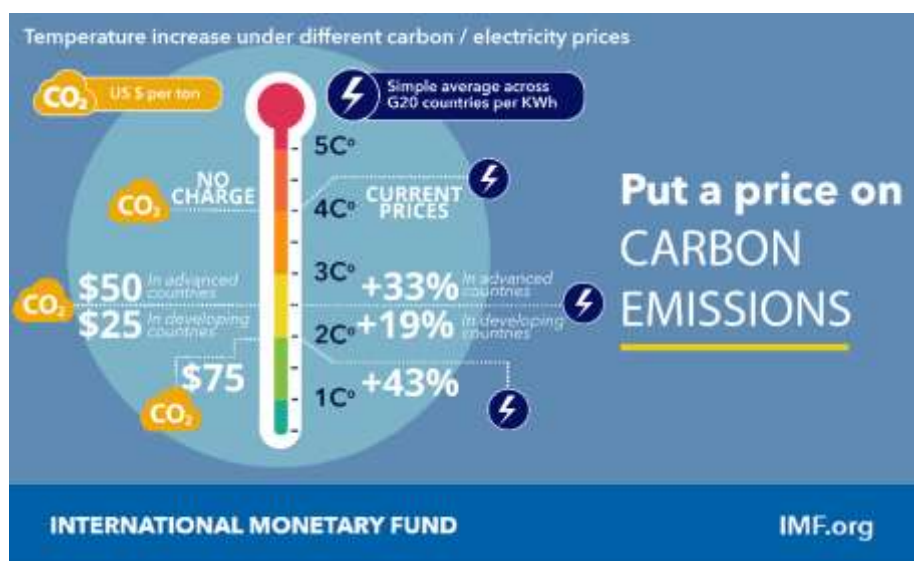
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<sup>25</sup> <https://www.imf.org/en/Publications/FM/Issues/2019/09/12/fiscal-monitor-october-2019>

<sup>26</sup> <https://blogs.imf.org/2019/10/10/fiscal-policies-to-curb-climate-change/>



British Columbia has been operating a Carbon Tax since 2008 and using the revenues raised to reduce taxes elsewhere and provide tax credits for the least well off. They are planning to progressively increase the tax from this year and use additional revenues to increase the 'Climate Action Tax Credit', maintain industry competitiveness and invest in new green initiatives<sup>27</sup>.



The whole question of taxation is probably one which would benefit from some reframing to help change the perception that it is simply a burden and imposition by the state. Given its potential in addressing externalities there is scope for it to be more widely accepted as both a disincentive and an incentive, as well as facilitating the pooling of purchasing power and the provision of mutual insurance and shared investment - all organised on the basis of who is most able to make a contribution. For example, the OECD has recently argued for a greater use of tax as a disincentive for firms that have a negative impact on wildlife<sup>28</sup>. They estimate that environment related taxes are currently 1.6% of world output.

Others would go further and argue that the state alongside business has a key role to play in co-producing wealth, through the provision of essential public goods and services, through providing a counterbalance to the cyclical nature of private investment and through the stimulation of innovation, particularly that which has a broader, longer term impact (such as that needed to tackle climate change). In this context taxation can be seen as *"the means by which economic actors pay the public sector for its contribution to the productive process"*<sup>29</sup>.

Robert Neild argues that attitudes to taxation in the UK have changed significantly since 1945<sup>30</sup>. They have gone from a situation where taxpayers recognised they were making a necessary contribution to public services from which everyone benefitted, to one where it is considered more akin to robbery. He highlights the different rates across the EU (where the average 'tax take' is 40% of GDP) with France, Germany, Denmark and Sweden being above average, while the UK figure is 35%. He

<sup>27</sup> <https://www2.gov.bc.ca/gov/content/environment/climate-change/planning-and-action/carbon-tax>

<sup>28</sup> <http://www.oecd.org/about/secretary-general/g7-environment-ministers-meeting-france-may-2019.htm>

<sup>29</sup> "Rethinking Capitalism Economics and policy for sustainable and inclusive growth – Michael Jacobs and Mariana Mazzucato (2016)

<sup>30</sup> "To Tax or not to tax? The truth about taxation" – Robert Neild, Royal Economic Society (2018)

<https://www.res.org.uk/resources-page/january-2018-newsletter-to-tax-or-not-to-tax-or-the-truth-about-taxation.html>

calculates that increasing the UK level to the EU average would allow an additional 14% expenditure on public services and infrastructure investment.

Another dimension of the taxation issue is competition between countries to attract investment by keeping rates low. This can lead to governments being reluctant to use taxation as a method of addressing externalities. For example, to be truly effective, a carbon tax would have to be levied in a consistent way across the globe to prevent high carbon emission activities being moved to low tax areas. This links back to the whole question of international cooperation and the pooling of sovereignty.

### **The politics of feelings – reported progress versus lived experience**

If externalities result in private and social costs and benefits getting too far out of line, and are insufficiently compensated for through taxation and other interventions, this is likely to have an impact on how well people feel a society is working, particularly if a significant number of people feel that outcomes are unfair and opportunities restricted.

In a recent book<sup>31</sup>, William Davis highlights the growing divergence in how people feel based on their lived experience, relative to how things are measured and reported by technocrats and politicians and how this is impacting on political discourse. In part this is because there can be a wide variety of experience in the measurement of an average across a large group, which tends to be what is used to describe progress in society as a whole (particularly if the median is very different from the mean). As inequalities in income, wealth, health and opportunity widen there is an increasing chance that people will not see their lives reflected in official reports. This is likely to lead to a growing mistrust of official statements and the evidence of 'experts', with seats of government and learning being viewed as centres of elite privilege.

Reports of the economic benefits of globalisation and wider economic integration, the positive impact of immigration and the necessity of austerity probably ring very hollow to those who feel the immediate impact through job losses, falling relative income and pressure on services. These feelings can be exacerbated if an individual's lived experience varies significantly from the widely reported lifestyles of those doing very well, be they celebrities or 'elites on expenses'.

