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THE
FLOURISHING
SOCIETY

The Role of the Economy in a Flourishing Society

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This essay aims to stimulate debate on the society we would like to live in 'after the crisis', and on how the economy needs to be transformed to service a flourishing society. There are realistic, progressive alternatives to a return to 'business as usual'. These alternatives involve a new and different growth model: one that seeks to optimise economic, social and environmental sustainability where possible.

The predominantly market-driven, infinite-growth model of the recent past has let us down. The financial crisis exposed deep flaws in the approach to economics that has dominated policy-making for a generation. Economic liberalisation has not delivered on its promise of rapid growth on a consistent basis, but has rather been characterised by booms and crashes.

A minority of people and corporations have benefited disproportionately from the booms, as wealth and incomes have become increasingly concentrated, while those who experience the most negative effects of crashes have seen few benefits in the good times. Inequality in 'developed' economies t has risen to record levels, and has contributed to, and exacerbated, many of the social ills in society. There is also emerging evidence that rising inequality helped create the global crisis[1].

Essentially, orthodox economic theory assumes the ever increasing consumption of finite resources. Growth, in the sense of using more and more resources, is not sustainable when there is a limit to resources. The assumption that economic growth is a good in itself, and that the benefits of economic growth automatically trickle down to all, has proven to be flawed.

The market-driven model of economic development has given rise to the situation where society serves narrow short-term economic interests, rather than the economy being designed to serve society for the benefit of all citizens. Consequently, an over-emphasis on growth has superseded societal and human well-being, demonstrating a profoundly distorted sense of values in which quality of life, human life and dignity are subordinated to material achievement.

The world is warming and we are running out of non-renewable sources of energy. The atmosphere cannot absorb the levels of carbon dioxide being pumped into it for much longer without triggering irreversible climate change. We can use what we have more efficiently, but this too has limits. Our 'footprint' in the developed world has grown too heavy, and we are showing no signs of being able to tread more lightly[2].

At the same time, material achievements such as better housing are important; we want a future where people can work, where basic needs are satisfied and where human dignity is respected. But can we perhaps achieve those goals within an economy defined by a new vision; a vision premised on the idea of flourishing within limits? In the context of this vision, we need to create a culture which values the collective as well as the individual, a culture of the common good that has equality at its core, and which assumes responsibility for inter-generational care of the planet.

Therefore, the time is ripe to develop a new vision for the economy that does not rely for its stability on relentless growth and expanding material throughput. Such an economy must be informed by a different set of values: creating the conditions for a flourishing society while respecting the environment and limits on natural resources upon which we, and future generations, depend.

Changing the way we think about the economy and measuring progress

"*Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.*" Albert Einstein

The challenge of ecological sustainability is now widely recognised, but what instruments are needed to achieve it and, crucially, how can we avoid unduly sacrificing other important social goals (equality, good jobs, quality public services and rising living standards)? There is, as yet, no clear model for achieving economic progress without consumption growth[3]. Nor do any of the existing models take full account of the macro-economy's dependence on ecological variables such as the opportunity cost of depleting finite resources.

We need to rethink what we value, and how we quantify these values. The progress of countries has traditionally been measured using Gross Domestic Product (GDP), which measures the value of goods and services produced by a country in a single year. However, GDP critically ignores the value of services not supplied by the market, such as state healthcare and education or unpaid childcare provided by parents or the extended family. GDP-led growth does not necessarily mean better access to public services such as health and education, and it doesn't measure environmental impact, sustainability or the fact that there are limits to natural resources.

There is clearly a mismatch between GDP as a measure of economic growth and critical social and political measures of progress. A uni-dimensional focus on GDP as a measure of success has fuelled dangerous risk-taking, chronic overconsumption and unsustainable resource depletion. GDP is a flawed measure of progress as it has been proven not to automatically deliver inclusive and sustainable development, or a reduction of inequality.

There needs to be a shift in emphasis from a 'production-oriented' measurement system to one focused on the well-being of current and future generations, i.e. a shift towards broader measures of social progress. Building social and environmental values into the measurement of progress should be the central goal of policy makers.

