

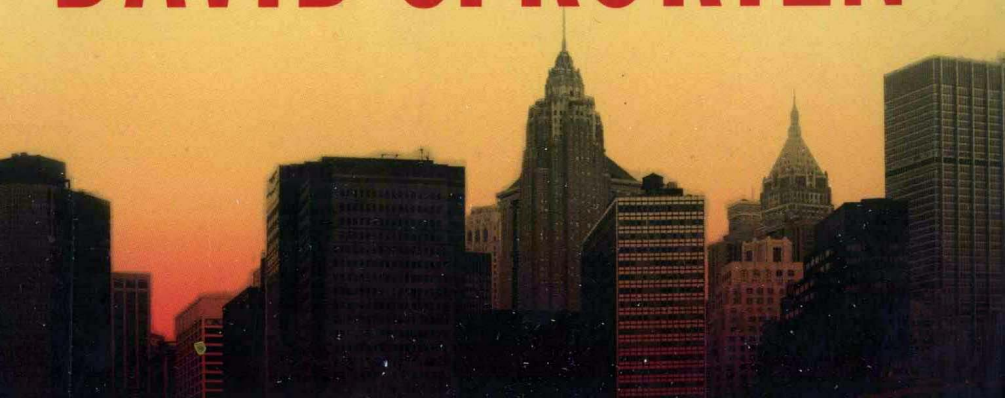
2nd EDITION,
UPDATED &
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A DECLARATION
of INDEPENDENCE
from WALL STREET

AGENDA FOR A NEW ECONOMY

From PHANTOM WEALTH
to REAL WEALTH

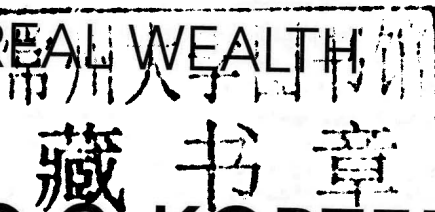
DAVID C. KORTEN



AGENDA FOR A NEW ECONOMY

From PHANTOM WEALTH

to REAL WEALTH



DAVID C. KORTEN

A publication of the New Economy Working Group



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To Steve Piersanti and the incredible staff of Berrett-Koehler, who proposed this book project and supported it above and beyond the call of duty

To the staff and board of *YES! Magazine*, who are communicating a new vision of human possibility to the world

To the staff, board, and local network members of the Business Alliance for Local Living Economies, who are building the New Economy from the bottom up

To the staff of the Institute for Policy Studies, who are helping to frame the New Economy policy agenda and to build a supportive political alliance

To the hundreds of grassroots groups engaged in popular economics education and political mobilization

And to the buccaneers and privateers of Wall Street, whose excesses revealed a financial system so corrupt and detached from reality as to be beyond repair — without them, this call to shut down Wall Street would surely fall on deaf ears

I care not what puppet is placed upon the throne of England to rule this Empire on which the sun never sets. The man who controls Britain's money supply controls the British Empire, and I control the British money supply.

NATHAN MAYER ROTHSCHILD (1777-1836)

All financial innovation involves, in one form or another, the creation of debt secured in greater or lesser adequacy by real assets. . . . All [financial] crises have involved debt that, in one fashion or another, has become dangerously out of scale in relation to the underlying means of payment.

JOHN KENNETH GALBRAITH, *A Short History of Financial Euphoria*

The legal rate [of interest] . . . ought not to be much above the lowest market rate. If . . . fixed so high as eight or ten percent, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest.

ADAM SMITH, *The Wealth of Nations*

I don't think this is just a financial panic; I believe that it represents the failure of a whole model of banking, of an overgrown financial sector that did more harm than good.

PAUL KRUGMAN, "THE MARKET MYSTIQUE,"
New York Times

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A*genda for a New Economy* is a book about unrealized possibility. I bear sole responsibility for its contents, but it is the product of many minds and the deeds of many leaders. A few of are mentioned here for their special contributions.

