



# The Economics You Weren't Taught in School

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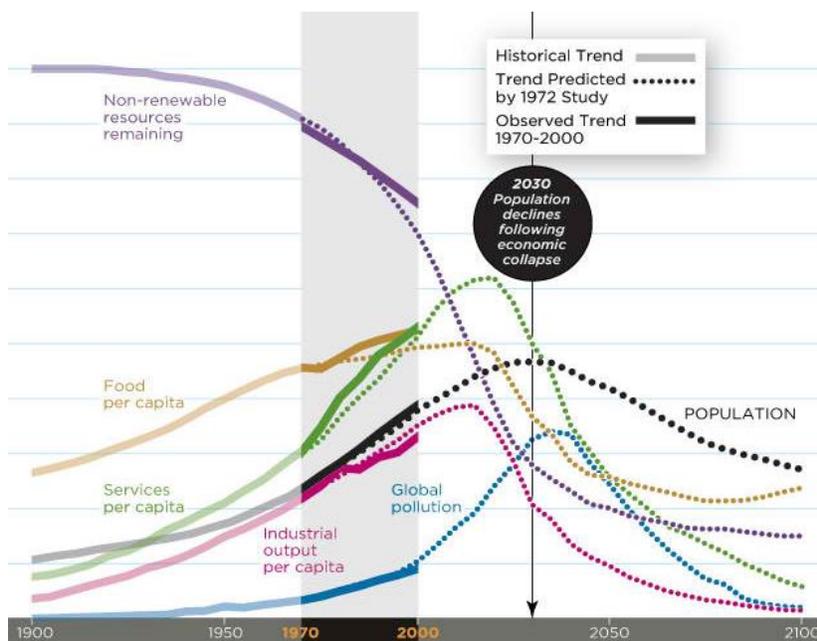
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Capitalism, the greatest economic system in human history for the creation of wealth, is under attack. And with fair reason: much of what is called capitalism is a perversion of what its founders intended. Today's version is better called "cheater capitalism"<sup>1</sup> or "Crapitalism."<sup>2</sup>

Much of what passes today for economic activity, from speculation in the "capital markets" to national accounting is either financial transactions delivering no real economic benefit, aside from enriching their participants, or the conversion of one form of capital (natural capital in the form of minerals in the ground of timber on the hills) to another form of capital (money and stuff.) As World Bank Chief Economist Herman Daly warned in his resignation speech, this is just bad accounting.<sup>3</sup> It is also bankrupting our world.<sup>4</sup>

The crises facing us today, from climate catastrophes to pandemics were predicted in the 1972 book, *Limits to Growth*, which warned that continued exponential growth in population, industrial activity, pollution and destruction of ecosystems would result in systemic collapse.

In 2012, the Smithsonian Magazine was so unkind as to resurrect the old *Limits* collapse graph, plotting on top of it the actual data from 1972 until 2000.<sup>5</sup> We were right on track for collapse.



The dotted lines in this graph are the original collapse scenario. The solid lines on the graph are the actual data from the time *Limits* was published until 2000.

The great economist and aphorist, Ken Boulding testifying to the U.S. Congress on the seriousness of these projections remarked that, “Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist”<sup>6</sup> Murray Bookchin, a noted communalist said, “Capitalism can no more be ‘persuaded’ to limit growth than a human being can be ‘persuaded’ to stop breathing. Attempts to ‘green’ capitalism, to make it ‘ecological’ are doomed by the very nature of the system as a system of endless growth.”

A good capitalist, however, does not seek undifferentiated growth, but rather asks, growth of what? We want more solar panels, and fewer oil wells, more gardens and less industrial agriculture, more education, health, good music, happiness.... These things are regenerative and, if well provided, do not cost the earth. A good capitalist stewards and enhances all forms of capital, increasing her ability to better create real wealth and wellbeing. There are at least four forms of capital: financial and manufactured, natural and human. The first two (the only forms counted by most people who consider themselves capitalists, seem to be increased by vigorous global trading. The latter two being place based, are degraded by globalization. But without intact ecosystems and adaptive human community we cannot long create money and stuff. and without which there is not life on earth, at least one worth living by humans. People living on the margin want more stuff and material comfort, while those living in what has fittingly been called the “overdeveloped world” might well be happier with less stuff. Both want clean water, healthy air and beauty in their lives.