In addressing concerns it would probably help to do more to acknowledge, empathise with and offer reassurance to those feeling excluded, rather than appear to dismiss perceived problems and offer explanations as to overall benefits to society of change. As Davis puts it: *"Telling people they are secure is of limited value if they feel they are in situations of danger. For this reason we have to take people's feelings seriously as political issues and not simply dismiss them as irrational."*

There can be a significant difference between how people feel and how they think more objectively. A lack of agency and purpose and low self-esteem set alongside a sense of unfairness and not being listened to can be very powerful, particularly if there is a feeling that things have got worse and something has been lost. The resentment and associated pain, fear and anger can then be exploited by the less scrupulous, who appear to feel the pain, question what is true or fake, identify scapegoats, demonise others and sow distrust and division. This is made easier by developments in social media and is facilitated by the confirmation bias we are all susceptible to.

In this context it's also worth bearing in mind that work on cognitive bias<sup>32</sup> suggests that when people are afraid, tired or under pressure they will tend to default to automatic thinking systems (of

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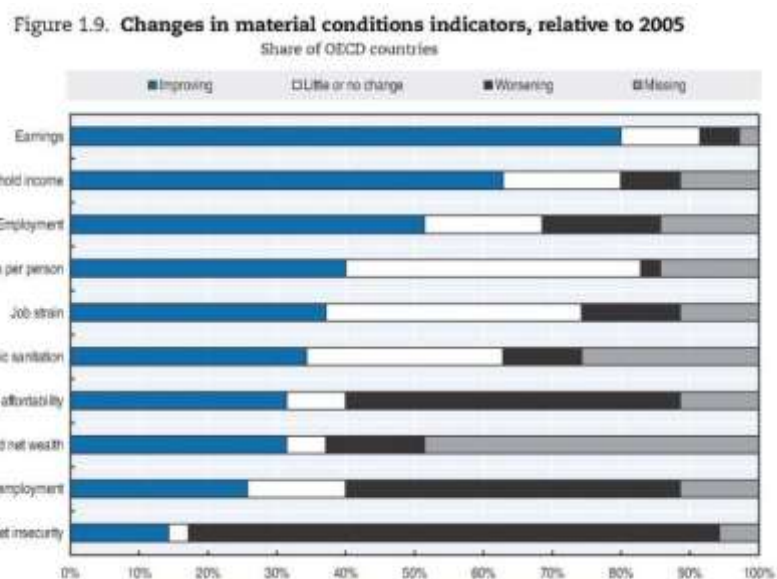
<sup>31</sup> "Nervous States – How feelings took over the world" – William Davis (2018)

<sup>32</sup> "Thinking fast and slow" – Daniel Kahneman (2011)



which loss aversion is very influential) rather than more considered approaches. In these circumstances simply explaining something, which might appear perfectly obvious, without any acknowledgement and reassurance might be counterproductive. In addition to this when resources are scarce and survival instincts come to the fore, longer term considerations are likely to be crowded out<sup>33</sup>.

The role played by fear and insecurity in shaping how we think and behave is highlighted by John Bargh<sup>34</sup>, who argues this has deep evolutionary roots. His experiments have demonstrated that when we are afraid we will be much less open to change and new ideas and will become much more conservative. Conversely when we feel safe we are much more open to innovation and take a more liberal view of the world. OECD analysis of wellbeing<sup>35</sup> shows that factors such as labour market insecurity (particularly in the wake of the financial crisis) and housing affordability have generally deteriorated since 2005, which has probably contributed to a growing sense of fear and anxiety.



In an insecure environment life may well be seen more as a bilateral, zero-sum game, in which countries and individuals try to secure as large a possible a share of resources, for themselves and their group, where identity becomes increasingly important and conflict with 'others' is rife<sup>36</sup>. This contrasts with a more multilateral, positive-sum approach, built around shared interests, strengthening relationships and cooperating to add value.

### Work – what's the point?

Another aspect of how people feel about their lives has been identified by David Graebner in a recent book<sup>37</sup>, which documents the growth of what he terms 'Bullshit Jobs'. These are jobs which those who are doing them feel to be pointless, unnecessary and of little social value. They often involve bureaucratic processes (in the private as well as the public sector), with some people being employed to oversee the process while others are employed to try and get round it. He estimates

<sup>33</sup> "Scarcity: Why having too little means so much" - Sendhil Mullainathan and Eldar Shafir (2013)

<sup>34</sup> "Before you know it – The unconscious reasons we do what we do." – John Bargh (2017)

<sup>35</sup> [https://read.oecd-ilibrary.org/economics/how-s-life-2017\\_how\\_life-2017-en#page1](https://read.oecd-ilibrary.org/economics/how-s-life-2017_how_life-2017-en#page1)

<sup>36</sup> <https://www.ft.com/content/52b71928-85fd-11e9-a028-86cea8523dc2>

<sup>37</sup> "Bullshit Jobs" – David Graebner (2018)

that 40-50% of the workforce are now either doing such jobs or servicing them. This may have some connection to the recent slowdown in productivity growth<sup>38</sup> and questions about whether relatively high employment rates may be masking underemployment<sup>39</sup>.

The feeling of doing a pointless job, particularly to meet financial commitments, such as loan repayments, can be a significant contributor to stress and mental health problems. This stress is compounded if many of the more socially useful jobs, such as those in teaching and care, are relatively poorly paid, while the relatively well paid, socially useful jobs (such as doctors) are increasingly out of reach to many. With access to the necessary qualifications and experience via public schools or good state schools (in expensive catchment areas) restricted to those whose parents are already well off and have the right contacts. This further contributes to feelings of low self-esteem and a growing sense of resentment and anger among those excluded, which finds its voice in populist politicians.

Graebner argues that a universal basic income might have a role to play in reducing dependence on pointless and potentially harmful employment. This would allow people the opportunity to carry out activities which are more meaningful to them and which are potentially more beneficial to society, but which are not currently paid well within the marketplace, such as those currently provided mainly by volunteers. It might also allow more people to experiment and stimulate entrepreneurship. It could also help counter the precariousness of some jobs, allow people to feel more in control of their lives and thus improve overall wellbeing and reduce political discontent.<sup>40</sup>

### The age of robots?

On the subject of employment, Adair Turner and others<sup>41</sup> have forecast that the rapid and unstoppable development of automation, based on robotics, artificial intelligence and machine learning, will have very profound implications for how we live and work. It will result in less and less human input going into the production of most of the goods and services we need to live well. As a result today's economic challenge of how to produce what we need in the most efficient way in an environment of scarcity will become much less of an issue. The more pressing issues will be: how we earn and distribute income, how we use our time and how we measure progress.

