



## **The Economy of Tomorrow How to produce socially just, sustainable and green dynamic growth for a Good Society**

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- In the face of economic, ecological and social challenges, thinkers in Asia and Europe have come to the conclusion that new models are needed to move their societies onto a path of sustainable economic growth.
- The Economy of Tomorrow Project (EoT) brings together Asian economic thinkers with their counterparts from Europe to explore three key questions:
  1. What would an economic development model need to look like to serve as a compass for the overcoming of economic, ecological and social crises?
  2. Which discourse could help to level the political playing field for progressive policies?
  3. On which platform could reform-oriented actors join forces in a broad rainbow coalition for the political struggles over the new development path?

- Socially just, sustainable and green dynamic growth is necessary to produce the conditions for a Good Society with full capabilities for all.

Socially just growth is driven by fair incomes and inclusion of all talent.

Sustainable growth is driven by stability in the financial sector and natural environment as well as balanced trade and budgets.

Green dynamic growth is driven by the greening of the old economy and green innovation.



## ECONOMY OF TOMORROW

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## I. Introduction

The economic meltdown which followed the financial market crash of 2008 triggered a series of crises which have the potential to alter the world as we know it. Millions of people around the world have lost their jobs, their homes and their savings. The credit worthiness of the United States, France, the United Kingdom and Japan, core countries of the post-war economic order, has been called into question. Southern European societies are being strangled by austerity. Athens and Rome, the cradles of democracy, have been administered by unelected technocrats. America, Europe and the Middle East are in turmoil. Only Asia appears to have learned the lessons from its earlier crisis and seems to have returned to robust growth after a short slump.

The problems crippling the West go well beyond the financial crisis, and their root causes run deeper than economic troubles. However, many of the treatments prescribed are no more than Band-Aid solutions for the symptoms. Others evoke memories of medieval bloodletting, which end up proving lethal for the patient. In order to find a cure, it is necessary to first diagnose the real nature of the disorder and then find a therapy that will address its root causes.

Emerging Asian countries are facing similar economic and political challenges and are subject to the same social and ecological limits. However, the situation in Asian emerging countries is different in many respects. Therefore, I will start this analysis with the origins of the current crisis in the West, and then describe the challenges facing the East. I will then argue that the usual mix of research and policy recommendations is inherently inadequate to overcome the resistance of the powerful status quo alliance whose stakes are rooted in the structures of the current political economy. Hence, the Economy of

Tomorrow (EoT) project proposes a three dimensional strategy that aims to build an alternative growth model, levels the political playing field by discourse steering, and offers a political platform on which a rainbow coalition can join forces for the struggle over the development path. Finally, I will report the findings of the EoT Asia Europe Dialogues, and try to sketch the outlines of a socially just, sustainable and green dynamic growth model.

## II. The situation in the West and Asia: Different starting points, converging prospects

### 2.1 The Great Crisis of the West<sup>1</sup>

In the following, I will peel away the many layers of the great crisis and try to identify the sources that lie at its very heart. While this chapter is written with a focus on the West, some of these challenges may also apply to other parts of the world.

#### ***On the surface: the Euro crisis***

European states amassed a level of sovereign debt so crippling that it is severely restricting their ability to make policy. In fact, European politics currently seems to be about little else than making new debt to service old debt. However, fierce political battles over the root causes of and the response to the crisis are threatening to tear apart the European integration project. Was not the sovereign debt explosion of Ireland, Spain and others a direct result of bailing out their banks? Are not the drastic cuts to public demand in the middle of a recession suicidal for Greeks, Italians, Spaniards and Portuguese? Does not the emphasis on monetary stability prolong the sovereign debt crisis, but also threaten the Euro which it is trying to preserve<sup>2</sup>? What has been called the 'euro crisis' is to a large extent driven by the mistaken analysis that the sovereign debt problems were the cause of the crisis rather than the result of deeper



structural issues<sup>3</sup>. In fact, the European periphery is caught between a rock and a hard place. During good times, cheap and seemingly unlimited credit under-mined incentives to implement structural reform to strengthen productivity. When the crisis hit, their economies were unable to regain competitiveness by devaluing their currencies, while their sovereign debt - effectively denominated in a foreign currency - exploded. However, this structural flaw of the Euro continues to be ignored because Germany and others cannot find the political will to deepen economic and fiscal integration. Instead of remedying the sovereign debt crisis by issuing Eurobonds<sup>4</sup>, they continue to insist on austerity.

The interpretation of and response to the crisis serve as a reminder of the intricate relationship between political economy and discourse hegemony<sup>5</sup>. Only from the perspective of investors in danger of losing their assets does the dogma of monetary stability make any sense. The P.I.G.S. need to demonstrate that they would rather go under than to discontinue servicing their debts and threaten the stability of the Euro as the new gold standard.