Dana Meadows, lead author of *Limits to Growth*, believed that we can avoid collapse. She observed,

People don't need enormous cars; they need respect. They don't need closetsful of clothes; they need to feel attractive and they need excitement, variety, and beauty. People need identity, community, challenge, acknowledgement, love, joy. To try to fill these needs with material things is to set up an unquenchable appetite for false solutions to real and never-satisfied problems. The resulting psychological emptiness is one of the major forces behind the desire for material growth. A society that can admit and articulate its nonmaterial needs and find nonmaterial ways to satisfy them would require much lower material and energy throughputs and would provide much higher levels of human fulfillment.<sup>7</sup>

Promoters of business-as-usual capitalism reject these distinctions. They abhor any limitation on their individual liberty expressed in what they claim is a perfect, free market.<sup>8</sup> Their system, also called neo-liberalism, because it rests, they say, on the natural laws promulgated by Adam Smith and the other founders of economics is based on scientific principles and subject to no criticism. The merit of it is demonstrated in unfettered competition: it rewards those who strive. Those who deliver value *should* win. In this view, because capitalist nations do not go to war with each other, this form of economics is the seedbed of democracy and an instrument of peace.<sup>9</sup> In such a perfect system, government is the problem, not the solution, useful only to maintain a military to protect our ability to form and enforce contracts. This approach, say its proponents, is just how the world works.

This bed-time story has soothed generations, but it ignores three things:

- It's bad history: their interpretation is not what Adam Smith or David Ricardo actually said;
- It's bad science: for starts, economics is not science, it's theory, and real science disagrees with most neoliberal economic assertions;
- It doesn't work: capitalism as currently practiced has brought our world to the verge of collapse, made us all poorer and less equal, and failed to make us happy.

Capitalism's most strident<sup>10</sup> critics, however, are wrong, too. To paraphrase Winston Churchill on democracy: it is the worst system "except for all those other forms that have been tried from time to time...."<sup>11</sup> More honest forms of capitalism, from Natural Capitalism to Regenerative Capitalism have been set forth to address the failings that critics rightly attack.

To frame a new approach to economics, it's important to understand where the system we seek to replace came from, what's wrong with it, what of it is worth preserving, and most of all, what kind of a future we want.

### **It's Bad History**

Fans of capitalism claim that their economics is based on the classical truths set forth by Adam Smith, David Ricardo and the other "liberal economists." Concepts such as Smith's "invisible hand," and Ricardo's "trading to comparative advantage," are held in such reverence that to criticize them, is akin to heresy. It's worth, therefore, getting clear on what these men said, and did not say, and on the mental models within which they worked.

The early economic theorists never envisioned a globally unregulated market. They believed that economies are nationally bounded: it is nations that trade with each other. Nations might charter an institution to do the haggling, but these entities (now called corporations, and which we now endow with "personhood") were understood to be agents of national governments and nothing more.

Smith, by the way, refers to "an invisible hand," only three times, and then only in passing. Never does he accord to that phrase anything resembling a universal imperative, or inherent morality. Indeed, his second use disparages religious causes for such natural phenomenon as gravity.<sup>12</sup>

His first use of it was explicitly to describe economics as inherently local:

By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.<sup>13</sup>

His third use of “invisible hand” was only to notice that in his world of nationally bounded, locally conducted economies, equity would tend to occur naturally:

The rich ... consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand [emphasis added] to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species.<sup>14</sup>

Smith, though he helped invent the discipline, never thought of himself as an economist. The Chair he held at the University of Glasgow was in moral philosophy, and from that he denounced the gluttony of the rich as “unproductive labour.”

In some ways, the real Adam Smith, not the caricature that Economics 101 portrays, was a proponent of modern sustainability. It never entered his mind that society would divide into the 99% and the 1%, and now to the .01%, as eight men now have as much wealth as the bottom half of humanity.<sup>15</sup> He chose the title of his best-known work, the *Wealth of Nations* deliberately. It is not “The Wealth of Greedy Self-actualizing Bastards.”

Mishko Hansen,<sup>16</sup> a former investment manager currently researching ethical issues at Cambridge University, points out:

Smith was writing not about how economic growth was going to lead to happiness or wellbeing, but rather how a country became economically prosperous, and hence militarily powerful. He believed that people living in conditions of relative freedom and equality could be very happy with almost nothing in the way of material goods (i.e. his example of North American Indians), but that this could lead them to being subjugated and made miserable by more militarily powerful forces.

