Democratic Money: The Case for a Decentralized Monetary System

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Author's Preface

I often wonder how historians 50 years from now will depict the 1990s. As an admittedly idealistic 23-year-old with a deep and abiding interest in politics, I'm curious about how later generations will judge the Post-Cold War decade. In 2051, will the 90s be seen as a triumph for freedom and democracy, as is claimed by many present-day observers? Or will the past decade be regarded as the beginning of a 'Global Gilded Age,' ruled by a new elite of aristocratic 'robber barons' – transnational corporations? Will our children and grandchildren thank us for establishing a 'New World Order,' or will they still be cleaning up after it? These are the questions I ask as I try to imagine the future and a role I might play in its creation.

It is currently the year 2001, and in recent months I have been inordinately preoccupied with thoughts of the future. This is a condition I attribute to my imminent graduation from Simon's Rock College. With the completion of this document, I will leave the relative safety of academia and enter what my college contemporaries like to call the "real world." I now have the rather daunting task of finding a place for myself in this new environment. To this end, I would like to present the following thesis as a declaration of intent. It provides a rough outline of the vocation I wish to pursue after college and the place I want to make for myself in the "real world." All told, this thesis has been over four years in the making, a culmination of the insights I've received during my Simon's Rock education.

Even before I started college, I was interested in environmental and social justice issues. Initially this led me to focus on environmental sciences, with the belief that if I understood what was going wrong someday I could help to fix it. It quickly became apparent to me that this was not enough. Despite continued warnings from the scientific community on the current and potential consequences of pollution, habitat destruction, and over consumption, public policy attempts to address environmental concerns have been at best piecemeal. The scientists may have very convincing evidence, but for some reason politicians rarely heed them. Politics, I concluded, would be a better focus for me.

In this I would again be disappointed. Something seemed to be missing. The more I studied politics, the more apparent it became that decision making was influenced far more by economics than by science. Attempts to address environmental concerns were often depicted as an undesirable tradeoff to economic progress (e.g. jobs vs. conservation, etc.). My focus shifted to economics in order to better understand its influence.

Further study has made me realize that economics is indelibly imbedded in the political, environmental, and social justice issues which have always concerned me. As I began the initial research on my thesis, I concluded that any attempt to address these issues would require a great deal of economic reform. Continued exploration, and the discovery of theorists Thomas Greco and Margrit Kennedy, let me single out money as the primary culprit in many environmental and social problems. Our use of money carries with it a number of systemic consequences, which either were unforeseen or intentionally left unaddressed.

It is my contention that redesigning our exchange medium may provide a starting point for future economic reforms. The purpose of this thesis is threefold: 1) outline the systemic consequences of conventional money, 2) make the case for reform, and 3) provide some practical solutions as a starting point for further action. Given the complexity of these issues, I obviously have not been able to address every aspect pertinent to reform. However, I believe I found a promising tool for systemic change: the creation of complementary local/regional exchange systems.

Presently, there is a little publicized but growing movement interested in alternatives to conventional money. The movement has provided a number of practical models, which I believe can be further developed to provide meaningful systemic reform, not just at the local level but national and international levels as well. Toward that goal, I intend to seek an opportunity in the "real world" to work toward further refinement of these models in the hopes that someday they might provide a framework for meaningful change globally.

Introduction

> *In the 1980s capitalism triumphed over communism. In the 1990s it triumphed over democracy and the market economy. For those of us who grew up believing that capitalism is the foundation of democracy and market freedom, it has been a rude awakening to realize that under capitalism, democracy is for sale to the highest bidder and the market is centrally planned by global megacorporations larger than most states.*
>
> — David C. Korten, *The Post-Corporate World*

On January 27, 2000, in his final State of the Union Address, President Clinton began his speech by trumpeting the new "global economy."