Despite a flurry of debate over the crisis of financial capitalism in general and the roots of the financial crisis in particular, the status quo coalition has succeeded in setting the mainstream interpretation of the crisis. Hence, instead of unregulated markets and systemic failure, now immoral individuals and excessive welfare states dominate the crisis interpretation.

The policy response was only the consequence: through the purgatory of austerity, decayed societies must be forced back onto the path of virtue<sup>6</sup>. To cure this immoral debt addiction once and for all, inflation angst-ridden Berlin, technocratic Brussels and the neoliberal IMF prescribe the same old contractive policies that pushed the world economy into the Great Depression of 1929<sup>7</sup>. The cuts, deregulations and privatizations basically impose the same

'Washington Consensus' policies onto the European periphery that proved to be ineffective cures in crises around the world before. In fact it was the flaws of these very policies which contributed to the imbalances responsible for the crisis in the first place. In the United States, the United Kingdom, France and Southern Europe, a new round of blood-letting of welfare systems is about to begin.

### ***Second skin: the crisis of casino capitalism<sup>8</sup>***

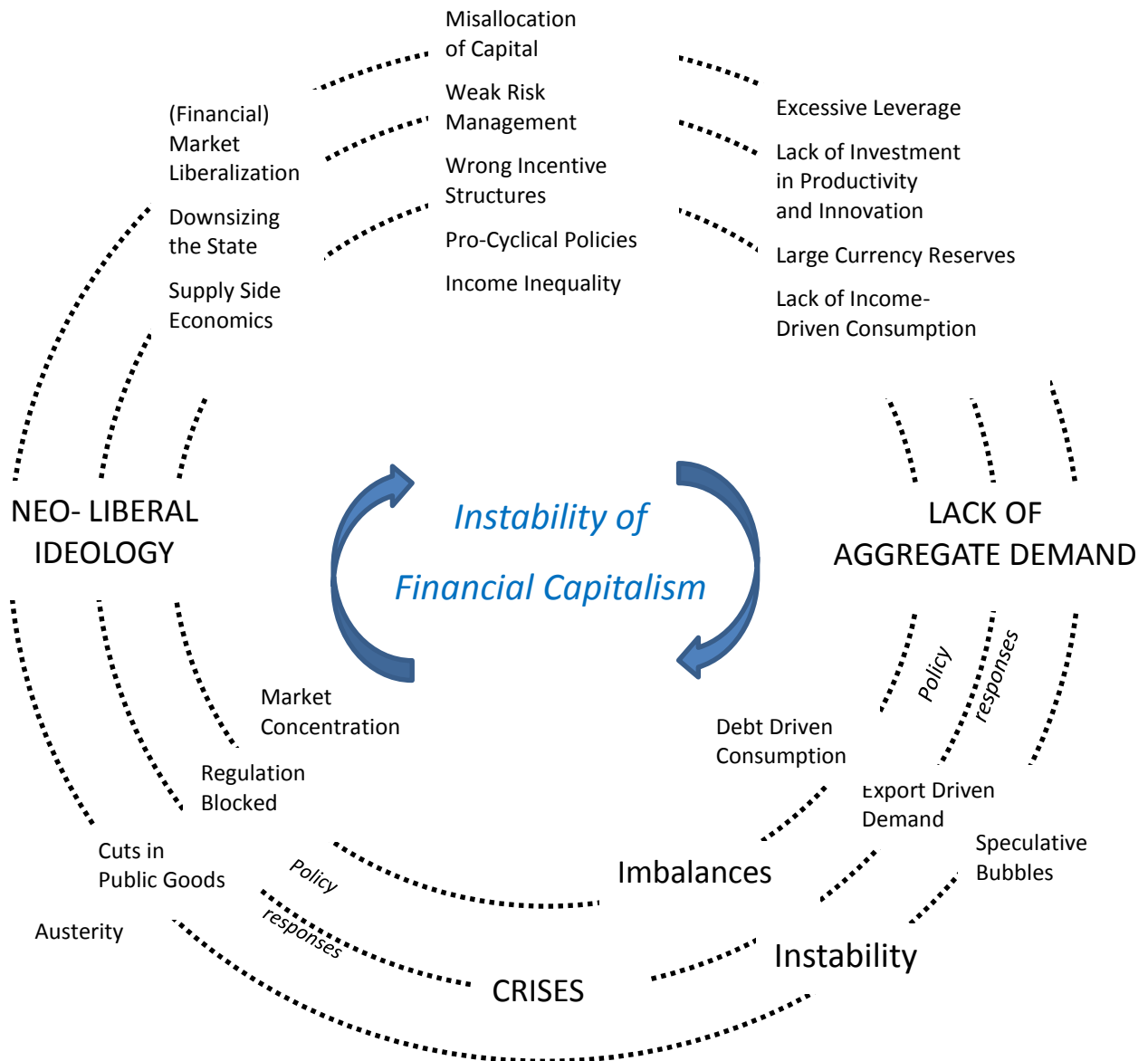
This mainstream state of denial notwithstanding, the root cause of the sovereign debt crisis lies in the financial crisis. In fact, it was the Ponzi schemes of hedge funds and investment banks that drove the global economy over the cliff. In the frenzy of the US real estate bubble, banks and investors over-leveraged themselves to a degree that even a slight down-turn could wipe out their entire stock. Unable to assess risk properly, Wall Street financial wizards based their schemes on the unrealistic assumption that interest rates could never go up, and real estate prices could never fall. When they did, the casino came to a crashing halt and the financial system went into cardiac arrest. Today, it is the lingering vulnerability of over-leveraged banks that makes financial markets so nervous about the stability of European bond assets in their portfolios. However, risks of another financial crisis notwithstanding, pledges by G20 heads of state to regulate the financial markets largely fail to address the instability emanating from speculation for the real economy. Accordingly, the power of hedge funds, bond markets and rating agencies is unbroken. American banks have consolidated their market shares, and are more than ever "too big to fail". Permanent low interest rates seem to drive new bubbles, and risk another burst – only next time, there will be no more room for a bail-out. Again, these developments highlight the balance of power between state and market actors in the political economy of financial capitalism.