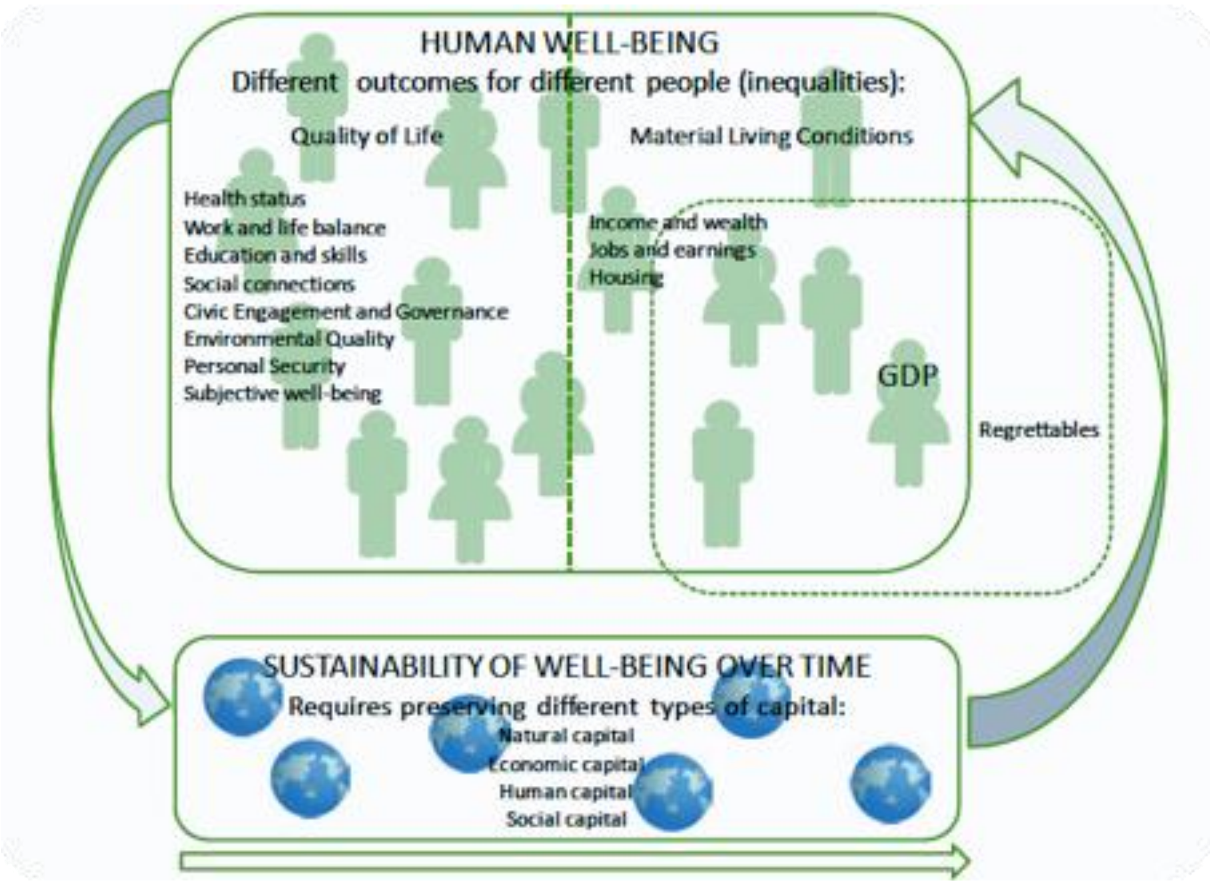
The price we pay for goods and services needs to reflect real social and environmental costs and benefits if we are going to make a paradigm shift away from unsustainable development. We need to make 'good' things cheap and 'bad' things very expensive. For example, this can be achieved through the taxation system by introducing carbon taxes, always assuming that they are equality-proofed. Markets should continue to have a role in a transformed economy, but we need to debate how the state and the market should relate to one another. In other words, what is the role of the state in configuring the market for social development and how should the state exercise that role?

A new vision for society, and the role of the economy within that vision, must be accompanied by different measures of progress and well-being. There is a growing body of work in this area, including the UN Human Development Index and the Happy Planet Index developed by the New Economics Foundation.

More recently, the OECD has developed a framework for measuring well-being and progress which builds on the work of the Stiglitz-Sen-Fitoussi Commission[4]. The framework, illustrated below, aims to address the growing concerns relating to the limitations of macro-economic statistics such as GDP as measures of social progress and development. The OECD framework can be categorised into three distinct areas: material living conditions; quality of life; and sustainability, each with their relevant dimensions.

In a flourishing society, progress is concerned with improvements in the well-being of individuals and households. This requires an examination of the functions of the economic system and the diverse experiences and living conditions of people.