> Never before has our nation enjoyed, at once, so much prosperity and social progress with so little internal crisis and so few external threats...We begin the new century with over 22 million new jobs; the fastest economic growth in more than 30 years; the lowest unemployment rates in 30 years; the lowest poverty rates in 20 years...And next month, America will achieve the longest period of economic growth in our entire history. (Applause)

According to all official reports, the last decade has been one of unprecedented economic growth for the United States. Many observers consider this conclusive proof as to the validity of neoliberal theory and its promotion of economic liberalization, free trade, and market globalization. The following are four of the most basic tenets of neoliberalism, as it is practiced today.

- Sustained economic growth is the foundation of human progress and is essential to alleviate poverty and protect the environment.
- Free markets, those not subject to governmental interference or regulation, result in the most efficient and socially optimal allocation of resources.
- Economic globalization, the move toward a single integrated world market in which goods and capital are permitted to flow freely across national borders, will spur competition, increase economic efficiency and growth, and ultimately prove beneficial to everyone.
- Economic success is achieved by those regions that abandon their goals of self-sufficiency in favor of becoming internationally competitive in providing conditions that attract outside investors (Korten, 1996).

Proponents of this theory claim that, as markets are integrated, investment dollars can flow more easily around the world, resulting in lower prices and improved living standards around the globe.

However, not everyone is convinced of these claims. A mere two months earlier, on November 30, 1999, an estimated 50,000 people gathered in Seattle, Washington in protest of the global economy. These demonstrators convened at the opening ceremonies of the World Trade Organization's (WTO) Third Ministerial. Day-to-day reality for these people was not represented by the glowing statistics. Instead, the process of economic globalization had passed them by, ignoring or even harming their interests. The "Battle of Seattle," as the demonstrations were labeled by the press, was the first in a series of mass protests organized against the institutional purveyors of neoliberal economics: the WTO, World Bank, International Monetary Fund (IMF), North American Free Trade Agreement (NAFTA), and the recently proposed Free Trade Area of the Americas (FTAA).

For President Clinton, the Seattle protests were an unmitigated disaster. The trade summit was supposed to have been a triumph for the Clinton administration, a chance to showcase the President's economic policies, with the WTO one of the crowning achievements of his presidency. The demonstrations turned Clinton's expected victory into an international embarrassment. However, instead of responding to the protester's concerns, he stuck by the economic indicators. Adopting a paternalistic tone, Clinton dismissed any doubts as to the benefits of globalization saying, "Of course, change this profound is both liberating and threatening to people."

Despite the President's attempts to downplay the movement, anti-globalization protests continued to be a constant frustration in the final days of his administration. In April 2000, approximately 20,000 demonstrators convened in Washington, D.C. in protest of the policies pursued by the IMF and World Bank. Later in September, the anti-globalization movement would prove itself capable of international mobilization and coordination. While 20,000 protesters in Prague, Czech Republic demonstrated at the annual meeting of the IMF and World Bank, additional anti-globalization demonstrations were held in more than 40 other countries, and 59 cities in the United States. Just when politicians believe the movement has finally run its course, another demonstration takes place – as if to confirm that rumors of the movement's imminent demise have been greatly exaggerated. In Los Angeles, Philadelphia, Genoa, Quebec City, anywhere world leaders convene to discuss global economic issues, a mass demonstration has become the inevitable backdrop.

Since Seattle, when the growing anti-globalization movement first burst into public consciousness, many political commentators have lambasted the movement's members in the press. New York Times columnist Paul Krugman dubbed the movement "The Coalition to Keep Poor People Poor." His colleague, columnist and author of *The Lexus and the Olive Tree*, Thomas Friedman, derided the protesters as nothing more than "a Noah's ark of flat-earth advocates, protectionist trade unions and yuppies looking for their 1960s fix" (Hawken, 2000). The head of the WTO, Mike Moore, took an even more accusatory tone, stating, "The [protesters] that stand outside and say they work in the interests of the poorest people … they make me want to vomit. Because the poorest people on our planet, they are the ones that need us the most" (Hopkins, 2001).