First, I'm indebted to Rabbi Michael Lerner, who shortly before the financial meltdown of September 2008 invited me to write an article for *Tikkun* magazine reviewing books by two influential economists. As the meltdown played out, the article evolved with Michael's guidance to become a call for a basic redesign of our economic institutions and featured a proposed address for delivery by President Obama on a New Economy agenda.

As I was working on that piece with Michael, the Wall Street financial bubble burst and the U.S. Congress rushed through a bill attempting to restore business as usual by bailing out the banks responsible for the crisis. At the same time, *YES! Magazine* editors Sarah van Gelder and Doug Pibel suggested I do a piece for *YES!* on what Congress should be doing to actualize the possibilities of a new economy designed to serve people, community, and nature. The *Tikkun* and *YES!* articles both appeared shortly after the November 2008 presidential election of Barack Obama.

Late in the evening on November 24, Steve Piersanti, the president and publisher of Berrett-Koehler Publishers, with whom I've worked on my most widely read books, sent me an e-mail message saying he had read the *YES!* article and wanted to help get its message out far and wide, perhaps as a short book.

From that moment forward, Steve and the incredible

Berrett-Koehler staff went into overdrive to produce the book in time for a January 23, 2009, launch at the historic Trinity Church in the heart of Wall Street, shortly after Obama's presidential inauguration. I've never in my life worked with such single-minded concentration or experienced such total support from colleagues. I sent Steve chapters on a daily basis, and he invariably responded within a few hours with feedback. Michael Crowley adjusted his holiday vacation to put together the cover text, endorsements, and marketing materials. Karen Seriguchi, who served as copy editor, worked with me literally around the clock for ten days to turn the manuscript into a final edited text. Valerie Brewster of Scribe Typography did the design and composition, and Todd Manza did the proofreading, all in record time. I also owe special thanks to Raffi, who made a special recording of his song "No Wall Too Tall" to celebrate the launch at the Trinity Church

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I cochair NEWGroup with John Cavanagh, executive director of the Institute for Policy Studies (IPS) in Washington, D.C. Noel Ortega is the NEWGroup coordinator.

NEWGroup is a partnership of IPS (ips-dc.org); *YES! Magazine* (yesmagazine.org); BALLE (livingeconomies.org); the People-Centered Development Forum (pcdf.org); James Gustave Speth, former dean of the Yale School of Forestry and administrator of the United Nations Development Programme; and Gar Alperovitz, professor of political economy, the University of Maryland, and president of the National Center for Economic and Security Alternatives. IPS, which works in partnership with progressive members of Congress and many national groups involved in economic education and policy advocacy, serves as the secretariat. The views expressed are mine and do not necessarily represent positions of NEWGroup or its individual partners.

David Korten
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PROLOGUE



A QUESTION OF VALUES

I wrote the first edition of this book in late 2008, when Wall Street was in the throes of collapse. The phantom wealth machine had been exposed and its devastating effects on the real economy were apparent everywhere.

The book was published just as a new president and a new Congress were taking power. I hoped they might begin to rein in the Wall Street financial institutions that were causing such pain and set us on the path to a much more sensible economy. Flush with the excitement of the moment, I included a chapter with the economic address to the nation that I hoped our youthful, idealistic, articulate new president might give — one that recognized a need to transform the money system, global corporations, and the rules that determine the behavior of both.

I knew the speech was a fantasy but felt it might help readers see more clearly how the New Economy agenda translates into a redirection of public policy.

In the eighteen months since the first edition of this book came out, we have seen with increasing clarity the extent of Wall Street's hold on Washington. Leadership for transformational change must come, as it always has, from outside the institutions of power. It requires building a powerful social movement based on a shared understanding of the roots of the problem and a shared vision of the path to its resolution.

As a society, we cannot create a future that we cannot see in our collective mind. The first edition of *Agenda for a New*

Economy presented a framing vision drawn largely from material I had written before the crash. This second edition brings in substantial new material and thinking based on a year and a half of revelations about the Wall Street–Washington political axis, additional reflection, and conversations with knowledgeable and thoughtful colleagues.