OECD framework for measuring well-being and progress



Transforming the economy

Our understanding of the economy needs to undergo a radical transformation if we are going to move beyond a narrow GDP measure and towards inclusive and sustainable growth. The current crisis has been described as the 'triple crunch' of climate crisis, economic meltdown and energy security[5]. The 'triple crunch' has also fuelled new questioning of old assumptions underpinning economic growth.

Growth, as we know it, is unsustainable, and the implications of this for the Irish economy are immense. The weaknesses of the Irish economic model need to be addressed as part of this process of change. These weaknesses are essentially features of a model which is highly dependent on foreign direct investment, pursues a low-tax strategy with tax haven characteristics, and is weak in terms of redistribution of income and wealth[6]. The Irish model is ill-prepared to deal with the challenges associated with transforming the economy. However, policy responses to the 'triple crunch' crises can put the Irish economy on a more sustainable footing and create the conditions for greater economic security and an economy and society focussed less on growth and consumption, and more on sustainability and well-being.

In the short to medium term, a radical shift in economic structures is required, together with structural reforms of supply-side policies, in order to move to a smart, green and inclusive growth. The focus must be on building a more diverse economy, where we produce a wider variety of goods and services, and add value to products in new and innovative ways. The more diverse our economy, the more we will be cushioned against future economic shocks. In the medium to long term, we must support innovation and develop industries that build on Ireland's natural advantages, e.g. wind and wave energy.

In the midst of the present crisis, there is a huge opportunity to do things differently: stimulating economic activity through a massive programme of investment; cutting our reliance on imported fossil fuels; and drastically cutting carbon emissions. By spending now to build a low carbon economy, we could generate a new wave of highly skilled, green-collar workers, building a new power infrastructure, transport networks and super-efficient buildings. Low carbon economic activities that employ lots of people in high-quality jobs will have to be central to a sustainable and inclusive economy – an economy in which humans flourish.

Public investment and incentives are needed to stimulate the emergence of a new low carbon economy. We need a joined-up programme that simultaneously addresses at least three priorities: promoting economic recovery; avoiding the worst effects of our over-dependence on fossil fuels; and cutting carbon emissions.

Our immediate economic priority should be to favour labour over capital, focus on work and jobs as our primary concern, and reduce income inequality. This could be done by stabilising or increasing the incomes of those at the bottom of the distribution while giving consideration to salary caps at the top and promoting more progressive redistributive tax policies.

Ireland cannot have a sustainable and thriving future as a low-wage economy.

The economy needs to be re-embedded within society, rather than being viewed as separate from the functioning of wider society. This re-embedding will require a number of key issues to be addressed.

The need for a sustainable and less growth-oriented economy has been discussed above. Two other key issues associated with embedding the economy back into society include the need for greater economic security and a reconception of the types of work required for human flourishing and a flourishing society.

The current crisis has led to higher levels of economic insecurity across society - for individuals, families, businesses and communities. High levels of economic security, coupled with participatory democracy and equality, are key determinants of well-being and social stability. People in countries with a high level of economic security have a higher level of happiness on average, as measured by surveys of national levels of life satisfaction and happiness[7], according to an International Labour Organisation study, which finds that 'welfare state' provision of social security for citizens is an important determinant of high economic security.

The International Labour Organisation research also points outs that insecurity is generated by patterns of economic globalisation which produce endemic or structural insecurity in terms of employment, social welfare and income due to countries 'racing to the bottom' by lowering worker protection and welfare provision. It describes how 'footloose' multinational capital and the demands of international economic competitiveness, by their very nature, undermine economic security as companies can always move in search of higher profits and lower wages.

Wage floors, together with robust regulation of the labour market and a well-resourced welfare state and social insurance system, are essential ingredients for enhancing the levels of economic security without which a flourishing society cannot be realised.

The second issue associated with embedding the economy back into society requires us to reconceptualise the types of work required for human flourishing and a flourishing society. To do this, we need to move beyond the division between 'paid' and 'unpaid' work – a division which assumes the former is more valuable than the latter, by virtue of the fact that remuneration is attached.

Reframing all types of work associated with a functioning society as 'productive' broadens out the concept of work in the context of what is needed for a flourishing society. 'Productive work' includes socially necessary and desirable work such as caring for children and/or dependent adults, along with employment, which takes place in homes, communities and businesses across the country. Boyle and Simms (2009, p.89) have identified the need for "a redefinition of work to include the full diversity of what is necessary for life. It requires we find new ways of valuing parenting, caring and community building as much as paid work" (Boyle and Simms, p.89)[8].