And these examples are hardly exceptional. For the most part, mainstream response to the anti-globalization movement has been myopic. Often limited to sound bites, editorials, and press releases, their coverage has been short on content while heavy on rhetoric, providing very little substantive information on who these demonstrators are and what concerns they represent. In his eyewitness account of the Seattle protests, environmental businessman Paul Hawken attempts to set the record straight.

> [The protesters] were organized, educated, and determined. They were human rights activists, labor activists, indigenous people, people of faith, steel workers, and farmers. They were forest activists, environmentalists, social justice workers, students, and teachers…
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> They were speaking on behalf of a world that has not been

> made better by globalization. Income disparity is growing rapidly. The difference between the top and bottom quintiles has doubled in the past 30 years. Eighty-six percent of the world's goods go to the top 20 percent, the bottom fifth get 1 percent…
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> The apologists for globalization cannot support their contention that open borders, reduced tariffs, and forced trade benefit the poorest 3 billion people in the world… [T]he demonstrators and activists who showed up [in Seattle] were not against trade. They do demand proof that shows when and how trade – as the WTO constructs it – benefits workers and the environment in developing nations, as well as workers at home. Since that proof has yet to be offered, the protesters came to Seattle to hold the WTO accountable (Hawken, 2000).

These people believe that globalization is not sustainable, environmentally, economically, politically, or socially. They believe that globalization harms the global ecosystems that sustain us physically, while subverting the cultures and communities that sustain us both spiritually and socially. They believe that globalization, as achieved by the neoliberal paradigm, undermines the political principles of democracy and national sovereignty. And they gathered in Seattle, DC, Prague, Los Angeles, and Quebec City to demand that leaders, at the very least, stop and question the assumptions intrinsic to neoliberal theory before committing the world to its policies.

Chapter One: Neoliberalism vs. Market Theory

> *What an astounding thing it is to watch a civilization destroy itself because it is unable to re-examine the validity, under totally new circumstances, of an economic ideology.*
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> — James Goldsmith, as quoted in a *London Times* article (March 5, 1994).

In Ottawa, October 26, 2000, World Trade Organization (WTO) Director General, Mike Moore delivered a speech concerning the public backlash against globalization. In it he cautioned his listeners, "[W]e must not allow the zealots and self-serving privileged people to discredit liberalism among the wider public. We need to make the case for freedom, economic, political, and social, again and again" (Moore, 2000).

In the globalization debate, 'freedom' is a recurring theme in neoliberal rhetoric. The connection between freedom and economic liberalization has become so deeply imbedded in this perspective that its purveyors treat it as doctrine. Economic freedom – defined here, as unregulated global markets – directly relates to individual freedom in that each person should have the right to pursue their economic interests with little to no government restriction. According to neoliberal theory, economic freedom is pursued through economic liberalization – policies designed to deregulate markets and move towards global economic integration. Unregulated markets will, in theory, result in a more progressive and advanced country, whose inhabitants enjoy greater political and social freedom, as in a representative democracy. In fact, proponents of this perspective tend to view economic freedom as a precondition for democracy.

These claims rest on a number of assumptions that underlie neoliberal theory, mainly that:

- Humans are motivated by self-interest, achieved mainly through the pursuit of financial gain;
- The action that yields the greatest financial return to the individual or firm will also provide the most benefits to society as a whole;
- Competitive behavior should be encouraged more than cooperative behavior because it is more rational for the individual and the firm and more beneficial to society;
- Human progress is best measured by economic progress – defined here as increases in the value of what the members of a society are able to consume. Consequently those who consume the most contribute the most to that progress (Korten, 1996).