He acknowledges that in many respects John Maynard Keynes got here first, almost ninety years ago, in an essay<sup>42</sup> speculating on the possible economic conditions of the grandchildren of his generation - *"for the first time since his creation man will be faced with his real, his permanent problem, how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well"*.

Conventional economic wisdom argues that as productivity increases in one part of the economy it frees resources up that can produce more value in other areas and increase overall welfare. However, Turner suggests that this need not be the case if the resources freed up are devoted to very low productivity activities or zero-sum activities which cancel each other out, as people struggle

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<sup>38</sup> <https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d>

<sup>39</sup> "Not Working - Where have all the good jobs gone?" - David Blanchflower (2019)

<sup>40</sup> See also John Lanchester's recent review of the case for universal basic income  
<https://www.lrb.co.uk/v41/n14/john-lanchester/good-new-idea>

<sup>41</sup> "Capitalism in the age of robots: work, income and wealth in the 21st-century." – Adair Turner (2018)

<https://www.bbc.co.uk/news/business-48760799>

<https://www.ineteconomics.org/research/research-papers/capitalism-in-the-age-of-robots-work-income-and-wealth-in-the-21st-century>

<sup>42</sup> "Economic Possibilities for our Grandchildren" – John Maynard Keynes (1931)

to secure their share - from cyber criminals and the police who try to stop them, to tax lawyers and revenue officers, to many aspects of asset trading.

In this environment rent seeking is also likely to become more prevalent and the assets which will be most highly valued will be those whose value is physically constrained and/or subjective such as land in desirable locations, brands and beauty (the value of non-produced assets such as land now exceeds produced assets).

Turner suggests a number of policy proposals, including a universal basic income alongside opportunities for rewarding work and the provision of high quality public services, goods and space, a greater focus of taxation on property wealth, capital gains and inheritance alongside a careful look at income from intellectual property rents and adequate wages for caring services less amenable to automation.

In a similar vein a recent book looking at technological development from the perspective of economic history sees similarities between current developments and the impact of changes in the early stages of the industrial revolution. In this era, even though there were long run benefits, the short run consequences for large parts of the population included, stagnating wages, a reduced share of income to labour and increased inequality. *“In a world where technology creates few jobs and enormous wealth the challenge is a distributional one.”*<sup>43</sup>

### **Measurement and distribution**

How income is distributed will become an increasing focus in a more automated world as traditional employment opportunities disappear. Perhaps not surprisingly this has been reflected in the growing interest in the idea of a universal basic income in Silicon Valley. There are many different dimensions to the distribution question – within and between countries and between different regions, social groups, skills and generations.

In a recent essay<sup>44</sup> Ray Dalio (a very successful hedge fund investor and perhaps surprising commentator) draws attention to income and wealth distribution and highlights how averages obscure our understanding of what’s happening in the economy and society. In an era where there has been real GDP growth there has also been a significant widening of inequality. His focus is on the USA but many of the trends he identifies are similar in the UK, where the income share of the top 1% has more than doubled since 1980<sup>45</sup> and the Institute for Fiscal Studies has recently launched a major review of inequality<sup>46</sup> and its causes and consequences (the chart below is taken from a briefing note issued to launch the review<sup>47</sup>).

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<sup>43</sup> “The Technology Trap – Capital Labour and power in the age of automation – Carl Benedick Frey (2019)

<sup>44</sup> “Why and How Capitalism Needs to Be Reformed” – Ray Dalio (2019) <https://economicprinciples.org/Why-and-How-Capitalism-Needs-To-Be-Reformed/>

<sup>45</sup> World Inequality Database <https://wid.world/>

<sup>46</sup> <https://www.ifs.org.uk/inequality/>

<sup>47</sup> <https://www.ifs.org.uk/inequality/chapter/briefing-note/>

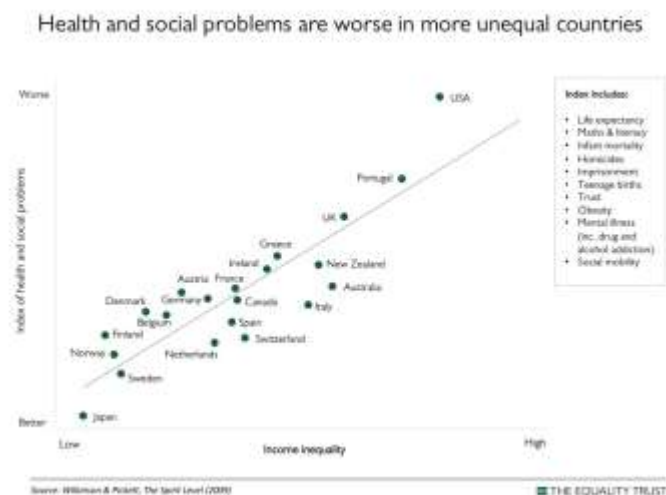
**Figure 3. Top 1% share of net household income, 1961–2017**



Note: Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards.

Source: Authors' analysis of the Family Expenditure Survey and Family Resources Survey, various years.

In the USA the real incomes of the top 10% have doubled since 1980 (with the top 1% trebling) while the real incomes of the bottom 60% have remained broadly the same. Gaps in wealth and income are now similar to the 1930s. In addition a growing disparity in educational investment (and associated developmental opportunities such as internships) has reduced opportunities to progress for the 60% and their offspring. Stagnating economic prospects have also led to an increasing sense of hopelessness, which in turn has led to a marked increase in 'deaths of despair'<sup>48</sup> (suicide, drug and alcohol related etc.) and increased mental health issues<sup>49</sup>. It's now ten years since Wilkinson and Pickett demonstrated the relationship between income inequality and health and social problems more generally<sup>50</sup>.



The limits of GDP growth as an overall measure of progress have led the OECD<sup>51</sup> and a number of countries to focus on more broad based approaches to improve wellbeing. Examples of these would

<sup>48</sup> <https://www.brookings.edu/wp-content/uploads/2017/08/casetextsp17bpea.pdf>

<sup>49</sup> "The Inner Level" - Richard Wilkinson and Kate Pickett (2018)

<sup>50</sup> "The Spirit Level" - Richard Wilkinson and Kate Pickett (2009)

<sup>51</sup> <https://www.oecd.org/statistics/measuring-well-being-and-progress.htm>

include Scotland, with its National Performance Framework and inclusive growth approach<sup>52</sup> and New Zealand, with its recently announced Wellbeing Budget<sup>53</sup>.