The financial crisis was by no means an accident, rather, it was the consequence of casino capitalism<sup>9</sup>. The governance and incentive structures of casino capitalism created moral hazards and encouraged risk taking without transparency. The unregulated shadow banking system made the global financial system dangerously fragile and prone to collapse<sup>10</sup>. Easy money made available by monetary policies of central banks as well as emerging markets enabled ever growing towers of leverage<sup>11</sup>. Today, economic recovery is impeded by the over-leveraging of the state, households, and financial and corporate sectors.

**Third skin: The crisis of shareholder capitalism**

The economic crisis runs much deeper than the greed of individuals and the “Jenga-towers” of Wall Street. Rather, much like an earthquake, the pressures had been building up over many years<sup>12</sup>. Well beyond the financial system, the management doctrine of ‘shareholder-value’ (the profit interests of investors) changed the rules of the game in the corporate sector. In order to stay alive and independent, corporations have to run the rat race of quarterly earnings reports. Shareholder capitalism is unsustainable, because its focus on short





term gains is detrimental to investment in innovation and productivity. The economic doctrine of shareholder capitalism - supply-side economics - is ecologically and socially unsustainable, because it fails to account for external costs for both the social and environmental foundations of our well-being.

Most importantly, supply side economics fails to generate adequate aggregate demand. If states and consumers are pressed by shrinking incomes, they can no longer consume and invest to keep the economic engine running. In shareholder capitalism, societies only have bad choices: they can either get up to their ears in debt to be able to continue spending, or they can depend on export demand by squeezing people dry. The Anglo-Saxons and others chose the path of debt-financed consumer spending, and became the global buyer of first and last resort. While this approach produced extractive growth for several years, it imploded when interest rates began to rise, and the air which fanned the spending fire was cut off. Germany and others followed the path of living on export surpluses based on an internal real devaluation (low unit labor costs)<sup>13</sup>. Together with Asia's new manufacturing powerhouses, Germany and others became the world's producers of first and last resort. This approach produced considerable social costs at home<sup>14</sup>, and made their export-led economies highly vulnerable to every downturn in global demand. On a global level, current account surplus and deficit strategies produced the enormous imbalances that were at the core of the economic meltdown.

In other words, it is the very paradigm of shareholder capitalism that produces the dynamics which eventually led to its implosion. The inherent instability of globalized financial capitalism can be seen by the series of crises in Japan after 1990, Mexico in 1994, Asia and Russia in 1997/8, Argentina in 1999, and the dotcom bubble burst in 2000<sup>15</sup>. Boom and bust cycles are the outcome of the cheap money, bubbles

and over-leveraging of casino capitalism, as well as the inability of share-holder value capitalism to produce aggregate demand. All of these conditions were unleashed by the neoliberal revolution<sup>16</sup>.

#### **Fourth skin: the failure of the neoliberal revolution**

Neoliberalism, in essence, is a fundamentalist version of liberalism. Classical liberalism sees freedom threatened by state coercion and entrusts the 'invisible hand' of free markets to transform the selfish 'pursuit of happiness' by individuals into the 'wealth of nations'. Neoliberalism, in essence, reduces freedom to negative liberties<sup>17</sup>. Confronted with the inertia caused by the end of the Fordist model, neoliberal thinkers radicalized the free market into a panacea for Western economies bogged down by the oil crisis, inflation and mass strikes. For neoliberals, public goods, wages and environmental protection were accounted for as mere costs and competitive disadvantages. The state, demonized as a bureaucratic monster strangling free enterprise, needed to "get off the back" of hard-working entrepreneurs and creative innovators.