These fundamental assumptions are often traced back to the writings of the classical liberal economist Adam Smith (1723-1790). His most respected book, *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), articulated a theory best described as the "powerful and wonderfully democratic ideal of a self-organizing economy that creates an equitable and socially optimal allocation of a society's productive resources through the interaction of small buyers and sellers making decisions based on their individual needs and interests" (Korten, 2000). One fundamental hypothesis of the classical liberal economic perspective is that the common good can and will be achieved by giving the rational, self-interested individual the freedom to pursue his or her personal interests, the mechanics of which are dubbed the "invisible hand" of the market. According to Smith's market theory, when individuals are permitted to specialize in their particular field of interest, the resulting division of labor will improve the wealth of a nation by increasing the number and diversity of goods and services made available to people through the market.

On the surface, it is easy to see continuity between classical economic theory and modern neoliberalism as it is practiced today. But in this, as in everything, context is key. Written in the eighteenth century, *Wealth of Nations* was a radical critique of government and state protected monopolies. Adam Smith, himself a native of Scotland, was attacking a common governmental practice in England at the time – the royal chartering of corporations, mainly for the purpose of securing and controlling colonial possessions. Examples include: the East India Company, which led the British colonization of India; the Hudson's Bay Company in Canada; and colonial settlements such as the Virginia Company, the Carolina Company, and the Massachusetts Bay Company. Within their respective settlements, these corporations were granted monopoly control over lands and industries considered vital to the interests of the British monarchy (Grossman, 1996). The "long train of abuses" often cited in the writings of American revolutionaries (including the *Declaration of Independence*) was a denunciation of the crown and its agents of control, corporations.

Seen in this light, market theory was strongly influenced by Smith's rejection of centralized economic power. The British government, and its corporate agents, could use their monopolies to control economic activity and distort market prices in their favor. In theory, if economic decisions were left in the hands of individuals, free from government interference, no one person could exert unfair advantage on the market. Competing economic interests would not be decided by brute power, but resolved through fair competition in a free market. This aspect is intrinsic to the classical economic notion of freedom: For a market to be free, economic power cannot be centralized in the hands of a few participants. In Adam Smith's time this meant that markets should be insulated from monarchs and their corporate monopolies.

The context in which neoliberal theory operates, as practiced by trade organizations like the WTO and NAFTA, is radically different from that in which Adam Smith developed his theories on the market economy. This modern theory applies to a global economy of integrated markets that operate on a size and scale unimaginable in the eighteenth century. Practically speaking, individual freedom in our modern context means something drastically different than it did to Smith. The classical economic concept of freedom applies to the activities of the average person, the small farmers, artisans, and shopkeepers common to Smith's era. In the global economic context of neoliberalism, freedom applies to the activities of businesses and corporations that, unlike today's average individual, are able to operate on a global level. Many of these corporations possess the kind of political and economic power that in Smith's time was reserved for governments.

It becomes even harder to sustain the theoretical connection between economic liberalization and democracy, when one looks at the early economic development of the United States. After the American Revolution, citizens of the newly created nation expanded on Adam Smith's notion of individual economic freedom. Having emancipated themselves from British rule and transformed their corporate governments into constitutional states, Americans quickly set out to limit the economic power of corporations. In order to protect individual economic freedom, early Americans decided that investment and production decisions should be made locally and democratically. Citizens believed that the power to grant charters was their exclusive right, to be exercised only through democratically elected legislatures. Charters were granted for a limited number of years, and strictly written detailing the specific rules and operating conditions to be followed by each and every incorporated business. As stated by the Pennsylvania legislature, in 1834, "A corporation in law is just what the incorporating act makes it. It is the creature of the law and may be molded to any shape for any purpose that the Legislature may deem most conducive for the general good" (Grossman, 1996).

The goal of these limits was to protect free markets by ensuring that they remained fair. This meant assuring that a corporate charter did not give its shareholders an unfair economic advantage. The legislature retained the right to dissolve the business if a corporation violated its charter, and to hold its shareholders responsible for any and all debts or damages incurred. When a charter expired, it would either be renewed through the state legislature, or the corporation would be dissolved and its assets divided among the shareholders.