Dalio concludes that *“the system is producing self-reinforcing spirals up for the haves and down for the have-nots, which are leading to harmful excesses at the top and harmful deprivations at the bottom”*. This is a version of the phenomena of ‘circular and cumulative causation’ in social and economic circumstances identified by Gunnar Myrdal<sup>54</sup> in the 1950s. Similar process are also work in accentuating differences in prosperity between regions. In such a scenario there will be a decline in wellbeing (not captured in overall GDP per head figures) and a real waste of human potential, which is often geographically concentrated.

In addition to the widening economic disparities Dalio identifies an increasing polarization in US politics, with Republicans becoming more conservative and Democrats becoming more liberal from around 1980. Similar trends can be seen in the UK.

The IMF have highlighted that too much inequality is not just an issue of social justice but that it can also damage economic prospects. *“While some inequality is inevitable in a market-based economic system, excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth.”*<sup>55</sup> This damage can be caused in a number of ways, including wasted human productive potential, lower demand and greater instability.<sup>56</sup> These conclusions have been echoed by the OECD in their work on inclusive growth<sup>57</sup>.

Looking to the future Dalio highlights the importance of public and private investment to generate economic and social returns that simultaneously increase productivity and improve distribution of both opportunities and outcomes to allow all to benefit from and contribute to increased prosperity. In this vein a group of American billionaires has recently written an open letter to 2020 presidential candidates proposing a wealth tax on the richest in society to help raise revenue for investment. *“This revenue could substantially fund the cost of smart investments in our future, like clean energy innovation to mitigate climate change, universal child care, student loan debt relief, infrastructure modernization, tax credits for low-income families, public health solutions, and other vital needs.”*<sup>58</sup>

### **Finance – servant or master?**

In many respects the issues identified so far in our current system reflect the growing financialisation of the economy, where what is often socially useless or harmful activity (which has high, short term, private financial returns) crowds out more socially useful activities in which private financial returns are much lower, long term or non-existent. This phenomenon has been highlighted

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<sup>52</sup> <https://nationalperformance.gov.scot/> <https://www.gov.scot/policies/economic-growth/inclusive-growth/>

<sup>53</sup> <https://www.theguardian.com/world/2019/may/30/new-zealand-wellbeing-budget-jacinda-ardern-unveils-billions-to-care-for-most-vulnerable> <https://www.ft.com/content/6b425632-18c1-11e9-b191-175523b59d1d>

<sup>54</sup> “Rich lands and poor lands – the road to world prosperity” – Gunnar Myrdal (1957)

<sup>55</sup> <https://www.imf.org/external/np/fad/inequality/>

<sup>56</sup> <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

<https://www.imf.org/en/Publications/WP/Issues/2019/02/15/Inequality-of-Opportunity-Inequality-of-Income-and-Economic-Growth-46566>

<sup>57</sup> [https://www.oecd-ilibrary.org/economics/opportunities-for-all\\_9789264301665-en](https://www.oecd-ilibrary.org/economics/opportunities-for-all_9789264301665-en)

<sup>58</sup> <https://medium.com/@letterforawealthtax/an-open-letter-to-the-2020-presidential-candidates-its-time-to-tax-us-more-6eb3a548b2fe>

by authors such as John Kay, Rana Foroohar and Marianna Mazzucato<sup>59</sup> A recent speech by the Governor of the Bank of England<sup>60</sup> on the future of finance concluded with a reminder on the role of finance, which might sometimes be forgotten in the search for short term returns: “...we must always remember that finance is not an end in itself. It is a servant of the real economy...”.

Kay highlights the degree to which the financial sector of the economy has become detached from the production of goods and services and has indeed become an end in itself, with implications which can have serious consequences for the real economy, as seen in the financial crash. This disparity between the financial and the real is demonstrated by the value of foreign exchange transactions at almost a hundred times the value of trade in goods and services, while lending to individuals and firms engaged in the production of goods and services amounts to around 3% of UK bank's lending.

According to Kay the assets of UK banks consist mainly of claims on other banks, while their liabilities are mainly obligations to other financial institutions. Their main trade is in securities (claims on future asset values and profits of companies etc.) and derivatives, which derive their value from other securities. The value of the assets underlying these layers of derivatives is three times the value of all the physical assets in the world.

Much of what is classified as financial services involves the trading of assets, for example, the volume of equity trading has grown dramatically on recent years to around three times GDP<sup>61</sup>. High speed trading in securities and derivatives, where micro seconds can mean millions, is an increasingly important part of this business and requires significant investment to maintain a competitive edge<sup>62</sup>. It is hard to see how much positive impact this investment has on wider society beyond any construction phase, albeit offset by any environmental impact.

As far as financial sector activities go Kay argues “much of what it does contributes little or anything to the betterment of lives and the efficiency of business.” Adair Turner (when chairman of the Financial Services authority) put it even more succinctly when he described much of financial services activity as “socially useless”<sup>63</sup>. It may be possible to go even further than this and consider the over-financialisation of the economy as socially dangerous. In particular if it generates financial instability, which can have far reaching implications, alongside the inflation of asset prices and the attraction of talented people (educated to a large part at society's expense) away from more socially useful parts of the economy.

While a well-functioning financial sector is an essential component of a successful economy (in providing a payments system, matching lenders to borrowers, managing personal finances across the life course and managing financial risk), Kay argues that you can have too much of a good thing!

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<sup>59</sup> “Other People's Money: Masters of the universe or servants of the people” – John Kay (2015), “Makers and Takers: How Wall Street destroyed Main Street” - Rana Foroohar (2016), “The Value of Everything – taking and making in the global economy” - Marianna Mazzucato (2018)

<sup>60</sup> <https://www.bankofengland.co.uk/speech/2019/mark-carney-speech-at-the-mansion-house-bankers-and-merchants-dinner>

<sup>61</sup> [http://www.russellsage.org/sites/all/files/Rethinking-Finance/Philippon\\_v3.pdf](http://www.russellsage.org/sites/all/files/Rethinking-Finance/Philippon_v3.pdf)

<sup>62</sup> <https://www.bloomberg.com/news/features/2019-03-08/the-gazillion-dollar-standoff-over-two-high-frequency-trading-towers>

<sup>63</sup> <https://www.theguardian.com/business/2009/aug/27/fsa-bonus-city-banks-tax>



This is clearly illustrated in a study<sup>64</sup> for the Bank of International Settlements (BIS), which looks at the growth of the financial sector and the growth of productivity in the rest of the economy. The study is based on a mix of modelling and empirical analysis of different countries and industries. It finds that financial sector growth can crowd out growth elsewhere through disproportionate investment in high collateral/low productivity projects and by attracting skilled workers away from more entrepreneurial and innovative activities with higher real productivity. The study concludes that the growth of a country's financial system can be a drag on productivity growth as the financial sector competes with the rest of the economy for resources and that credit booms harm the R&D intensive industries considered to be the engines of growth.