Smith was then, contrary to how he is usually (mis)interpreted, writing about how people can live in conditions of peace, freedom, and justice—which he believed were the prerequisites to happiness—and about the economy as a means to this, rather than an end in itself.

Smith categorically rejected the notion that greed was good, stating:<sup>17</sup>

Hence it is, that to feel much for others, and little for ourselves, that to restrain our selfish, and to indulge our benevolent affections constitutes the perfection of human nature; and can alone produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety.

He also stated, “The chief part of happiness arises from the consciousness of being beloved...”<sup>18</sup>

In *The Theory of Moral Sentiments*, Smith recounted the original version of the story of an MBA and a fisherman, describing a king who desires to become rich so that he can enjoy his later repose surrounded by friends and family, and how it was a fool's pursuit, stating: “

The pleasures from which we propose to derive our real happiness are almost always the same with those which, in our actual though humble station, we have at all times at hand and in our power. Except for the frivolous pleasures of vanity and superiority, we may find, in the most humble station, where there is only personal liberty, every other [pleasure] which the most exalted can afford...<sup>19</sup>

David Ricardo,<sup>20</sup> writing after Adam Smith, was explicit that economies are inherently nationally bounded, and must remain so in order to achieve the comparative advantage that makes trade between nations mutually desirable. If capital is mobile but people are not, Ricardo said, then you are trading not to comparative advantage but only absolute advantage, resulting in very real winners and losers. Today's world, where trillions of dollars zip about the planet at the speed of a keystroke, was inconceivable to him and, he explicitly stated, it was a bad idea:<sup>21</sup>

If the profits of capital employed in Yorkshire should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England from the increase of capital and population wages should rise and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain or Russia, where profits might be higher....If capital freely flowed towards those countries where it could be most profitably employed, there would be no difference in the rate of profit, and no other difference in the real or labour price of commodities than the additional quality of labour required to convey them to the various markets where they were to be sold.

How did Smith and Ricardo come to be so misread? To serve ideology. In 1947, 36 men met for 10 days at the Mont Pelerin Hotel, outside of Montreux, Switzerland to frame the economic system that they believed would deliver prosperity. In the wake of a devastating World War, Ludwig von Mises was appalled at what National Socialism had done to trash Europe. Friedrich Hayek was terrified of the rise in the east of Soviet collectivism. Milton Friedman championed the freedom of the individual as the only legitimate actor to make economic decisions. Citing the murders in Germany and Russia of millions of people who dared oppose collectivism they believed that the path to happiness is the maximization of private ownership.

Markets, they argued, were perfect. Therefore, government interference in economics was an unmitigated evil. Strong property rights and free trade are the only means through which to achieve liberty and freedom.

They called their ideology neoliberalism, because they claimed to be restoring the irrefutable truths of the “liberal economics” set forth by Smith and Ricardo.

The narrative is appealingly simple: You, as an individual, are the only legitimate economic actor. You are a greedy bastard, but that's OK because the market is perfect, and in a true market, you against me will aggregate to the greater good for all. Money is the measure of success and your unfettered freedom to go get it is the paramount value. An article in the Mises Institute publication states:<sup>22</sup>

Whether some degree of government is necessary to allow the market to operate, while being outside the scope of this essay, deserves commentary. The belief that government is necessary to at least guarantee individuals' [sic] property rights is not uncommon. However, knowing that property rights are absolutely essential for a working coordination process, it seems difficult to think that individuals themselves would consider the allotment of resources toward the end of securing their property rights as having secondary importance to something else—especially since the attainment of "something else" may require secure property rights.

Neoliberals believe that maximizing individual desires is the force that drives maximization of what economists call "utility". Their narrative tells us:

- The sole goal of the economy and business is to generate financial wealth;
- The freedom of the individual (person or corporation) is the primary societal value;
- Government should be small, protecting individuals and their private property.
- If we just let the free market sort things out, all will be well.