To an avowed neoliberal, this type of democratic participation and regulation of economic decisions is antithetical, even threatening to their perspective. As Mike Moore advised his audience in Ottawa, "Perhaps the biggest challenge [to economic liberalization] comes from those who want to constrain economic, political and social freedom in the name of some higher ideal" (Moore, 2000). In practice this has meant that even a people's right to democratic governance is unacceptable if it interferes with the economic freedom of key participants in the global economy.

International financier, George Soros, is quoted as saying, "Economic theory is an axiomatic system: as long as the basic assumptions hold, the conclusions follow. But when we examine the assumptions closely, we find that they do not apply to the real world" (Korten, 2000). Neoliberal theory lays claim to the benefits predicted by Adam Smith, but does not take note of the conditions he assumed necessary in market theory. In his book, *The Post-Corporate World*, economist David C. Korten highlights five of the more basic assumptions:

- Buyers and sellers should never be large enough to influence the market price.
- Complete information must be available to all participants; hence there can be no trade secrets.
- Producers must bear the full cost of the products they sell and pass them on in the sale price.
- Investment capital must remain within national borders.
- Savings must be invested in the creation of productive capital (Korten, 2000).

Korten goes on to acknowledge that the conditions for an ideal market economy have never been met and most likely never will. However, it is possible, he says, to construct a system of rules that could closely create the conditions assumed by market theory. This is the point at which neoliberal theory and practice diverge. With the pursuit of economic liberalization and globalization, policy makers have abandoned the basic assumptions of market theory that would result in an equitable and democratic allocation of resources. In fact, the agenda of globalization is in complete opposition to the theoretical conditions necessary for healthy markets. To illustrate, let's compare the five assumptions of market theory noted above with how globalization operates in practice.

Buyers and sellers should be small

Adam Smith assumed that the "individuals" he referred to would be small artisans and shop keepers, those without the economic power to influence prices. On the other hand, monopolies, be they government or corporate, were to be prohibited because it would allow a market participant to unfairly control prices. Smith's argument was based on his premise that every commodity had a *natural price*, which was determined by the "natural rates of wages, profit, and rent, at the time and place in which they commonly prevail" (Korten, 1996). Of course, the natural price was not always going to be the market price, which was set by the forces of supply and demand. Yet a competitive market would compel small buyers and sellers to respond to shifts in supply and demand. In time, the market price for a good or service should come to approximate the natural price, the optimal outcome for both buyer and seller.

In direct opposition to this condition, globalization promotes the interests of what are called "economies of scale," highly diversified, transnational corporations (TNCs). The larger the enterprise the more competitive it is believed to be. This theory is one of the basic tenets of free trade proponents. "The larger the production unit, the greater the division of labor and specialization, and thus the greater the benefits" (Morris, 1996). Global free trade and economic deregulation is the ultimate goal because closed markets and operating regulations can restrict growth, and, thus, the efficiency and competitiveness of an enterprise.

The result of the trend towards conglomeration has been gigantic TNCs with a multitude of diversified subsidiaries. An example is General Electric (GE). In 1996, GE was the second largest manufacturer of plastics in the United States, and led the world market in medical diagnostic equipment, circuit breakers, industrial turbines, electric motors, and aircraft engines. GE is a stockbroker, owning the Kidder Peabody brokerage firm. GE Capital, a financial subsidiary, has $91 billion in assets, making GE a major U.S. bank. This highly diversified transnational corporation is also a media giant. It owns the NBC network, NBC's seven local television stations, the Consumer News/Business Channel, and it has ventured into television broadcasting in three other countries (Greider, 1996).