A further dimension of the financialisation of the economy over the last forty years or so is the influence it and other 'economic elites' now have on politics<sup>65</sup>. The finance sector is one of the most powerful lobbies and a major provider of campaign finance, as well as providing career opportunities for retired politicians and seconding staff to help develop policy. How 'the markets' react, or are anticipated to react, can also be a powerful influence on political decision making. This influence helps shape the development of the monetary system itself – one of the main facilitators of financialisation. *"The foundations of the modern monetary system are undeniably political...money and credit and the structure of finance piled on them are constituted by political power, social convention and law."*<sup>66</sup>

## Money matters

Money is considered by some to be neutral as far as the real economy is concerned, affecting only nominal values, at least in the long run.<sup>67</sup> However, in the wake of recent financial crises, it is more likely to be seen to have a much more significant impact on how well the economy as a whole operates<sup>68</sup>. A central feature of the monetary system is the role of private banks.

In modern monetary systems private banks (not central banks) generate nearly all (around 97% in UK) of the money in circulation through the issuing of credit<sup>69</sup>. They don't just act as financial intermediaries, lending on what is saved with them, they create money through crediting borrowers' bank accounts, which can then be spent, invested or used for speculation<sup>70</sup>. *"In modern finance credit is not a fixed sum constrained by the 'fundamentals' of the 'real economy'. It is an elastic quantity, which in an asset boom can easily become self-expanding on a transnational scale."*<sup>71</sup>

During the most recent financial crisis, as banks became concerned about the quality of loans and investments they had made (and therefore their solvency), they significantly curtailed their lending - hence the term 'the credit crunch'. Central banks then had to step in to provide liquidity with programmes such as quantitative easing (printing money to buy assets held by banks) to prevent a financial crisis leading to a depression in the real economy.

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<sup>64</sup> Why does financial sector growth crowd out real economic growth? - Stephen G Cecchetti and Enisse Kharroubi (2015) - <https://www.bis.org/publ/work490.pdf>

<sup>65</sup> [https://scholar.princeton.edu/sites/default/files/mgilens/files/gilens\\_and\\_page\\_2014\\_testing\\_theories\\_of\\_american\\_politics.doc.pdf](https://scholar.princeton.edu/sites/default/files/mgilens/files/gilens_and_page_2014_testing_theories_of_american_politics.doc.pdf)

<sup>66</sup> "Crashed – how a decade of financial crises changed the world" Adam Tooze (2018)

<sup>67</sup> "Neutrality of Money" – Don Patinkin (1987)

<sup>68</sup> "Money and Government - Challenge to Mainstream Economics" – Robert Skidelski (2019)

<sup>69</sup> <https://positivemoney.org/how-money-works/how-did-we-end-up-here/>

<sup>70</sup> <https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy>

<sup>71</sup> Tooze (ibid)

As well as leading to an economy that is overly debt dependent, relying on private banks for money creation is also likely to exacerbate the business cycle through over lending in boom times and under lending in downturns. While central bank intervention in the financial crisis helped prevent a recession turning into a depression, it had some serious side effects such as the price inflation of assets such as shares and prime property.

The problems caused by credit based money have led to a search in some countries for alternatives such as 'sovereign money' issued by the state in quantities sufficient to facilitate economic development without generating inflation<sup>72</sup>. They have also led to the examination of practices in other debt dependent environments such as jubilees in the early economies of the near east<sup>73</sup>.

The IMF also examined a proposal for monetary reform called the 'Chicago Plan'<sup>74</sup> which was developed in the USA in the middle of the last century. This envisaged the separation of the monetary and credit functions of the banking system, by requiring 100% reserve backing for deposits. It concluded that the adoption of such a plan could reduce business cycle fluctuations, eliminate bank runs, reduce public and private debt, increase output and reduce inflation.

Meanwhile former Bank of England Governor Mervyn King has proposed that central banks operate as 'pawnbroker of last resort' requiring banks (and other financial intermediaries) to deposit assets as collateral with the central bank, which will then be discounted depending on how risky they are. This collateral will then determine how much the central bank would lend in an emergency. This in turn will constrain bank lending to more realistic levels<sup>75</sup>.

Other ideas for reform include the breaking up of banks into smaller units to increase competition and to ensure that no one bank is too big to fail, thus risking systemic failure<sup>76</sup>. Alongside this there are also arguments for drawing a clear distinction between the 'utility' and speculative elements of the banking system to help ensure a collapse in one part doesn't constrain banks from performing the functions required by the rest of the economy<sup>77</sup>.

### **System reform or redesign**

To what extent do the challenges of climate emergency, inequality of outcomes and opportunity, financial instability, economic insecurity and political discontent and polarization require reform of current systems or a more fundamental redesign?