However, contrary to its popular image, neoliberalism was not so much about free markets against coercive states, but about a return to unfettered capitalism. Neoliberals identified the root causes of the crisis of capitalism in the unproductive use of capital. Capital, in this understanding, had been tied down in bureaucratic corporations, sclerotic state enterprises or generally chained by state regulation. Freeing capital by new management philosophies (shareholder value), more effective ownership (privatization) and cutting bureaucratic red tape (deregulation) would therefore unleash the creative destruction necessary for economic growth, the benefits of which would trickle down to all.

Armed with this powerful narrative, neoliberal reformers used the wrecking ball



on state regulation, and cut back the state wherever they could. New labor competition with Eastern Europe, Mexico and Asia worked as an additional stick: "If we do not relieve our corporations from their responsibilities", so the argument goes, "they will either leave, be taken over or go bust!" The deregulation and privatization orgies that followed were the starting signal for the launch of global financial capitalism.<sup>18</sup>

The neoliberal revolution produced devastating social and economic outcomes. Allowing a tiny elite to suck an increasing share of value added out of the real economy and burn it in consumption or speculation encouraged a gold rush for investors and bankers. The rest of the society was subject to economic and social decline.

#### **Fifth skin: The flaws of the neoclassical theory of efficient markets**

The flaws of neoliberal market beliefs are rooted in neoclassical theory. Neoclassical theory is based on a set of fundamental beliefs: that human beings are rational *homo economicus* who base their decision on the best information available. The most efficient institution available to process all of this information is the market. And therefore, the market is the most effective mechanism to allocate capital for the optimal use of society at large.

All of these fundamental beliefs are flawed<sup>19</sup>. Human beings, individually and collectively, are far from being rational, but rather are subject to fears, fashions, superstitions and panic. Market actors do not have ideal information, but tend to exaggerate and oversteer, causing boom and bust cycles that first create and then vaporize billions with devastating effects for society at large. Economics needs to be fused with psychology and political science in order to fully understand the economic cycle.<sup>20</sup>

#### **Sixth skin: The limits to extractive growth**

These fundamental flaws notwithstanding, freeing the private sector from bureaucratic red tape indeed allowed industries to restructure and grow out of the crisis of the Fordist system. Most importantly, the latest wave of international trade deregulation had created a historical window of opportunity for emerging economies to industrialize and overhaul the global division of labor.

However, when these effects of flexibility ran out, the nature of growth both in the developed as well as the emerging economies has been extractive (hence the challenges of this skin may more than others also apply to emerging countries). Extractive growth is not sustainable, but faces economic, ecological, social and political limits that will inevitably bring it to a halt.<sup>21</sup>

##### *Economic limits*

Extractive growth is fuelled by the exploitation of cheap resources, or by borrowing from future generations. Shareholder-value focus on extracting short-term gains is disrupting the very engine of capitalism: capital accumulation to produce surplus value. Constantly extracting capital from the corporate sector comes at the expense of long term investment in Research and Development (R&D), machinery, and a skilled workforce needed to compete in a global market.

Similarly, the exploitation of cheap labor leads to unsustainable extractive growth. Decreasing real wages, a result of the outsourcing pressure on the crumbling power of the labor movement, added to the lack of aggregate demand at the very root of the financial crisis.

##### *Fiscal limits*

The Euro sovereign debt crisis and the sub-prime crisis show the devastating long-term effects of these borrowing-from-the-future



strategies. Even if an economic meltdown can be avoided today, future policy makers will either face extremely limited policy space or decide to inflate away the mountains of debt. The 'quantitative easing' policies of all central banks may already point to an inflationary path. With inflation eating away wage income and middle class savings, the debt crisis will then translate into a social and political crisis.

### *Ecological limits*

Our current mode of production, housing and mobility runs on the exploitation of finite natural resources, including fossil fuel energy and the carbon storage capacity of the atmosphere. While global demand for finite resources continues to grow, prices begin to soar when supplies are running short. While the oil crisis of the 1970s serves as a reminder of the vulnerability of energy supplies, the competition over rare earths, water and live-stocks lead to similar bottlenecks.

Even more dangerously, extractive production and consumption is disrupting the planetary ecosystem, a complex system of fragile equilibriums established after the last ice age which enabled mankind to engage in the process of civilization. Floods, droughts, storms and rising sea levels triggered by climate change will inflict damage that is likely to exceed anything experienced in human history. The devastating effects of soil degradation, desertification, and over-exploitation have yet to be fully felt.