General Electric is one example of this trend towards "economies of scale," which have come to dominate national and global markets. According to economists, when 5 firms control 50 percent or more of any industrial market it is considered to be highly monopolistic (Korten, 2000). Recently *The Economist* reported that five firms control over 50 percent of the global market in such industries as consumer durables, automotives, airlines, aerospace, electronic components, and electronics. Five firms control over 40 percent of the global market in oil, personal computers, and the media. By sanctioning economies of scale, neoliberal policies are resulting in the very monopolistic market system that Adam Smith condemned.

Complete disclosure

Smith was opposed to any kind of monopoly power including that resulting from trade secrets. In today's economy, such secrets would fall under the category of patent rights, or the more commonly used term Intellectual Property Rights (IPR). IPRs can give a single producer a guaranteed monopoly over a specific technology, product, or idea. With such a monopoly a producer can inflate a price above its natural price for an extended period of time. The traditional justification for extending patent rights is that they foster innovation, a socially desirable goal. Despite the mistrust of monopoly power, inventors, and manufacturers were allowed patent monopolies, as an incentive to pursue further innovations. Intellectual Property Rights are a privilege government bestows with the intention of furthering society's interests in technological and cultural advancement. But this privilege must be balanced with the general public's interest in free markets. Traditionally these interests were mediated on a regional or, at most, national level, where the patent rights of the innovator can be weighed against the public's greater interests. Under the auspices of the World Trade Organization (WTO), what once was a privilege at the national level has now been elevated to an inalienable right worldwide, with very little consideration for the public good.

Producers must bear the full costs of production

For the market to work effectively, that is to provide the optimal social benefits, producers must bear the full costs for manufacturing the goods they sell. If the production process results in the depletion of local resources, be they labor or natural, it should reflect in the market price of the goods. For example, coal miners work in potentially hazardous conditions. If a company extracts coal in a manner that does not take into account the need to protect its workers, the resulting medical cost should be borne by the company and, in turn, raise the price of its coal. Whereas, a company that provides its workers with protective equipment need not bear the costs of ill employees, and can offer its coal at a more competitive price. As long as full costs are borne by the company, the market price of goods will approximate the natural price. Thus, the competitively priced coal reflects the most socially equitable and beneficial working environment.

In our current economy, companies are encouraged to externalize costs wherever possible. To gain a competitive advantage, producers attempt to depress market prices below natural prices by passing onto society the costs of dangerous working conditions, environmental pollution, and resource depletion. Externalizing these costs corrupts the mechanism of supply and demand, resulting in prices that encourage socially irresponsible behavior. Returning to the coal mining example, Paul Hawken notes that in Kentucky the practices of coal companies, "destroyed land, ruined the health of workers, poisoned streams and rivers, polluted wells, crippled communities," all in the interest of providing a low-cost product.

> Although there were then and are now better ways to mine coal and treat coal miners, they were rejected as not being cost-effective. Because all the companies had to compete on the world market, they had to try to extract their veins of coal as efficiently as possible.

> Efficient, in this case, became synonymous with destructive (Hawken, 1993).

The cost of this destruction was born by the community at large. Promoting and expanding a neoliberal economic system that does not take into account the full costs of production, can only further such destructive behavior.

Investment capital must remain within national borders

This is the issue at which neoliberalism makes its greatest digression from Adam Smith's conditions for market theory. According to classical market theory, for trade between countries to be mutually beneficial, nationally owned capital must remain within national borders. This condition can be explained by using classical economist David Ricardo's theory of *comparative advantage*. His principle holds that countries can maximize their national real income by specializing their export sector towards those commodities in which they have a natural advantage – due to climate, geography, population, etcetera – and importing those items they are less efficient at producing. In short, countries should direct their investments toward those industries in which they have a comparative advantage. For example I'll refer to Ricardo's illustration. Due to its cold climate and rich grazing land, England has an environment well suited for sheep herding. However, England's climate results in a short growing period making it less suitable for, say, vineyards. Portugal, on the other hand, enjoys a warm climate that is it ideal for vineyards, but harmful to sheep. According to each country's comparative advantage, England would maximize it benefits by producing more wool and exporting cloth to Portugal in return for wine. Likewise, Portugal would benefit from producing more wine and exporting it in exchange for cloth (Vernengo, 2000).