Inequality, according to this worldview is not only inevitable but entirely acceptable. The Mises Institute writes,

"If, then, inequality of income is the inevitable corollary of freedom, then so too is inequality of control. In any organization, whether it be a business firm, a lodge, or a bridge club, there will always be a minority of people who will rise to the position of leaders and others who will remain as followers in the rank and file. Robert Michels declared this as one of the great laws of sociology, "The Iron Law of Oligarchy." In every organized activity, no matter the sphere, a small number will become the "oligarchical" leaders and the others will follow."<sup>23</sup> There is clearly a top-down view of the world, in which the only way to increase wealth is to empower the wealthy to get as rich as they can, which deliver wealth to all. It is a linear and mechanistic view of the world, associated with a patriarchal sense that it is the right of white males to dominate. The non-white, non-male is the "other."<sup>24</sup>

The framing draws from the old Calvinist belief that being rich was a sign of being blessed.<sup>25</sup> It means you are meeting the command of Genesis, "And you, be fruitful and multiply; bring forth abundantly in the earth and multiply therein."<sup>26</sup> This framing guides politicians to cut taxes, especially on corporations and the wealthy.<sup>27</sup> If wealth is the sign of success, shouldn't we do everything that we can to promote and increase it?

Neoliberals in the form of Milton Friedman argued that the only legitimate goal of business is to maximize shareholder (owners) value in the short term.<sup>28</sup> Any other action by a company is philanthropy at the expense of the corporate owners.<sup>29</sup>

Theirs was not a universally held belief at that time. Following the triumph of the New Deal, in a world fresh reveling in the success of western governments in winning World War Two (incidentally thereby ending the Great Depression) most people had faith in governments.

How, then, did a rather wonkish ideology flying in the face of that success come to rule the world? The answer appears to be story and strategy. Neoliberalism found its storyteller in novelist Ayn Rand. "Capitalism," she wrote, was the only system in history where wealth was not acquired by looting, but by production, not by force but by trade, the only system that stood for man's right to his own mind, to his work, to his life, to his happiness, to himself."<sup>30</sup>

Her books, *Atlas Shrugged* and *The Fountainhead* still sell in the hundreds of thousands of copies, were credited by Alan Greenspan, the Tea Party and a recent Speaker of the U.S. Congress, Secretary of State and President as foundational. Her dismissal of the poor as parasites and celebration of naked greed have been described as the philosophy of a psychopath but have been read by one third of Americans.<sup>31</sup>

The Mont Pelerin Society worked with the newly created Nobel Prize for Economics to get eight of its members named as winners. MPS members became advisors to essentially every head of state on the planet. Three of them became heads of state, and others central bankers.<sup>32</sup>

The neoliberal's love of all things 'classical' found Adam Smith's "Invisible Hand," which, as shown above, Smith scarcely mentioned, useful. The first such citation appears in Paul Samuelson *Economics* textbook in 1948:<sup>33</sup>

Even Adam Smith, the canny Scot whose monumental book, "The Wealth of Nations" (1776) , represents the beginning of modern economics or political economy—even he was so thrilled by the recognition of an order in the economic system that he proclaimed the mystical principle of the "invisible hand": that each individual in pursuing his own selfish good was led, as if by an invisible hand, to achieve the best good of all, so that any interference with free competition by government was almost certain to be injurious.

Samuelson, however, despite being the one to give it iconic status, seemed troubled by this outcome, saying:

This unguarded conclusion has done almost as much harm as good in the past century and a half, especially since too often it is all that some of our leading citizens remember, 30 years later, of their college course in economics.

The strategy solidified, when in 1971 Lewis Powell, a corporate lawyer, soon to become a Justice on the United States Supreme Court, was asked by the head of the U.S. Chamber of Commerce to detail how business could relegitimize itself. The Chamber was concerned that in the wake of the sex, drugs and rock and roll of 1960's young people, radicalized on the college campuses, were rejecting the central role of business. Powell penned "Attack on the American

Free Enterprise System.”<sup>34</sup> Available today on the Web, it sets forth the strategy by which corporate America enshrined neoliberalism.

Powell stated,

Business must learn the lesson . . . that political power is necessary; that such power must be assiduously cultivated; and that when necessary, it must be used aggressively and with determination—without embarrassment and without the reluctance which has been so characteristic of American business. . . . Strength lies in organization, in careful long-range planning and implementation, in consistency of action over an indefinite period of years, in the scale of financing available only through joint effort, and in the political power available only through united action and national organizations.<sup>35</sup>

Powell got that funding, aggressive use and consistency of action. On the strength of the Memorandum, a variety of foundations and donors assembled staggering amounts of money to implement the strategy that Powell laid out.<sup>36</sup> The Koch brothers founded and endowed the Heritage Foundation, and the Cato Institute. American Enterprise, Hudson, Hoover, and similar think tanks. Millions of dollars created and endowed such organizations as the Pacific Legal Foundation to embed the concept of tax cutting and protection of property rights into California law. They groomed a young actor named Ronald Reagan to gain the Governorship of the state.<sup>37</sup> The American Legislative Exchange Council (ALEC) wrote model legislation for newly elected Republicans. The Federalist Society and the Judicial Crisis Network groomed lower court judges to climb the ladder to the Supreme Court.<sup>38</sup> Together, the organizations hired the best marketing firms to massage the neoliberal principles, previously found in only academic conversations, sell them and create the intellectual architecture that made market fundamentalism commonplace and propelled neoliberal ideology to dominance.