### *Social limits*

In Western societies, the level of inequality measured in the run up to the 2008 crash has only one historical precedent: the levels reached in 1929. The missing wage anchor for inflation and lacking consumption demand are the immediate economic effects of inequality<sup>22</sup>. The social divide in income levels and wealth is sharply rising in most societies. Declining living standards result in a wave of strikes and riots shaking the

social foundation. In the long run, the lack of social justice threatens social peace and undermines the ability of societies to react to change by reshaping the division of labor.

<sup>23</sup>

### *Political limits*

If people have no say about the grand direction of society, and feel powerless in the face of deteriorating living conditions, the legitimacy of the political regime crumbles, and political instability rises. Right wing populist movements exploit the fears, anger and resentment created by economic hardship and a lack of social justice, while advocating an agenda of protectionism, nationalism and xenophobia. Radical left-wing movements gather strength from their fight against austerity and casino capitalism, but have little to say how to overcome the deep crisis of productivity and innovation that created the crisis in the first place. Political limits of extractive growth add to a larger crisis of the polity (national state) and the political regime (democracy).

### **Seventh skin: The crisis of the nation state**

In times of dangerous yet incomprehensible global storms, people look for the protection of the state and the warm coziness of the nation. Populists seeking to provide an alternative to the neoliberal hegemony have revived the narrative of the nation as "our house, our castle, our shelter". However, nation states are too weak to rein in financial capitalism, mitigate climate change, or provide security in the age of terrorism. No longer able to avert danger, let alone improve the living conditions of its citizens, the nation state needs to join forces with others to tackle global challenges. However, given the electoral successes and the discursive clout of the new nationalist movements, the ability of policy makers to transfer sovereignty to the supra-national level in order to build effective regional and global governance is limited.





## **Eight skin: The crisis of representative democracy**

The shrinking of policy space is further exacerbated by the crisis of representative democracy. The financial crisis made the strings that control the puppets painfully visible. Sovereign debt crises are essentially political crises: unable to inspire and too weak to guide, democratic leaders can no longer ask for sacrifice today to build a better tomorrow. Unable to mobilize popular support, elected leaders are vulnerable to the pressures of vested interest groups. Trapped between the demands of financial markets and multinational corporations for lesser liabilities and the expectations of their citizens for a better life, democratic leaders have few options but to postpone financing problems into the future. Lacking an alternative vision as well as political room to maneuver, democratic leaders hide behind TINA (“There is no alternative!”). At the same time, public debates over the grand direction for society have degenerated into a media circus. In other words, elected leaders no longer have the strength to lead their disillusioned constituents onto a new path. Decision-making has been delegated to unelected technocrats<sup>24</sup>. The experts in these commissions, committees and counsels, however, are easy prey for lobbyists and pundits. In the crisis, representative democracy is even openly sidelined, either by forcing the hand of stubborn parliaments or by installing unelected technocrats at the head of governments who execute the unpopular conditions imposed by financial markets.

The crisis of representative democracy is not caused by a lack of political passion or engagement of citizens. On the contrary, on the local level and in social media, citizens make their voices heard. However, citizens snub representative democracy and turn to protest movements, local isolationism (“Not in my backyard”) and single-issue activism instead. This points to the failure to adapt the institutional set-up of democracy to the needs of a post-industrial society. Opposed

to the uniform and anonymous mode of industrial mass production, the post-industrial “personalized” economy is increasingly driven by individual creativity organized in small, flexible teams. In the highly differentiated post-industrial society with its pluralistic lifestyles, values and interests, corporate institutions for collective action lose their appeal. Despite a flurry of experiments with new mechanisms for democratic participation, the update to Democracy 3.0 has yet to be created<sup>25</sup>.

## **The heart of the onion: a metaphysical black hole**

Why did political elites capitulate to the markets? Why did societies accept the cruelties of neoliberal reform without much complaint? Why did people stop fighting for a better future?

It was the disappointment over the failure of all utopian visions for a better society that opened the gates for the market radical approach of “every man for himself<sup>26</sup>”. The wars and atrocities of the 20th century have proven secular and religious utopias to be totalitarian follies. New technologies did not only bring blessings. Greater wealth does not necessarily lead to a happier life<sup>27</sup>. With all fantasies burst, all hopes disenchanting, all certainties deconstructed, the great project of modernity, the enlightened progress into a better future, has made way for great resignation. Without the epic fight against an external enemy, sobered by its own excesses and follies, the West lost its revolutionary horizon. God declared dead, the communist paradise disenchanting and the state impotent, all hopes were put into the market. Adam Smith’s ‘invisible hand’ never really concealed its divine descent. It was this quasi-religious hope for the evolutionary mysticism of ‘order-out-of-chaos’ that made the market into the fetish of our time. If political revolution fails, so the argument goes, hope must be put into social evolution driven by the free interaction of individuals. With faith in the mystical powers of the market shaken, what



remains is the sobering reality of crushing debt, climate change and global decline. Disappointed by lost dreams, the technocratic administration of past achievements seems all that is left to do.