A NATIONAL CONVERSATION

Few and fortunate are those whose lives have not been directly touched by the September 2008 Wall Street meltdown and its consequences. The meltdown remains at the center of public awareness and concern. People want to understand what went wrong and how we can set it right. Yet the public commentary centers on finger-pointing. Who knew what, when? Which regulators were asleep at the switch, and why?

A few observers—including Dean Baker (*Plunder and Blunder*), William Black (*The Best Way to Rob a Bank Is to Own One*), Charles Morris (*The Trillion Dollar Meltdown*), Kevin Phillips (*Bad Money*), and Gary Weiss (*Born to Steal*)—provided extensive documentation of the corruption of Wall Street’s most powerful institutions even before the September 2008 crash.

There has since been an outpouring of such books and articles, including those by R. P. Bottle (*The Trouble with Markets*), Michael Lewis (*The Big Short*), Martin Lowy (*Debt Spiral*), Simon Johnson and James Kwak (*13 Bankers*), Barry Lynn (*Cornered*), and Janine R. Wedel (*Shadow Elite*). Each pulls back the curtain on Wall Street corruption a bit further and fuels public outrage and disgust with the Wall Street–Washington axis.

Most calls for action, however, seek only to limit the excesses and deceptions of greedy bankers and financiers. We

have yet to engage a much-needed national conversation that addresses essential, yet unasked, questions. For example:

1. Do Wall Street institutions do anything so vital for the national interest as to justify opening the national purse strings and showering them with trillions of dollars in order to save them from the consequences of their own excess?
2. Is it possible that the whole Wall Street edifice is built on an illusion that has no substance yet carries deadly economic, social, and environmental consequences for the larger society?
3. Might there be other ways to provide necessary and beneficial financial services with greater effectiveness and at lower cost?

This edition of *Agenda for a New Economy*, as did the first edition, argues that the correct answers are (1) no, (2) yes, (3) yes.

Ultimately, it comes down to a question of the values we believe the economy should serve. Should it give priority to money, or to life? To the fortunes of the few, or the well-being of all?

The Wall Street economy we have is highly effective and efficient at converting real living wealth to phantom financial wealth to make rich people richer. It is a path to collective suicide. Our future and that of our children depend on replacing the values and institutions of the Wall Street economy with the culture and institutions of a New Economy designed to provide an adequate and satisfying livelihood for all people in balanced relationship to Earth's biosphere.

I believe that an honest public examination of these questions will lead to a unifying political consensus that, rather than repair and restrain the Wall Street institutions that

brought down the global economy, we can and should replace them with institutions that serve our real values and are appropriate to the needs and realities of the twenty-first century. I have written *Agenda for a New Economy* in the hope that it may help to provoke and frame such a conversation.

Because I am issuing a call to shut down Wall Street, I want to clearly distinguish my position from the declarations of those on the far right who say the “too big to fail” Wall Street banks should be left to collapse as a self-corrective act of market discipline. Although I share the underlying sentiment, I also recognize why those who made the decisions felt compelled to prevent such a collapse. Simply letting the banks fail would almost certainly have brought about a collapse of the global financial system and economy far worse than what we experienced.

Wall Street controls the creation and flow of the money that facilitates the economic transactions on which we depend for meeting most of our material needs. If the institutions of Wall Street suddenly shut down with no alternative in place, we would have only the money in our pockets and would be instantly reduced to bartering for most essentials of daily life, including food and water.

This, of course, is why an otherwise cash-strapped and gridlocked Washington political establishment and a Congress that has difficulty reaching agreement on far smaller issues responded instantly with a massive bailout in the face of public outrage to save Wall Street’s largest banks from collapse.

The process of shutting down Wall Street must parallel action to put in place the institutions of a new system for creating and allocating national currencies in ways more responsive to society’s needs.