It is somewhat chilling to read the Powell Memorandum today and realize that the systematic dismantling, over the last 50 years, of American democracy<sup>39</sup> and government policies around the world designed to protect the wellbeing of people all flowed from this strategy.<sup>40</sup> Powell targeted almost 30 institutions for transformation, from local school districts to local judges to local and national media.

In 1980, with the election of Ronald Reagan in the U.S, and Margaret Thatcher in the UK, neoliberalism won. It became the economic ideology. In the Reagan Era of the 1980s, deregulation was implemented in many countries. Directors of corporations assumed greater control and a flurry of hostile take-overs of smaller companies began. With the fall of the Berlin Wall, and the collapse of the Soviet Union, acceptance of neoliberalism became truly global.

The accounting scandals of the 1998 near-death of Long Term Capital Management,<sup>41</sup> the collapse of Enron in 2001<sup>42</sup> and of Worldcom in 2002<sup>43</sup> were predictable results. Financialization swept the economy,<sup>44</sup> Companies engaged in an orgy of out-sourcing and off-shoring of jobs, costs and profits, costing millions of American jobs.<sup>45</sup> The 2008 financial collapse was inevitable. Because neoliberals reject higher wages, taxes to support government programs and

regulations of any sort,<sup>46</sup> their systematic dismantling of government protections<sup>47</sup> meant that the “Great Recession” could evaporate \$50 trillion and 80 million jobs.<sup>48</sup>

Neoliberal ideology argued that such a downturn couldn’t happen. Alan Greenspan, a staunch disciple of Mont Pelerin, admitted that he had not believed such a collapse possible, that he had put too much faith in the self-correcting power of free markets. He stated, “Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief.”<sup>49</sup> Appointed by Ronald Reagan in the first flush of neoliberal victory, Greenspan still struggles to reconcile that his ideology had betrayed him. For millions of citizens the world around, the result was a bit more devastating.<sup>50</sup> It also sowed the seeds of Brexit in the U.K, the 2016 Electoral College victory in the U.S of Donald Trump, and nationalist populism across Europe.

The men who gathered at Mont Pelerin effectively spread the belief that any form of collective action, particularly when imposed by government, results in tyranny. Their approach has come to be viewed as the only way to ensure freedom and dignity. Are people poor or hungry? The market will fix it. Is the economy suffering? Implement greater austerity.

Neoliberalism now underpins essentially all national economic policies, even in countries with an economy nominally labeled communist. It also forms the basis for economics courses the world around, and if you’ve had one, this stuff is in your head.

### **It’s Bad Science**

Smith and his compatriots knew themselves to be moral philosophers, not scientists. The belief that economics is a science did not arise until the mid-1800s. Professor Robert Nadeau has described the physics envy of the economists who followed Smith and Ricardo:<sup>51</sup>

In economic textbooks, the creators of this theory are credited with transforming the study of economics into a rigorously mathematical scientific discipline. But what is not widely known is that neoclassical economic theory was created by substituting economic constructs derived from classical economics for physical variables in the equations of a soon-to-be outmoded mid nineteenth century theory in physics. The mathematical formalism that resulted from these substitutions was predicated on unscientific axiomatic assumptions that remained essential unchanged in subsequent extensions and refinements of neoclassical economic theory....

The strategy used by the creators of neoclassical economics was as simple as it was absurd—they wrote down the equations of the mid-nineteenth century physical theory and substituted economic variables for the physical variables. Utility was substituted for energy, the sum of utility for potential energy, and expenditure for kinetic energy. The forces associated with utility-energy were represented as prices and spatial coordinates described quantities of goods. In the mathematical formalism that resulted from these substitutions, the economic actor is presumed to operate within a field of force identified, in both figurative and literal terms, with energy.

It's worse than that. Neoliberalism's beliefs that markets are superior to any alternative is based on a Neo-Darwinist theory that selfish individuals acting in their own selfish interests, fighting it out will deliver superior outcomes without interference.