Transforming the economy for a flourishing society must go hand-in-hand with measures to reduce inequality and with changes to our quantitative concepts of growth in favour of a more qualitative approach. There is a growing body of evidence demonstrating that more equal societies do better across a range of outcomes including health, education and crime[9]. Equality is good for everyone in society, regardless of whether they are at the top or the bottom of the income ladder. Countries with greater levels of equality have also fared better in the economic crisis. They have not felt the acute economic decline to the same extent as less equal societies, and are proving to be better able to recover from it[10].

The role of the state in transforming the economy for a flourishing society

The state has a key role to play in creating the conditions for a transformation of the economy. In the absence of explicit interventions by the state, market economies produce undesirable outcomes: booms and busts; rising inequalities; economic imbalances.

This was a characteristic feature of the post-1980 period dominated by neo-liberalism and the Washington Consensus; by the idea that the 'market knew best' and it was not appropriate for states to 'interfere' in the efficient functioning of the markets. State intervention, far from being inherently inefficient, turned out to be essential to prevent system-wide collapse. As a society, we cannot return to having blind faith in markets to deliver a future of endless, rapid and consumption-led growth.

In Ireland, the role of the state has been to promote the maximisation of competiveness and profitability over investment in social and economic infrastructure and the welfare of society. The role played by the state has configured both capital accumulation and distribution in ways that respond much more to the needs of corporate capital than to the needs of citizens.

Therefore, the role of the state must also be transformed if it is going to facilitate the shift towards a different type of economy. The experience of the Nordic countries provides ample evidence of how strong social democracies can create the conditions for regulated social market economies – economies that afford their citizens a high quality of life and place equality at the core of public policy making.

During the boom, the increased living standards and improved employment opportunities generated by the Irish model improved the lives of many. However, during this time little attention was focused on the growing inequality that characterised the period. Nor was sufficient attention paid to the need to invest adequately in universal high-quality public services.

The current economic crisis has highlighted the need for debate regarding the appropriate level of public spending in Ireland. The benefits of public spending, as evidenced in the Nordic countries, are numerous and include: the provision of high quality and universal public services such as education and health; reducing inequality through redistribution measures; and providing a social safety net and a minimum standard of income. It is clear that public policy in a range of areas can exacerbate or ameliorate inequalities in society.

Two of the areas which have the greatest impact on the levels of inequality are taxation and public services. The United Nations Human Development Report identifies fiscal policy as a vital lever to reduce inequality *"...with spending much more powerful than taxation. Public spending on services and social protection improves distribution – and among publicly provides services, healthcare and primary and secondary education have the biggest impacts"*[11].

While public policy during the boom failed to use the taxation system to redistribute resources (whether directly, or through improved funding of public services) the austerity policies pursued over the last number of years have resulted in reduced incomes for many low income families and social welfare recipients, while also depleting public services through spending cuts. These reduced incomes impact on the economy as a whole through reduced aggregate demand, as well as on individuals and households.

To provide Western European standards of public services, the tax take would have to increase significantly to a European average of 45 per cent, in the medium term[12]. Our system of taxation also needs to be more stable and progressive, and this can be achieved by including taxes on wealth as well as income, and by ensuring consumption taxes do not impact disproportionately on low earners and social welfare recipients. The tax system also needs to be reformed through the abolition of tax expenditures, which fail to show a net positive economic benefit and/or exacerbate income inequality by enabling high earners to reduce the amount of tax that they pay[13].

Contributions to tax revenue from the corporate sector also need to increase to ensure that all sectors are contributing on a progressive basis. Reports on the tax take from multinational companies demonstrate how complex financial instruments and taxation arrangements are being used to drive down the amount of tax that they pay[14]. Tax avoidance by multinationals is a growing global problem and is increasingly depriving countries of vital revenue. The estimates vary widely, but conservative estimates put the global revenue losses at hundreds of billions of dollars. Efforts to address the issue of global corporate tax avoidance include legislation aimed at forcing multinationals to report on a country-by-country basis which would lead to greater transparency and accountability[15].

However, individual efforts by nation states cannot fully meet these challenges. The tax policies of one country can seriously harm the citizens of another. Stronger tax cooperation is the best way to strengthen national tax systems in the age of globally mobile capital[16].