THE STORY OF THE FIRST EDITION

I wrote *Agenda for a New Economy* to open a discussion about why a fundamental redesign of our economic institutions is required and what it might involve. The second edition, as the first, is addressed to people who are acutely aware that things are going badly wrong economically, socially, and environmentally and who are looking for real solutions based on new approaches and institutions.

The first edition of *Agenda for a New Economy* was written and published in immediate response to the meltdown. It was launched at a national theological conference at the historic Trinity Church at the foot of Wall Street in New York City on January 23, 2009, just three days after the inauguration of Barack Obama as president of the United States.

Much of the nation was in a state of euphoria born of hope that our new president would deliver on his promise of change. That hope, combined with outrage at Wall Street excesses, had swept Obama into the White House and should have created fertile ground for serious action on economic reform. Yet the strongest reform proposals on the table as of this writing involve little more than tinkering at the margins to restrain the worst of those excesses.

There are evident political explanations for President Obama's failure in this regard, but they are only part of the story. His options have been severely limited by a very practical reality: neither of the two prevailing schools of economic thought—market fundamentalism or Keynesianism—addresses the underlying institutional, social, and environmental foundations of the problem he faces and therefore provide no framework for the needed system redesign. I take this up in more detail in chapter 17.

In any event, the leadership for institutional transformation rarely comes from those who depend on existing

institutions as their base of power. It invariably comes from authentic grassroots movements. Efforts to form a social movement to confront the Wall Street–Washington axis are similarly handicapped, however, by the failure of the prevailing economic models to provide a framework for a comprehensive restructuring.

Most of the elements of the New Economy model are known, but they must be brought together into a coherent guide to action. Fortunately, a number of groups are discussing the problem and organizing to address it. What follows owes much to my participation in these conversations, particularly those of the New Economy Working Group.

WHAT'S NEW?

Much of the second edition is either new or substantially revised to reflect recent events and what I've learned over the past eighteen months.

I've added a new section to chapter 2 on the difference between good debt and bad debt and on Wall Street's language of self-deception. In part II I've also added a new chapter, "Greed Is Not a Virtue; Sharing Is Not a Sin," which provides a brief overview of Wall Street's behavior since the crash and highlights the contrast between the moral values of Wall Street capitalism and those of the New Economy.

The most important new contributions are in the latter part of the book, which has been extensively rewritten and expanded. It is reorganized into three parts. Part III frames the New Economy's "Living-Economy Vision." Part IV translates the vision into an action agenda. Part V outlines a mobilization strategy for implementation.

The agenda, now more coherent and fully developed, builds from a stronger ecological systems perspective and

introduces the concept of the living enterprise. I have substantially revised my thinking about the institutional design for a living-wealth money system. The system I'm now proposing is more diverse and decentralized and more supportive of local resilience and self-organization.

There is an assessment in chapter 17 of why President Obama failed to deliver on the hopeful vision of candidate Obama and what we can do about it. I have recast the proposed presidential economic address to the nation (now chapter 15) as the address that we the people must make into a political imperative for either our present or a future president to deliver. If you are looking for an overview of the policy agenda, this is the chapter.

The discussion of story power in chapter 18 goes deeper into the underlying role of culture in shaping collective behavior. A substantially new chapter 19 outlines a three-fold social-learning-oriented implementation strategy and includes a new section on institutional change agendas for media, education, religion, and the arts. The scenarios offering fictional accounts of life and money in a New Economy future are pulled together into an epilogue, "The View from 2084." It addresses the question, How will our children live?

I hope these revisions will serve you, the reader, in making your own contributions to changing the economic story and bringing the New Economy into being where you live.

As in the first edition, I have intentionally avoided going into the complex details of the various Wall Street financial schemes and scams. Such inquiry holds its own fascination but distracts from the bottom line message:

Wall Street operates as a criminal syndicate engaged in financial scams and extortion rackets that impose unbearable costs on society while serving no beneficial function not better served in other ways. The need is not to repair