David Sloan Wilson observes:

Evolutionary theory's individualistic turn coincided with individualistic turns in other areas of thought. Economics in the postwar decades was dominated by rational choice theory, which used individual self-interest as a grand explanatory principle. The social sciences were dominated by a position known as methodological individualism, which treated all social phenomena as reducible to individual-level phenomena, as if groups were not legitimate units of analysis in their own right (Campbell 1990). And UK Prime Minister Margaret Thatcher became notorious for saying during a speech in 1987 that "there is no such thing as society; only individuals and families." It was as if the entire culture had become individualistic and the formal scientific theories were obediently following suit.<sup>52</sup>

People who subscribe to the view that the world is a nasty, brutish, competitive place are quick to cite Darwin's mis-quoted "survival of the fittest." By which they mean that the strongest, toughest, meanest individuals will triumph, because this is the way of nature.

What Darwin actually wrote about was the "survival of the best adaptive." In 1909, he stated:

The small strength and speed of man, his want of natural weapons, etc., are more than counterbalanced by his *intellectual powers*, through which he has formed himself weapons, tools, etc., and secondly by his *social qualities* which lead him to give and receive aid from his fellow-men.<sup>53</sup>

Darwin also observed:

...that any animal whatever, endowed with well-marked social instincts, the parental and filial affections being here included, would inevitably acquire a moral sense or conscience, as soon as its intellectual powers had become as well, or nearly as well developed, as in man. For, firstly, the social instincts lead an animal to take pleasure in the society of its fellows, to feel a certain amount of sympathy with them, and to perform various services for them."<sup>54</sup>

Biologists now know that nature is based more on cooperation than competition.<sup>55</sup>

In his 2010 book, *Driven to Lead: Good, Bad, and Misguided Leadership*,<sup>56</sup> Dr. Paul Lawrence sets forth what he calls Renewed Darwinism, a correction to the neoliberal belief that the rugged individual is all that matters, that people want only to acquire money, and that the job of government is solely to defend their ability to do this. Yes, Lawrence says, there is a human drive to acquire and defend, but, he adds, what distinguishes us from many other animals that share these drives is that, as Darwin noted, humans have an equally powerful drive to bond. They also have a drive to comprehend, to create, to innovate. To be happy, says Lawrence, to be truly fulfilled, humans need to meet each and all of these drives.

The best of modern science tells us that the neoliberal narrative is just bad science. The evolutionary biologists, the archeologists, the anthropologists, and the geneticist agree that caring is baked into what it means to be human; it was that which enabled pre-humans to survive. Fossil records show that the first hominids were not fearsome warriors, they were prey animals, dependent for their survival on working together creatively. When we came down out of the trees in Africa we were naked. Our claws weren't worth much, our teeth were puny, we weren't as fast as a lion. "Lacking size or weapons, this early human species most likely used brains, agility, and social skills to escape from predators," says Dr. Robert Susman, author of *Man, the Hunted*.<sup>57</sup>

Prehumans faced species extinction on at least several occasions, with their numbers reduced to a breeding population, fewer than the now endangered population of gorillas.<sup>58</sup> Yet we survived lions, bear-sized hyenas, volcanic eruptions, and ice ages. We survived because we formed tribes, we worked together, and we were creative, entrepreneurial creatures.<sup>59</sup> We're story-tellers, meaning-makers. We're puzzle-solvers and communitarians.

Dr. E.O. Wilson, one of the planet's most famous biologists, states that we are the dominant species on earth now only because we are inherently social beings, "super-cooperators, groupies of the group, willing to set aside our small, selfish desires and I-minded drive to join forces and seize opportunity as a self-sacrificing, hive-minded tribe."<sup>60</sup> To Ed Wilson, group and tribe formation is a fundamental human trait.<sup>61</sup>

What we are now learning is that these early people were also inherently kind and moral, prone to empathy and collaboration; quite the opposite of the neoliberal narrative. We know this from the fossil records that show that the tribe of pre-humans that survived cared for old toothless men, and cripples.<sup>62</sup> If you're in it only for yourself, you abandon those who slow you down, who would take food that could sustain the more able. Why should old fossils influence our understanding of economics? The DNA found in those bones is in you. These were our ancestors.<sup>63</sup>

Economists are fond of saying that emotions only cloud the mind of rational, utility maximizing homo economicus. Traits like caring and empathy, says Wilson, are actually hard-wired into us. These decision-making tools guide us towards the sorts of cooperative outcomes we call "morality." We behave in ways that are genuinely altruistic because it is in our genes to benefit the group, not the individual. We aren't all kind and loving, Wilson argues, because these behaviors are "prepared" and ready to be developed as part of our genetic make-up, but the implementation of them is learned.<sup>64</sup>

How then do we train our young businesspeople? Business schools, economics classes and corporate management seek to drive caring out of us, convince us that rational people seek only to maximize and defend their possessions, that wealth is the real measure of worth. But this amounts to denying half of what makes us human. Education and socialization can make us more like the economic model of perfection but only by making us miserable. What has for millennia been critical for human survival is also essential to making us happy.