The relentless drive for profit-maximisation is a key feature of the 'shareholder model'. A transformation of the economy requires us to question the value of this model in the context of the shift towards a more sustainable economy. There is a need for more democracy in public and private enterprises, with a shift in decision making power from a small minority of corporate shareholders, whose focus tends to be on short-term profit maximisation, to a wider range of public and private stakeholders, who are more likely to take a more balanced and longer-term view of maintaining a viable business but which also take other factors, such as environmental impact, into consideration.

The role of banking and finance

The current series of crises have their origins in the financial and banking sectors. The finger has been pointed at the failings of regulatory systems to regulate these sectors adequately in terms of managing risk, corporate governance and transparency. However, there are more fundamental questions to be asked of these sectors and their role in the economy - the answers to which should inform any process of reform.

There are many critiques of the origins of the financial crisis and it is argued that what has happened in the past three decades has been the socialisation of risk and the 'democratisation of debt' accompanied by the continuing privatisation of profit and unequal distribution of wealth. The public bailouts of the banking system across the world have led some to talk of 'socialism for the rich, capitalism for the poor'[17] [18].

'Socialism for the rich' denotes the transfer of wealth from the public, via the state, to financial capital, while at the same time it is the most vulnerable in society who suffer from the spending cuts made as a result of austerity measures. Notwithstanding these criticisms the financial and banking sectors are crucial to any modern economy. However, they have become detached from the 'real economy', and over the last two decades they have been built on trading and speculation for the sole purpose of generating profit and wealth for investors.

Finance and banking should exist to serve society. Therefore, democratic financial reform must be a cornerstone of economic change. Credit should be viewed as a social utility. The fundamental roles of the financial and banking systems should be to:

- act as a repository and provide access to liquid assets
- provide financial services and to extend credit to households and the business sector
- allocate and transfer capital investment for productive use by connecting investors to entrepreneurs[19].

Pure speculation is not connected to productive activity, and should be discouraged to the maximum degree possible. Reform of the financial and banking sectors needs to be informed by a different vision of their role in the economy.

The provision of finance constitutes a public good. Therefore, the future of banking and financial systems should be built on a core of public service, mutual and/or cooperative banking. Banks need to recognise that they have obligations to all stakeholders, not just to shareholders, and that they have a social function in serving the 'real economy'.

The financial crisis has resulted in the withdrawal of a number of banks from the Irish market – and banks have also physically withdrawn from many small towns and villages. The European Commission has estimated that 17 per cent of Irish people live in households with no access to a basic bank account. The levels of financial exclusion in Ireland are high relative to other EU countries, and there is a correlation between financial exclusion and low income, as many financially excluded people are likely to be social welfare recipients[20]. The European Commission[21] is putting pressure on member states to address the issue and the Irish Government has made some progress by developing a strategy for financial inclusion[22]. However, there is clearly a need for different types of banking to meet a variety of banking needs.

We already have a strong tradition of banking serving communities through the credit union movement, which provides a firm basis on which to build a new financial and banking system. Post offices could also be strengthened to provide a local banking system that can provide untainted and impartial information and advice. Financially and economically, the credit union and post office networks could aid the development of a dynamic small and medium enterprise sector that is the largest employer in the country and the life blood of the domestic economy. Building a new lending infrastructure for local communities and enterprises could help prevent a return to the speculative economy - a speculative economy which undermines the real economy and is antithetical to a flourishing society.

Time for a new political economy

A political economy is something which exists to create and sustain the kind of society you want. The economy needs to be designed to promote quality of life, equality and environmental sustainability as primary goals. Political economy is the application of a set of political values to economic thinking and action to achieve these goals.

What are the means by which we can strengthen the economy so that it becomes more democratic? A new political economy must engender active economic citizenship, whereby we demand the right courses of action from those in decision making positions[23]. We need to ask whether the decisions that are taken are based on sound reasoning and robust evidence.

Without an active economic citizenship, we will always be the victims of people, institutions and bureaucracies that tell us things happen because they have to and that there is nothing we can do to alter them, however unpleasant and unjust they may appear. The current policy of pursuing austerity measures serves as a perfect example of how we are told 'there is no alternative' in response to the Irish economic and financial crises.

We need to reshape the way we think about economic progress by assessing everything we do in terms of impact on well-being, equality and environmental sustainability. This is the way to create a dynamic, innovative and prosperous society. A new political economy should support us to explore how we can become more enterprising and creative. It should also regulate markets in the public interest, support a diverse range of enterprises and make sure that companies are democratised so that they take seriously all stakeholders, not just shareholders. This would lead to a different kind of economy that everybody had a stake in[24].