However, without a metaphysical überbau (superstructure), the fiscal, economic, political, democratic and societal crises cannot be tackled. Without any utopian promise of a better future, the very idea of progress becomes meaningless. Without a vision for a Good Society, people do not come together to form a new community. Without a utopian dream for a better tomorrow, people will not fight to overcome their present day challenges. This is precisely why Obama's "Yes, we can" chant struck such a chord with the disenchanting masses. 'The audacity of hope' is the necessary first step to put the subject back to its central role, and mobilize the people for 'change'. Once Obama's optimistic zeal wore off, the bleak reality of what followed is equally telling. Without the resistance of the masses, entrenched status quo elites have begun to restore the exclusive economic, social and political order. Without a new economic model, crisis management lacks orientation. Without a vision for a new order, policy making lacks a compass.

## 2.2 Challenges for emerging Asia

The contrast to the Asian success story could not be starker. Decades of double-digit growth have elevated large portions of Asian societies out of poverty, and created a rapidly growing middle class. Asian economies have been deeply integrated into the global division of labor, with the Asian tigers leapfrogging to the top of the developed world. Korean, Chinese and Indian multinational corporations are technology leaders and dominate markets. Thailand, Malaysia, Indonesia and Vietnam are rapidly industrializing.

Remarkably, all these success stories have been achieved using a development model which differs significantly from the recommendations of the 'Washington Consen-

sus'<sup>28</sup>. Neoliberal faith in the "invisible hand" of the free market never became hegemonic in the state-centered countries of Asia. The following of the Japanese model (a combination of state coordinated industrial policy, mercantilist export promotion and cheap labor which more recently was labeled as the 'Beijing Consensus') enabled the spectacular rise of Taiwan, Singapore, Hong Kong, South Korea and Thailand, and somewhat later China and Vietnam. Indonesia benefits from its enormous natural resources which are in high demand in Asia's boom economies. The liberation of the private sector from the grip of a corrupt and incompetent bureaucracy played a bigger role in the economic rise of India, Thailand and Indonesia. While India and others increasingly turned to speculative investment and financial deregulation<sup>29</sup>, strong reservations against the neoliberal 'Washington Consensus' prevail<sup>30</sup>.

And indeed, Asia has learnt the right lessons from its 1997/98 crisis. The ill advice from the IMF notwithstanding, financial markets had not been fully deregulated. Despite the demonization of Malaysia<sup>31</sup>, governments today shield their economies with capital controls. As a consequence, the meltdown of Wall Street did not spill over to emerging markets. Mistrust in the IMF led to the build-up of massive capital reserves<sup>32</sup>. On the one hand, this added to the global imbalances and lack of global aggregate demand that set the stage for the financial crisis<sup>33</sup>. On the other hand, Asian countries are nowhere near facing the same kinds of sovereign debt crisis as their European and American peers. While hopes for 'de-coupling' were unrealistic considering their deep integration in the global division of labor and dependence on export demand, Asian economies rebounded quickly and are again growing robustly. However, in the face of new challenges it becomes more and more obvious that even successful development paths have come to an end. For years, observers have discussed the odds for a 'soft landing' versus a 'hard landing' in China. More



recently, warnings about a looming financial crisis have become more frequent. The rapid build-up of leverage, decline in potential growth and sky-rocketing property prices are pointing towards the familiar warning signs which emerged before crisis struck in Japan, United States and Europe.<sup>34</sup> Given the deep integration of the Asian and world economy, a crisis in China would deeply affect other economies as well.

Even if a hard landing can be prevented, Asian economies are beginning to feel the limits of extractive growth. The integration of millions of workers from less productive rural areas (including migrant workers from neighboring countries) into the more productive industrial and service sectors drives extractive growth. However, the supply of cheap labor is a finite resource, and will eventually run into demographic limits. China, South Korea, and Thailand are already ageing societies. The smaller outsourcing locations at the periphery face similar problems as their Eastern European counterparts<sup>35</sup>. Vietnam, Thailand, India and Indonesia which have embraced export-oriented foreign direct investment discovered its potential for volatility and exposure to international downturns,<sup>36</sup> and its proclivity to be of a short-term nature with very few social benefits. Public money is being wasted on subsidies to attract ephemeral foreign money rather than on essential long-term investment in infrastructure and R&D. In Thailand and other Southeast Asian countries, concerns about a new real estate bubble are growing. When the competitive advantage of cheap labor vanishes, labor-intensive industries will move on to cheaper locations, and extractive labor growth runs dry. Many societies pay a steep price for reckless industrialization. Break-neck industrialization has severely degraded the environment. Widening social divides threaten stability and are putting the political regimes under enormous stress. Violent uprisings and grass roots resistance are spreading.