Dr. Michael Pirson, founder of the Humanistic Management Network,<sup>65</sup> a global network of scientists and academics states:

One can make more sense of this by looking at daily experience in which humans find that they care about each other (in family, work and friendship circles) and about society at large (reading the news, checking in with “friends” on social media, etc.). A life devoid of care leads to misery in many ways. Humans have long determined that isolation is the cruelest punishment, whether physical isolation on a remote island (exiled like Napoleon), in a solitary confinement cell, or psychologically isolated through feelings of shame. Being alone is considered a tragedy and leads many to depression, dysfunction, or even suicide, rendering isolation crueler than death.<sup>66</sup>

Pirson’s discipline emphasizes respect for human dignity. This approach urges that organizations become caring communities to produce wider benefits.<sup>67</sup> Based on the best of modern science<sup>68</sup> it says:

- Most people are happy.
- Happiness is a cause of good things in life. People who are satisfied with life have even more reason to be satisfied, because happiness leads to desirable outcomes.
- Most people are resilient.
- Happiness, strengths of character, and good social relationships are buffers against the damaging effects of disappointments and setbacks.
- Crisis reveals character.
- Other people matter mightily if we want to understand what makes life most worth living.
- Religion matters.
- Work matters as well if it engages the worker and provides meaning and purpose.
- Money makes an ever-diminishing contribution to well-being, but money can buy happiness if it is spent on other people.
- As a route to a satisfying life, well-being is superior to hedonism.
- The "heart" matters more than the "head." Schools explicitly teach critical thinking; they should also teach unconditional caring.
- Good days have common features: feeling autonomous, competent, and connected to others.
- The good life can be taught.

This approach is spreading. Positive Psychology practitioners<sup>69</sup> study what makes people happy, fully functioning humans, not what makes them neurotic and self-destructive. Leading business thinkers speak of Natural Capitalism,<sup>70</sup> Regenerative Capitalism,<sup>71</sup> and the need for a Big Pivot.<sup>72</sup> Biologists explore the "wood-wide web,"<sup>73</sup> the notion that in nature organisms communicate and cooperate more than they engage in cut-throat competition. Policy officials at OECD and in various national governments develop Better Life Initiatives,<sup>74</sup> move beyond GDP,<sup>75</sup> and create happiness indexes.<sup>76</sup>

The best businesses operate on this basis. When Paul Polman, CEO of Unilever rejected a lucrative offer from corporate raiders to take over his company, he replied that his obligation was not to owners, but to the world as a whole.<sup>77</sup> “Do you run this for society or not?” Polman<sup>78</sup> queried, answering, “The real purpose of business has always been to come up with solutions.” Or as businessman Ray Anderson asked, “What’s the business case for ending life on earth?”

## **It Doesn't Work**

Neoliberal, business-as-usual, capitalism has created a planetary emergency.<sup>79</sup> The triple threats of the climate crisis,<sup>80</sup> inequality<sup>81</sup> and biodiversity loss<sup>82</sup> could, if not reversed, lead to civilizational collapse.<sup>83</sup> The world’s scientists now recognize that global warming is an existential crisis.<sup>84</sup> The inequality created by industrial capitalism already causes appalling death rates among the millions of slum-dwellers in the mega-cities of Asia, Africa and Latin America.<sup>85</sup> Inequality has gotten so bad that it is even concerning the apologists of capitalism.<sup>86</sup> And the forces driving loss of the planets wild spaces and intact ecosystems is the leading cause of the spread of pandemics.<sup>87</sup>