Commentators such as Joseph Stiglitz argue for a more 'progressive capitalism'<sup>78</sup> focused on wealth creation, through increased innovation and productivity growth and fairer distribution of income and wealth, as opposed to the current system of capitalism which appears to be increasingly focused on wealth extraction. *"One can get rich either by adding to the nation's economic pie or by grabbing*

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<sup>72</sup> Iceland Monetary reform – A better monetary system for Iceland (2015)

<https://www.stjornarradid.is/media/forsaetisraduneyti-media/media/skyrslur/monetary-reform.pdf>

Money Issuance – Alternative monetary systems KPMG (2016)

<https://assets.kpmg/content/dam/kpmg/is/pdf/2016/09/KPMG-MoneyIssuance-2016.pdf>

<sup>73</sup> "...and forgive them their debts" – Michael Hudson (2018)

<sup>74</sup> <https://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf>

<sup>75</sup> "The End of Alchemy: Money, Banking and the Future of the Global Economy" - Mervyn King (2016)

<sup>76</sup> <https://www.independent.co.uk/voices/banks-still-haven-t-learnt-their-lessons-from-the-financial-crash-a7625311.html>

<sup>77</sup> <https://www.johnkay.com/2011/06/02/should-we-have-narrow-banking/>

<sup>78</sup> <https://www.nytimes.com/2019/04/19/opinion/sunday/progressive-capitalism.html>

*a larger share of the pie by exploiting others — abusing, for instance, market power or informational advantages. We confused the hard work of wealth creation with wealth-grabbing (or, as economists call it, rent-seeking), and too many of our talented young people followed the siren call of getting rich quickly.”*

Ray Dalio draws a connection between economic and political inequality and argues for a much stronger role for the state in curbing exploitation and negative externalities to make sure markets serve wider society. Others<sup>79</sup> would go further and argue that the role of state and market shouldn't be seen as separate entities and that the two are inextricable intertwined and seen this way offer the potential for co-producing positive development. *“A more innovative, sustainable and inclusive system is possible. But it will require fundamental changes in our understanding of how capitalism works, and how public policy can help create and shape a different economic future.”*

Concepts of extraction and inclusion mirror earlier work by Daron Acemoglu and James Robinson<sup>80</sup> which analysed, over a long historical period, why some countries were more successful than others. They concluded that those which developed institutions which fostered economic and social inclusion, and protected against extraction by the powerful, tended to become more prosperous as citizens had a greater stake in the outcome and would therefore be willing to be more innovative and invest more money and effort in developing the economy. In their recent book<sup>81</sup> they explore further the relationship between the state and society's customs and norms. They conclude that the maintenance of liberty requires a fine balance between states having sufficient power to moderate inequitable social arrangements but not becoming so powerful that they become despotic.

Some<sup>82</sup> feel that the essence of any capitalist system, with its focus on perpetual growth and the privatization of natural wealth is inconsistent with a world of finite resources. They argue for a more fundamental system redesign. Elements of this sort of system redesign is at the heart of Kate Raworth's 'Doughnut Economics'<sup>83</sup>, in which she argues that the economy should be aimed at *“meeting the needs of all within the means of the planet”*. She represents this by the use of a doughnut shaped diagram where the outer ring of the doughnut represents the ecological ceiling within which the economy must work and the inner ring of the doughnut is the social foundation which the economy should be focused on providing for all to thrive. Her assessment of where we currently are is illustrated in the diagram below.

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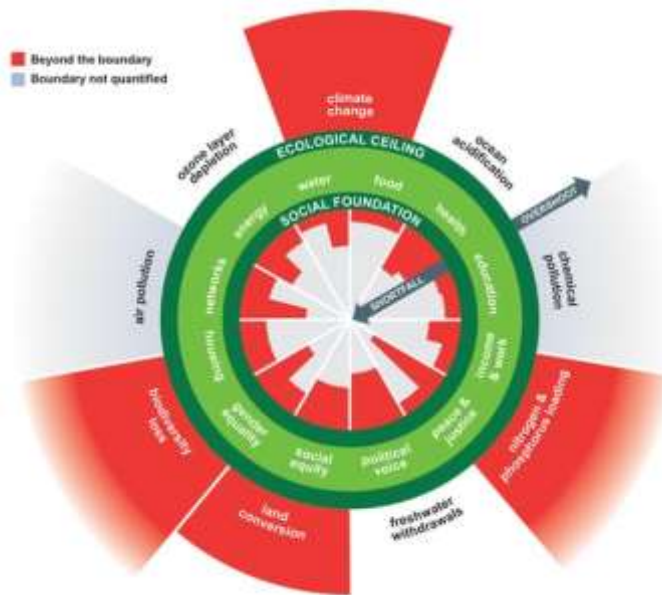
<sup>79</sup> “Rethinking Capitalism Economics and policy for sustainable and inclusive growth – Michael Jacobs and Mariana Mazzucato (2016)

<sup>80</sup> “Why Nations Fail” - Daron Acemoglu and James Robinson (2102)

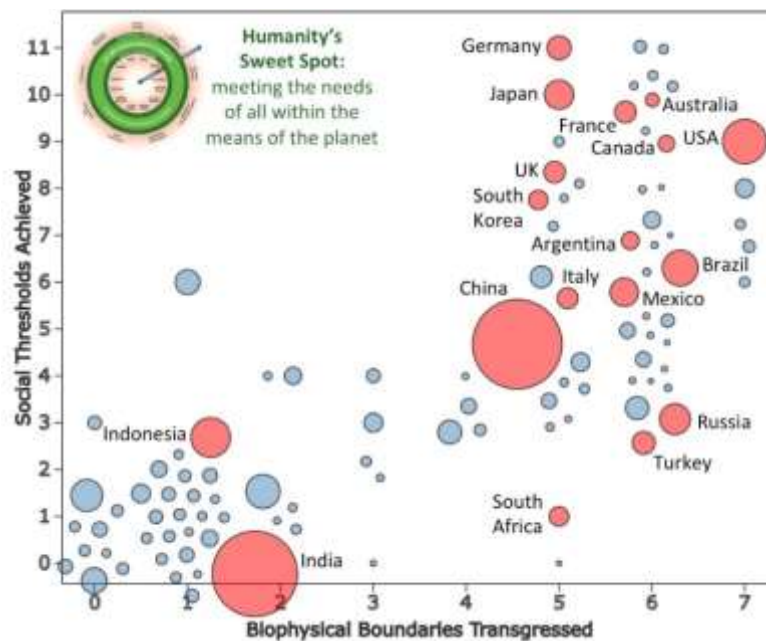
<sup>81</sup> The Narrow Corridor - States, Societies, and the Fate of Liberty - Daron Acemoglu and James Robertson (2019)

<sup>82</sup> <https://www.theguardian.com/commentisfree/2019/apr/25/capitalism-economic-system-survival-earth>

<sup>83</sup> “Doughnut Economics” – Kate Raworth (2017)



She has also analysed where countries are relative to the ecological ceiling and social foundation and, perhaps not surprisingly, found that none are managing to achieve both and that the development path of most developing economies is following a similar trajectory to that of developed economies.<sup>84</sup>



