ELEEP Mini-Tour Economic and Monetary Policy Recommendations: July 2014

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In May 2014 members Janis Brizga, Deric Gruen, and Viviana Jiménez led and participated in an ELEEP mini-study tour focused on economic and monetary policy in England. The project centered on identifying and articulating insights on economic and fiscal issues that concern environmental leaders. The team interviewed leading UK thinkers and practitioners on issues of green economy, local currencies, sufficiency oriented business models, macro-economic and monetary reform, and other measures for a sustainable economic system. These organizations include the Green Economy Coalition (Institute for International Environment and Development), University of Leeds, Schumacher Institute, Bristol Pound, INSEAD, New Economics Foundation, Frugal Value, Positive Money, and the Centre for the Advancement of a Steady State Economy (CASSE). Several policy recommendations emerged from the experiences of the meetings which are outlined below. A ten minute film summary accompanies these recommendations.

Recommendation: Environmental and energy leaders would benefit from building a foundational understanding of economics and economic analysis.

Issue: Environmental and energy leaders are often well versed in the science, engineering, and even politics of their field, but economic frameworks and analysis tools are less understood or critiqued. Communication between the two fields is often truncated because the languages are different. To advance the sustainable economy that’s required to address environmental issues; communication needs to improve.

Analysis: Neo-classical economics is simple/straight-forward to understand, but often not reflective of reality and taken to the extreme. Dialogue on green economy is starting in international arena (OECD, Green Growth, Rio+20) and can be translated down to national, regional, local agendas. It will apply differently in different contexts but with an emphasis on ecological limits, equity, and more holistic or qualitative measurements of progress. This

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requires integrated reporting of social, environmental, and financial indicators in standardized formats.

Recommendation: Similarly, environmental leaders benefit from understanding absolute environmental limits, implications for the economy, and the feasibility of dematerialization.

Issue: Our macro-economic framework is leading us to a contradiction, we cannot completely decouple increasing production and consumption from environmental impact or energy consumption. Sufficiency is required in addition to efficiency.

Analysis: There is declining marginal benefit from growth to quality of life; and an unclear link with employment, as growth flags in developed politicians will look for alternative measures. The alternatives should consider ecological and social limits.

Recommendation: Look for alternative progress indicators, moving away from GDP as universal measure of development. Rather, look at resource use stabilization and increased wellbeing.

Issue: GDP is used as the main indicator of progress but it doesn't say much about quality of life. There is no evidence we can decouple GDP from social and environmental measures.

Analysis: We need indicators based on our ecological limits and human wellbeing.

Recommendation: Promote diversity in a green economy. Different stakeholders will adapt tools and characteristics to their own economic development processes.

Issue: The implementation of a green economy will vary across countries and communities as it is closely linked to their social, economic, and ecological positioning.

Analysis: The green economy, as defined by the Green Economy Coalition, does not have a single defining feature, but rather 5 key areas:
1) preserving natural capital (ecological limits)
2) social protection - poverty alleviation, redistribution
3) sector-based transformation (housing, transport, food, energy, etc)
4) financial system - shift financial flows towards green
5) metrics and governance

Recommendation: Redirect investment away from the brown economy towards the green economy. Ideally, transition to full reserve banking and assign money creation to a democratically controlled public trust**.**

Issue: Money creation happens in the banking sector. Investment is mostly misdirected at speculative sectors, rather than employment producing ones. This is creating an unstable economy.

Analysis: The government has little control with interest rates and quantitative easing. Power exists in money creation, the “money-multiplier” concept of savings creating loans is false and not an effective constraint. Credit guidance, which existed in some countries in the past, no longer exists leaving financial institutions to direct society’s wealth and investments, not necessarily in the public interest.

Recommendation: Understand and leverage the opportunity and barriers of individual and groups of firms in achieving a macroeconomic and environmental sustainability. Leverage community economics to balance corporate economics. Create policies to support “frugal value” businesses such as services over sales (steward and sustainer). Experiment with alternative ownership models and risk (resilience) planning and integrated learning/practice among firms.

Issue: Many firms are ill-structured, design products for obsolescence, are isolated, and ill-prepared to play their necessary role in achieving an energy and environmental transition.

Analysis: There are actions that can be taken on the part of the firm and there are limits to the firm’s ability to participate in achieving environmental and energy goals. Address firms with systemic tools, such as building a local economy, re-organizing corporate structures, and supporting firm/product characteristics that support efficiency and sufficiency.

Recommendation: Decentralize and democratize the financial system: investment and banking

Issue: Financial systems often fail to meet economic, social, or environmental goals and direct most resources to speculation rather than the substantive economy.

Analysis: Financial system is not a necessary prerequisite for economic development. Smaller, local financial institutions appear to do better than larger, national/international institutions.

Recommendation: Redistribute wealth and redirect labor productivity to meet employment goals. Pay attention to economic equity as we reduce or add complexity to our economy.

Issue: Labor productivity through technology increases resource throughput and pollution and reduces employment. Economic growth is perceived as the only option to address equity; if no growth, no real gains in efficiency. Some solutions of ecological economics, e.g. increasing taxes on pollution can increase inequality.

Analysis: Promote equity through redistribution policies, not increasing material throughput. Reducing labor productivity (production per unit of labor) reduces employment pressure.

Recommendation: Take a multi-phase approach, addressing short-term issues to get wins (i.e. energy efficiency), mid-term issues (i.e. removing oil subsidies), and long-term issues (improved well-being metrics).

Issue: Focusing on the short-term solution one can loose the site of the bigger picture. At the same time, working only with the long-term strategies in mind, one can loose motivation and focus.

Analysis: We need to be attentive to the rules of the game, which are economic, and ultimately change the rules of the game to achieve our goals.