Neoliberal mythology aside, there ARE no free markets. Classical economists identified at least 18 aspects that must characterize free markets. None are present in what we call markets today.<sup>88</sup> For example, market theory assumes that all actors have perfect information. Was this ever true? There are assumed to be no barriers to entry, or to exit. There must be equitable access to capital. Few assumptions could be further from the truth today. Adam Smith was clear that markets only serve the common good when no buyers or sellers have enough power to affect market outcomes, and when all players are moral actors. Seriously?! In most markets, neither of these conditions exists. Anti-trust policies, however poorly implemented by nations, are non-existent at the international level. Digital platforms like Google and Facebook (with Netflix and Amazon called FANG) are creating powerful new international monopolies that drive “winner takes all” outcomes, economically, and increasingly politically.<sup>89</sup>

Market ideologues reject even policies to address monopolies as interference with the free operation of the market. But without them, markets cease to be anything but a cruel fraud. When companies become more powerful than most nations, change is urgently needed. Those who believe in the future of capitalism need the policies below. Unless we reduce national and international inequality, control monopolies and oligopolies and ensure that we live within the earth’s means, capitalism itself is at risk.

It is beyond debate is that market forces are powerful. That said, how should they be managed? Market forces can play a vital role in bringing about the new economic system for which humanity hungers. There is a strong business case for companies to behave more responsibly. But markets will need to operate within a different set of values and incentives than advocated by those who prefer unfettered free trade. A Finer Future requires intelligent public intervention. The economics Nobel, Joseph Stiglitz, describes the balance needed:<sup>90</sup>

Adam Smith, the father of modern economics, is often cited as arguing for the "invisible hand" and free markets.... But unlike his followers, Adam Smith was aware of some of

the limitations of free markets, and research since then has further clarified why free markets, by themselves, often do not lead to what is best.... the reason that the invisible hand often seems invisible is that it is often not there. Whenever there are “externalities”—where the actions of an individual have impacts on others for which they do not pay, or for which they are not compensated—markets will not work well. Some of the important instances have long understood environmental externalities. Markets, by themselves, produce too much pollution. Markets, by themselves, also produce too little basic research. (The government was responsible for financing most of the important scientific breakthroughs, including the internet and the first telegraph line, and many bio-tech advances.) Government is needed, almost all would agree, at a minimum to enforce contracts and property rights. The real debate today is about finding the right balance between the market and government (and the third "sector" – governmental non-profit organizations). Both are needed.

Industry apologists suggest that all the economy needs is government to get off the back of business. Isn't that like a bad light bulb joke? How many economists does it take to screw in a more efficient light bulb? None, the free market will do it.

Except it won't.

Regulations to ensure the fair operation of markets are particularly important when vital public services are at stake. Industries like public health and air traffic control should be managed strategically through incentives, ownership structure and/or regulation to ensure that companies serve the public interest. Ball bearing factories and local restaurant operation, by contrast, need little management outside of rules to ensure fair employment and health and safety. But =zealotry about the evil of regulations serves us badly. What one set of players label burdensome regulations are precisely what another, typically less powerful set, calls “protection.”

Markets are a human construct not a natural law or economic black boxes. We built them. It's our right to ask that markets serve us all. Two things are clear:

- 1) unfettered markets have not served the interests of anyone but the richest one percent of people, and
- 2) markets can be overseen effectively to benefit both people and the planet.

Well-managed markets will empower the new narrative of an economy in service to life, but we should recognize that our creations of the past are no longer fit for purpose.

Bernard Lietaer points out that Homo Sapiens is an interesting species,

We have incredible power to transform our environment to meet our needs. And yet we have this odd tendency to create a world, forget that we have created it, and then throw up our hands and proclaim our inability to change the system. Capitalism (and socialism for that matter, which is equally unsustainable) is not a set of natural laws that

Adam Smith discovered. It is our creation, constantly evolving and changing—consciously or unconsciously.

We know the basic shape of the regenerative principles that must guide the world we want to create. Markets make good servants. They're not good masters, and they're a lousy religion. There's also an important role for communities of faith in reminding us that markets are far from a Supreme Being, and that there are important questions to answer about what it means to be human, and why we're on this planet.

People hunger for a sense of who they are, where they belong and what they believe in. Think about it. You are here because your distant ancestors cared more for the good of the whole, than any one of them cared for himself. It's literally in your DNA to care, and to act to create a greater good. In our 2018 book, *A Finer Future: Creating an Economy in Service to Life*, we set forth the playbook for how to achieve an economy that works for everyone. The book is a vision of the way forward for humanity to thrive. It describes the economic, technologies and the policies we need to put bedside stories aside and ensure lives of dignity and quality for all people on earth.

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