This approach is taken up by the Wellbeing Economy Alliance<sup>85</sup> with an emphasis on looking at growth and development more in terms of quality of life rather than simply quantity of output. This

<sup>84</sup> [https://www.kateraworth.com/2018/12/01/doing-the-doughnut-at-the-g20/?subscribe=success#blog\\_subscription-2](https://www.kateraworth.com/2018/12/01/doing-the-doughnut-at-the-g20/?subscribe=success#blog_subscription-2)

<sup>85</sup> <https://wellbeingeconomy.org/>

is a theme developed by Katherine Trebeck and Jeremy Williams, in a book which looks at how we can move from our current model to one that is both fairer and less damaging.<sup>86</sup>

One method of helping achieve a more sustainable future that is gaining increasing attention, from organisations such as the MacArthur Foundation and Zero Waste Scotland<sup>87</sup>, is to develop a more 'circular economy', moving away from the traditional linear model of 'take, make, dispose', to one built on renewable resources which is more 'make, use and recycle'. This is exemplified in 'Closing the Loop'<sup>88</sup>, a documentary looking at practical examples of companies across the world who are applying 'circular economy' principles and achieving business success in the process.

More attention is also being given to forms of company and other organisation structures that move away from business models focussed on maximising shareholder value in the short term. These include cooperatives, employee ownership<sup>89</sup>, community organisations, which widen ownership and control of assets<sup>90</sup> and 'B-corps'<sup>91</sup>, which embody a wider stakeholder purpose (including explicit social and environmental sustainability standards) than the traditional shareholder primacy.

Colin Mayer, of Oxford University's business school, argues for the need to refocus the traditional corporation away from the maximisation of shareholder value (particularly in the short term) towards the pursuit of profitable ways to improve economic and social wellbeing. Indeed he argues that in focusing on this purpose, companies are likely to become more profitable and resilient as they attract the best employees and increase customer loyalty.<sup>92</sup> This approach is reflected in the recent statement by the influential US Business Roundtable, which calls for companies to go beyond maximising shareholder value to serve the interests of a much wider group of shareholders.<sup>93</sup> While in the UK Business in the Community has launched a 'Responsible Business Tracker' to help firms assess what they are doing and what more they need to do to support healthy communities and a healthy environment.<sup>94</sup>

On the finance front the Global Ethical Finance Initiative<sup>95</sup> has been established from a base in Scotland to promote finance for positive change. The UN has set out Principles for Responsible Banking<sup>96</sup> and Principles for Responsible Investment<sup>97</sup> to provide a framework for more sustainable finance. There also appears to be a growing recognition that investment that supports companies that take a more environmental and socially sustainable approach also secures more sustainable financial returns in the medium to long term<sup>98</sup>. Being alive to the potential implications of

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<sup>86</sup> The Economics of Arrival - Ideas for a Grown-Up Economy - Katherine Trebeck and Jeremy Williams (2019)

<sup>87</sup> <https://www.macfound.org/> <https://www.zerowastescotland.org.uk/>

<sup>88</sup> <http://www.closingtheloopfilm.com>

<sup>89</sup> [https://employeeownership.co.uk/wp-](https://employeeownership.co.uk/wp-content/uploads/The_Ownership_Dividend_The_economic_case_for_employee_ownership.pdf)

[content/uploads/The Ownership Dividend The economic case for employee ownership.pdf](https://employeeownership.co.uk/wp-content/uploads/The_Ownership_Dividend_The_economic_case_for_employee_ownership.pdf)

<sup>90</sup> <https://common-wealth.co.uk/about.html>

<https://landforthemany.uk/>

<sup>91</sup> <https://bcorporation.net>

<sup>92</sup> "Prosperity - Better Business Makes the Greater Good" – Colin Mayer (2018)

<sup>93</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

<sup>94</sup> <https://www.bitc.org.uk/sites/default/files/bitc-tracker-report-responsiblebusinessstrackerinsights-apr19.pdf>

<sup>95</sup> <https://www.globalethicalfinance.org/>

<sup>96</sup> <https://www.unepfi.org/publications/principles-for-responsible-banking/>

<sup>97</sup> <https://www.unpri.org/>

<sup>98</sup> <https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/remarks-given-during-the-un-secretary-generals-climate-actions-summit-2019-mark-carney.pdf?la=en&hash=C0D3A9F2C86647B04D88E7C0DC23264639D03BE2>

investments on climate change and how changes in the environment and society will impact on business is increasingly being seen as an important aspect of risk management, particularly for banks with regard the performance of their loan portfolio. The Financial Stability Board has set up a Task Force on Climate-related Financial Disclosures (TCFD) to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.<sup>99</sup>

Dieter Helm<sup>100</sup> argues that economic principles such as public money for public goods and the polluter pays have an important role to play in the maintenance of the natural environment for both social and economic benefit over the longer term. He outlines a 25 Year Environment Plan, which includes a ring fenced 'Nature Fund' to invest in enhancing natural capital. This fund would comprise existing nature related programmes (including agricultural subsidies, National Parks etc. – he estimates these to be in the order of £10bn per year in the UK) and additional funds from levies on pollution and the economic rents from the depletion of non-renewable resources. Not surprisingly he anticipates a lot of opposition from those with shorter term vested interests.

Paul Collier proposes for a more ethical form of capitalism<sup>101</sup>, shaped by pragmatic, rather than ideological public policy. This would aim to give greater emphasis to the reciprocal obligations of cooperative, community based systems, founded on relationships, as opposed to the individualism inherent in the concepts of rational 'economic man' seeking to maximise his own utility. Collier recommends focussing taxation on the economic rents (such as those generated by extractive, 'zero-sum' activities) to improve distribution and promote more 'positive-sum' activities such as innovation.

More generally Rutger Bregman<sup>102</sup> argues for the need for utopian visions and challenging ideas to inspire the search for a better life for all. To illustrate this approach he proposes, amongst other things, a universal basic income, a fifteen hour working week and more open borders to improve wellbeing, increase productivity and reduce poverty. Alongside his visionary approach he is also a strong proponent of the more pragmatic randomised control trial to test what works, where possible and appropriate.