The proponents of globalization cite Ricardo's theory as a justification for free trade. However, they ignore a very important condition upon which the theory of comparative advantage is based. First, investment capital must remain national. As long as capital is fixed, wine investors in England will reinvest their capital in textile production for which their country has a comparative advantage. However, when national borders are opened to deregulated finance, investors are more likely to invest in their *absolute* rather than comparative advantage. Investors would gain an absolute advantage if they more fully utilized Portugal's warm climate and lower wages. They would find it more profitable to move production of wine and cloth to Portugal and ship the products back to England where retail prices are higher.

Comparative advantage assumes that national capital will remain and be reinvested nationally, thereby maintaining full employment. As absolute advantage takes precedence over comparative advantage, the less competitive country, in this case England, would find its unemployment rate rising as investment capital migrated to the country with the lowest production costs (i.e. low wages, tax breaks, few environmental or worker safety standards).

Unregulated international finance also gives an unfair competitive advantage to "economies of scale". For a small cloth manufacturer in England, the costs of relocating production in Portugal are likely to outweigh any advantages. Absolute advantage benefits only those large producers with the resources to relocate, ultimately making TNCs more competitive than small local producers. As activist Helena Norberg-Hodge observed, this not only gives large corporations an economic advantage over their small competitors, but also gives them leverage over the very governments that seek to regulate their activities:

> Their [transnational corporations] ability to shift profits, operating costs, and investment capital to and from all of their far-flung operations enables them to operate anywhere in the world and to hold sovereign nations hostage by threatening to pack up, leave, and take their jobs with them. Governments are thus forced into competition with one another for the favors of these corporate vagabonds and try to lure them with low labor costs, lax environmental regulations, and substantial subsidies (Norberg-Hodge, 1996).

Adam Smith worried that large producers could use their economic power to influence market prices. Under the current free trade regime, transnational corporations use their economic power to influence democratically elected governments.

Savings must be invested in the creation of productive capital

This condition is based on a fundamental axiom of classical market economics: personal savings equals investment capital. "In other words, market theory assumes that when people save, they defer current consumption in favor of investing in future productive output" (Korten, 2000). The neoliberal economy overlooks this condition because it is unable to distinguish between money and wealth. In a market economy money is intended as an intermediary to facilitate the exchange of goods. It is also a store of wealth and a means of debt payment, but unto itself money has no productive capacity. Instead, Adam Smith argued that it was the division of labor that would allow a nation to diversify its economy and raise the average standard of living for everyone. Real wealth should then be measured by the diversity of goods, services, or technologies provided by a labor force that is allowed to specialize. When money, not productive capacity, becomes seen as the measure of real wealth, investment capital will be diverted towards non-productive speculative investment.

In a market economy, the purpose of investment is to create and renew productive capacity for future needs. In our modern global economy, investment is simply about making higher profits. David C. Korten turns this issue into a distinction between productive investment – "using savings to increase the base of productive capital" – and extractive investment – "making money through speculation to establish claims on the existing real wealth of others"(Korten, 2000). Extractive investments attempt to create money by speculating on the market price of securities, tradable ownership rights of productive output (e.g. stock market shares). From a traditional market theory perspective, extractive investment should be avoided because profit is obtained without any corresponding creation of wealth, goods and services that have real utility.

When we compare neoliberal theory to the reality of neoliberal policies, the discrepancy becomes apparent. Despite the theoretical claims, the more we pursue these policies, the less freedom we possess to pursue the political ideal of "liberty and justice for all," upon which our country was founded. Self-determination, social justice, environmental concerns, and other such “higher ideals” are sidelined when they pose limits upon economic activity.