Asian economic and political decision-makers have realized that old models are no longer capable of tackling the ecological, economic and social crises<sup>37</sup>. Asian thinkers have come to the conclusion that new models need to be developed which can help to move their societies onto a path of sustainable economic growth.

What such an alternative development could look like, however, is the subject of hot debate. Asia's "pathfinders" are interested in the social democratic model. China, in particular, makes good use of various elements of the Bismarckian German model. Linking up to its own centuries old tradition of welfare, Beijing has long begun to build up a social security system. The gigantic stimulus package to fend off the impact of the global financial crisis made visible the Keynesian instincts of Chinese policy makers. A recent shift in wage policy was designed to hedge against sluggish export demand by boosting domestic consumption. Japan, South Korea and Taiwan have demonstrated how to use industrial policy to move up the value chain from labor-intensive to high-tech industries; others are keen to follow. Korea, India, Indonesia, Thailand and Vietnam have (sometimes timidly) started to realize their potential for green growth<sup>38</sup>. China's ecological industrial policies seem even more mature<sup>39</sup>. Taken together, progressive economic and social policies are beginning to change the division of labor in Asia.

On the other hand, Asian observers are wary of the crisis in the Eurozone. Many seem to echo the neoliberal chorus that Europeans lived beyond their means. Accordingly, the installation of European-style welfare systems is not on the agenda. The debate over social security also shows that Asian policy makers operate in a different discursive field. While Europeans think of social security in terms of social rights, Asians (with the notable recent exception of Indonesia) tend to consider their benefits in terms of economic performance (e.g. higher productivity of human capital, domestic



consumption demand, flexibility of the labor market) or political stability (e.g. stronger social cohesion vs. social unrest).

### **III. The political economy of change: shifting the development path takes more than facts and figures**

The many dimensions of the great crisis are increasingly understood by analysts around the world, and a flurry of debates over short-term crisis management and long-term system alternatives is well under way.

However, as the crisis response in the United States and Europe shows, political and business elites continue to adhere to flawed models while prescribing the very same medicine that created the crisis in the first place. As a perverse result of the bail-outs, the power of “too-big-to-fail” financial actors has increased dramatically. People increasingly doubt the ability of their elected representatives to promote the common good against the vested interests of private market actors. In Asia, efforts to build a global climate governance regime or to implement international labor standards were torpedoed for the same reasons: fear of losing out in the context of cut-throat international competition. In short, despite the growing realization of the flaws in our economic system, elites stick to the same policies.

The answer to this puzzle lies in the political economy. Business, political and academic elites alike are major benefactors from the status quo. Not only owing their positions to the regime, they continue to rip benefits from it. The status quo in the West is further stabilized by the continuing predominance of the neoliberal discourse. While the flurry of critical debates in the wake of the financial crisis may have sensitized people for the ideological elements of the current order and made alternatives viable again, the neoliberal narrative continues to carry discursive clout. Policies can still be

rejected only because they are promoted by the ‘wrong side’. Arguments can still be dismissed because they contradict mainstream convictions. Progressive positions are being ridiculed because they aim to expand the ideological limits of what ‘can be said and done’. Socialized in the hegemony of the current paradigm, many continue to believe in its validity or are even unable to imagine alternative models. In short: it is not by accident that policy makers from all sectors fail to act decisively. On the contrary, a powerful alliance struggles to uphold the status quo, and fiercely resists any attempts to bring about structural change.

Given the asymmetries in power and ideological clout, as well as command of resources and coercion, it is no surprise that progressive actors in the West are in no shape to take on the status quo coalition. Progressive parties, unions and civil society in Asia are often even weaker. With the exception of Indonesia, progressive actors are barely in a position to promote the interests of their clientele, let alone push for fundamental structural changes. This has immediate consequences for the chances of policy implementation. Given the mainstream state of denial about the root causes of the crisis, the lack of openness for new thinking and negative attitudes towards alternative courses of action, progressive policy initiatives time and again fail to be implemented.

In sum, the challenge to overcome the mega-crisis is threefold: to compose a development model that is able to tackle the economic, ecological, political and social challenges; to construct a compelling narrative that is able to level the political playing field for the implementation of policies recommended by this model; and finally build political muscle to win the political struggle against the status quo coalition.