### **Finding a way forward through dialogue**

Earlier in the paper we touched on the role that cooperation has played in human evolution and development. If we are to make the transition needed to a more sustainable future cooperation at every level is likely to become ever more important, particularly given the strains that will be placed on society as the impact of reforms varies across different groups and areas. The foundation for this cooperation will be constructive dialogue to allow those with different perspectives to build a deeper understanding of the feelings, interests and needs of others and to begin to generate, evaluate and implement options for moving forward.

The increasing polarisation of political debate makes the development of more productive dialogue even more crucial. At its heart it requires greater exploration of where the zone of probable agreement (ZOPA) might lie. This concept contends that as the position of parties in a negotiation become more extreme and apparently unreasonable to each other, they generate reactions which force the proponents even further apart.

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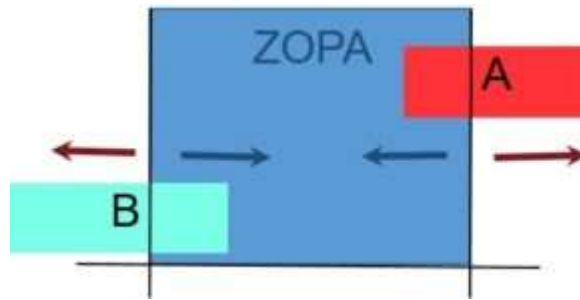
<sup>99</sup> <https://www.fsb-tcfid.org/>

<sup>100</sup> "Green and Prosperous Land – A blueprint for rescuing the British countryside" – Dieter Helm (2019)

<sup>101</sup> "The future of capitalism – facing the new anxieties" – Paul Collier (2018)

<sup>102</sup> "Utopia for Realists – and how we can get there" – Rutger Bergman (2018)





There are many facets involved in getting into the ZOPA and the boundaries are almost certainly not as clear as this simple diagram suggests. A proposal in a negotiation is much more than the words and numbers it is made up of. How it is framed will be crucial. Similarly, who makes the proposal will have an impact, with some figures being more divisive than others. Baggage and association, both positive and negative, will have a vital part to play. The more acknowledgement of a counterparty's interests and needs and the more reassurance that can be given about objectives and motives, the more likely a proposal will be listened to.

Tried and tested mediation and facilitation processes, built on concepts such as ZOPA, can be used to support this sort of dialogue, such as that promoted by Collaborative Scotland<sup>103</sup> in the run up to the Scottish Referendum in 2014, with its 'Commitment to a Respectful Dialogue':

- **Show respect and courtesy** towards all those who are engaged, whatever views they hold
- Acknowledge that there are **many differing, deeply held and valid points of view**
- **Use language carefully** and avoid personal or other remarks which might cause unnecessary offence
- **Listen carefully** to all points of view and seek fully to understand what concerns and motivates those with differing views from our own
- **Ask questions** for clarification when we may not understand what others are saying or proposing
- Express our own views **clearly and honestly with transparency** about our motives and our interests
- Respond to questions asked of us with clarity and openness and, whenever we can, with **credible information**
- **Look for common ground and shared interests at all times**

One method of promoting more reasoned discourse is through Citizens' Assemblies<sup>104</sup>, which have been used in a number of places, such as Ireland<sup>105</sup>, to explore and offer advice on potentially contentious issues. The recently announced Citizens' Assembly of Scotland<sup>106</sup> should offer another opportunity for building on this method.

## Conclusions

This paper has highlighted a number of issues, many of which appear to be interconnected, and a number of emerging ideas covering both what might be done and how it might be done.

<sup>103</sup> <https://collaborativescotland.org>

<sup>104</sup> <https://www.electoral-reform.org.uk/citizens-assemblies-can-help-us-move-beyond-a-broken-westminster-model-of-politics/>

<sup>105</sup> <https://www.citizensassembly.ie/en/>

<sup>106</sup> <https://www.citizensassembly.scot>

## Issues

- the challenge of effectively pooling sovereignty in an increasingly economically, interdependent world, alongside a desire for more control as decision making appears more distant
- an economic system apparently more focused on wealth extraction over wealth creation
- widening inequality and a growing sense of exclusion, insecurity and unfairness for a large proportion of the population
- the exacerbation of inequality by self-reinforcing vicious and virtuous spirals of development alongside technology advances and increasing financialisation
- feelings of exclusion and loss of control contributing to a growing sense of resentment, which is open to exploitation
- severe and deepening environmental problems threatening our ability to live in the manner we are used to while staying within planetary boundaries
- a reluctance to use the tax system and other forms of intervention to align private and social costs and benefits - particularly those on a global scale like climate change
- an increasing tendency to view the world through the lens of a zero-sum game of winners and losers
- insufficient co-operation to tackle global issues
- political systems increasingly under the influence of vested interests with deep pockets
- a monetary system which facilitates financialisation, fuels booms and accentuates crises

## Ideas

- What:
  - wider ownership and control of capital and other assets
  - more imaginative use of taxation and regulation to address externalities, raise public finance and improve income and wealth distribution – such as a carbon levy alongside an associated dividend to increase the price of carbon and ease the transition for those least able to afford it
  - a concerted investment programme to decarbonize the economy and develop renewable resources
  - the development of a more resource efficient and less polluting circular economy
  - investment in the maintenance and enhancement of natural capital
  - reform of finance and monetary systems to provide greater stability and finance investment with high social returns
  - a universal basic income to give citizens more financial security and control over their lives, promote enterprise and innovation and increase solidarity
  - institutional reform to improve engagement, enable and empower citizens and provide a greater sense of agency
  - reform of the financing of political parties to reduce the influence of vested interests and rent seeking
- How:
  - using wider measures of wellbeing that go beyond economic output
  - greater recognition that what people feel as a result of their lived experience can be as significant as what they think
  - careful consideration of how issues and ideas are framed to build understanding and help decision making
  - taking a systemic approach with careful consideration of trade-offs and synergies between policies and potential unintended consequences

- developing approaches such as citizens' assemblies to promote reasoned discourse and widen political involvement and decision making
- global movements to widen citizens' involvement and promote cooperation
- greater global cooperation and pooling of sovereignty to achieve global goals

There are a growing number of ideas to help develop a more sustainable world. The challenge is to build a sufficient consensus to move forward, in order to allow decisions to be taken relatively quickly on which ideas for reform and redesign to pursue and then implement them at scale and in a sufficiently joined up way to have systemic benefits. This may well be the only way of finding a future of the type envisaged by the UN's Global Goals.