Furthermore, for a theory that claims individuals act in their rational self-interest, our global economy encourages some stunningly irrational economic behavior. This became apparent to me after I read Paul Hawken’s humorous account of a one-day workshop one of his colleagues gave to a group of middle managers from a large TNC (he declined to identify the corporation). In this workshop the participants, all of them engineers, were introduced to the Natural Step system. Developed by Dr. Karl-Henrik Robert, a Swedish cancer doctor and medical researcher, the Natural Step is a series of four common sense conditions that must be met in order to create a society that is environmentally, economically and socially sustainable (Van Gelder, 1998). Hawken introduced the Natural Step to the United States, and uses it as a framework to educate and engage corporations on the need for sustainable solutions. Although the corporate response has not been as positive as hoped, Hawken and his colleagues have been asked to conduct a number of such workshops by corporations, which for one reason or another, are considering creating a sustainable development division within their organization.

In these workshops the participants are first presented with the four conditions of the Natural Step system. According to the first two conditions a society must avoid creating dangerous waste from its use of synthetic substances (e.g. plastics) and products mined from the earth’s crust (e.g. fossil fuels), in order to ensure concentrations of these pollutants do not increase in our ecosystems. The third condition directs us to avoid overharvesting and depleting natural resources beyond the environment’s ability to replace them. The fourth condition holds that sustainability is impossible without social justice and the fair and equitable distributions of resources. Meeting this condition requires a society to maximize efficiency in its resource use, and ensure the resulting benefits are more equally distributed (van Gelder, 1998). The last condition is the one that is almost universally rejected by business participants. These are people who belong to a profession immersed in the neoliberal paradigm of economic liberalization. To them the fourth condition is akin to a call for socialism. The engineers in this particular workshop were no different. Inequality, they maintained, is unfortunate, but to actively seek a hands-on solution to the problem is incompatible with the economic values they’ve been indoctrinated to follow.

In the second part of the workshop, the engineers were assigned a creative exercise. Working in small groups, each group was asked to design a spaceship (size and fuel were not issues, and it could receive sunlight from the outside) that could leave earth on a 100-year voyage, and return with all its inhabitants alive, healthy, and happy. Once finished, each group presented its plan to the others, and then everyone voted on which spaceship they would prefer to travel on, which determined the winning design. Hawken’s account of the exercise is quite telling:

> The winning spaceship was brilliantly designed. Now bear in mind, this company, amongst many other things, makes pesticides and herbicides. Things that kill life, i.e. biocides. On the winning spaceship they decided that they needed insects so they decided that they would take no pesticides. They knew that photosynthesis was key to their survival. They also decided that weeds were important in a

> healthy ecosystem and banned herbicides on board. Their food system, in other words, was totally organic. This group of engineers and MBAs also decided that as a crew, they needed lots of singers, dancers, artists, and storytellers, because the CDs and videos would get old and boring fast, and engineers alone did not a village make. There were many more aspects, but two were most interesting. One, they decided that virtually none of the products they were making on Earth would be useful on this spaceship. And, at the end, they were asked if it was OK if 20 percent of the people on the spaceship controlled 80 percent of the resources on board. They immediately and vociferously rejected that notion as unworkable, unjust, and unfair. And then they realized what they had said (van Gelder, 1999).

In other words, when taken out of the harshly competitive context of the corporate environment, these engineers acknowledged that (1) they considered a healthy ecosystem very important, (2) the products they helped create harmed these systems, (3) cultural forms of expression (i.e. creative arts) were vitally important to their happiness, (4) they could design a potentially viable human system that required virtually none of the products their corporation sold, and (5) when given a chance to create their ideal society they would not permit the kind of wealth consolidation that characterizes our current global economy.

The question this raises is why would a group of highly educated and intelligent people, not only consent to, but also defend an economic theory, that in practice prohibits them from pursuing what they acknowledge to be healthy, valuable, and just? Clearly there is an inconsistency.