We need a step change in policy if we are to begin to shape an economy that offers everyone a satisfying and rewarding role, while at the same time recognising that there is much of value beyond the realm of formal employment and monetary gain. A less growth-driven economy will improve people's work-life balance. Changing the economy that we have today, towards an economy that meets the needs of society would have a transformative effect in improving the quality of life of everyone in society and restoring the underpinnings of a flourishing society.

At its heart, a new political economy must move from the work ethic to the care ethic. Transforming the experience of people's 'productive' lives would lead to a new level of dynamism and innovation, putting us on the 'high road' to social and economic prosperity, as well as changing the quality of people's everyday lives.

Steps towards the creation of a new political economy include a focus on creating the conditions for more economic democracy; developing a system of progressive taxation that can fund universal public services; and reshaping growth so that it is sustainable and regionally balanced. The creation of a new political economy should also reclaim 'economics' by rediscovering the political, social and cultural in 'economics'. Economics is not, and cannot be, neutral. The questions we seek to ask, the assumptions we choose to make and the options we decide to recommend should be informed by the values of equality, sustainability and democracy.

Ultimately, a new political economy must articulate the fundamental choices facing us and the values informing those choices, while mapping out alternative routes towards a flourishing society.

Notes

[1] Kumhof M. and Rancière R. (2010) *Inequality, Leverage and Crises.* IMF Working Paper WP/10/268. http://www.imf.org/external/pubs/ft/wp/2010/wp10268.pdf

[2] Jackson T. (2009) *Prosperity without growth? The transition to a sustainable economy*. http://www.sd-commission.org.uk/data/files/publications/prosperity_without_growth_report.pdf

[3] Efforts are being made to develop models that marry economic stability and sustainability. A steady state economy is an example of such a model that aims for stable population and stable consumption of energy and materials at sustainable levels. A steady state economy is ideally established at a size that leaves room for nature and provides high levels of human wellbeing. For more information see www.steadystate.org

[4] OECD Project on Measuring Well-being and Progress website: www.oecd.org/measuringprogress

[5] Green New Deal Group (2009) *The cuts won't work. Why spending on a Green New Deal will reduce the public debt, cut carbon emissions, increase energy security and reduce fuel poverty. http://www.neweconomics.org/sites/neweconomics.org/files/The_Cuts_Wont_Work.pdf*

[6] Kirby, P. (2010) *The Celtic Tiger in Collapse: Explaining the Weaknesses of the Irish Model*.

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[9] Wilkinson R. And Pickett K. (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better.*

[10] Judt T. (2010) *Ill Fares the Land. A Treatise On Our Present Discontents.*

[11] Klugman J. (2010) *Human Development Report 2010. 20th Anniversary Edition. The Real Wealth of Nations: Pathways to Human Development.* http://hdr.undp.org/en/reports/global/hdr2010/

[12] Ireland average tax take for the period 2000-2007 was 34 per cent.

[13] Tax expenditures are commonly referred to as 'tax breaks' or tax reliefs'. A tax expenditure is any official rule or scheme that allows an individual or organisation to reduce the amount of tax they would normally pay in personal income tax, corporation tax etc... Tax expenditure is 'expenditure' because the decision to allow individuals or firms to pay less tax is the equivalent of Government spending money to support those areas of activity.

[14] GOOGLE reduced its taxes by $3.1 billion (€2.2 billion) over the last three years by using the "Double Irish", a tax incentive that facilitates tax avoidance by multinationals. Google's "income shifting" helped reduce its overseas tax rate to 2.4 per cent, the lowest of the top five US technology companies.

[15] In the US, 'Stop Tax Haven Abuse Act' legislation was introduced in July 2011.

[16] The Tax Justice Network promotes transparency in international finance and opposes secrecy. www.taxjustice.net

[17] Mellor M. (2010) *The Future of Money: From Financial Crisis to Public Resource.*

[18] Hill R. And Myatt T. (2010) *The Economics Anti-Textbook: A Critical Thinker's Guide to Micro-Economics.*

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[20] European Commission (2010) *Research Note 3/2010. Financial exclusion in the EU. New evidence from the EU-SILC special module.* www.ec.europa.**eu**/social/BlobServlet?docId=6709&langId=en

[21] http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/sec_2011_906_en.pdf

[22] http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

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