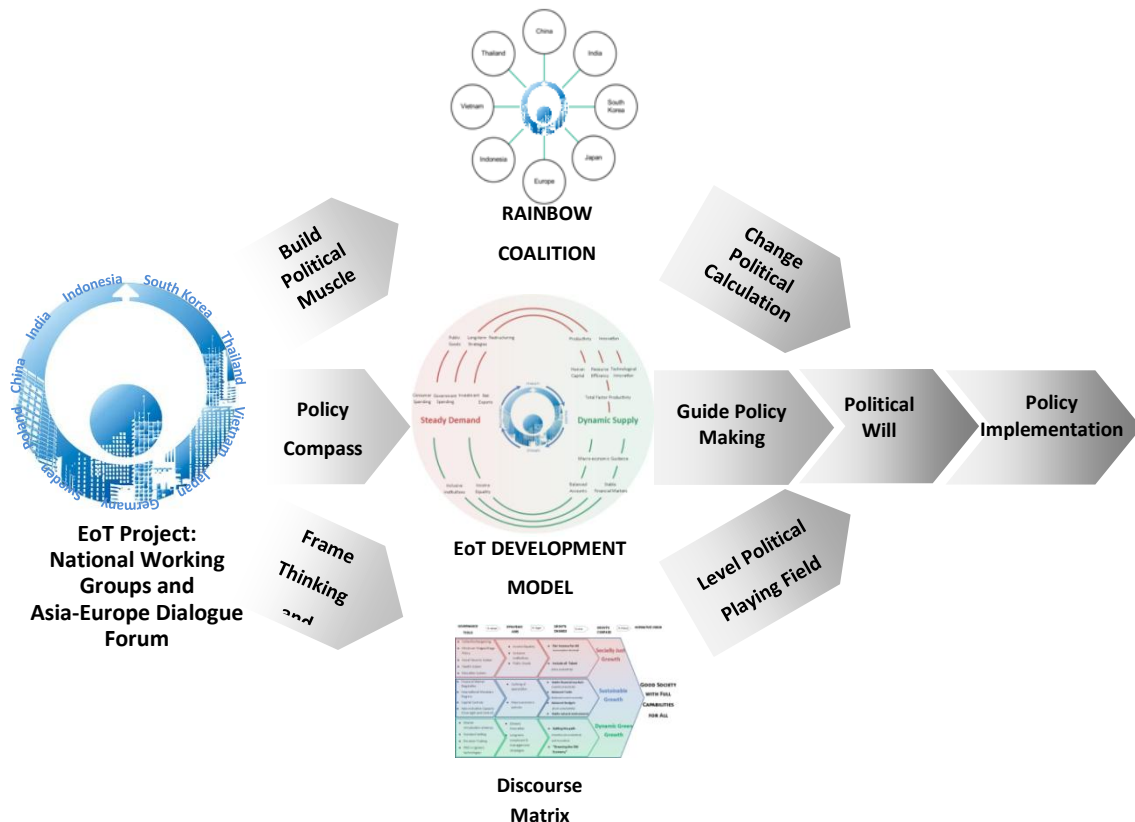


## IV. The Economy of Tomorrow Project

It is against this background that the Friedrich-Ebert-Stiftung (FES) launched the “Economy of Tomorrow” (EoT) project. The objective of the “Economy of Tomorrow” project is to identify an alternative development path and form discourse coalitions for the struggle over its implementation. National model workshops in China, India, Indonesia, South-Korea, Thailand and Vietnam are searching for answers to three key questions:

1. What would an economic development model need to look like to serve as a compass for the overcoming of economic, ecological and social crises?
2. Which discourse could help to level the political playing field for progressive policies?
3. On which platform could reform-oriented actors join forces in a broad rainbow coalition for the political struggles over the new development path?

The starting point for all discussion is that there cannot be a blueprint to tackle the variety of economic, ecological and social crises. Every society needs to build its own tailor-made development model that fits specific local conditions. That being said, thinkers and decision-makers from Asia come together with their counterparts from Germany, Sweden and Poland to exchange analyses, ideas and first experiences with the implementation of reform. The ‘Asia-Europe Dialogue Forum on the Economy of Tomorrow’ series in Bangkok (“Decent Capitalism”<sup>40</sup>), Singapore (“Green Jobs”), Seoul (“Demand-driven Growth”), Delhi (“Green Growth”) and again Bangkok (“Stable and Balanced Growth”) displayed an astonishing convergence in the challenges identified by participants from such a heterogeneous group of countries. Despite their differences, economic thinkers from Asia and Europe agreed on the “Seoul, Delhi and Bangkok I & II” consensuses to create an outline for the “Economy of Tomorrow” development model.





## V Outlining the “Economy of Tomorrow” development model

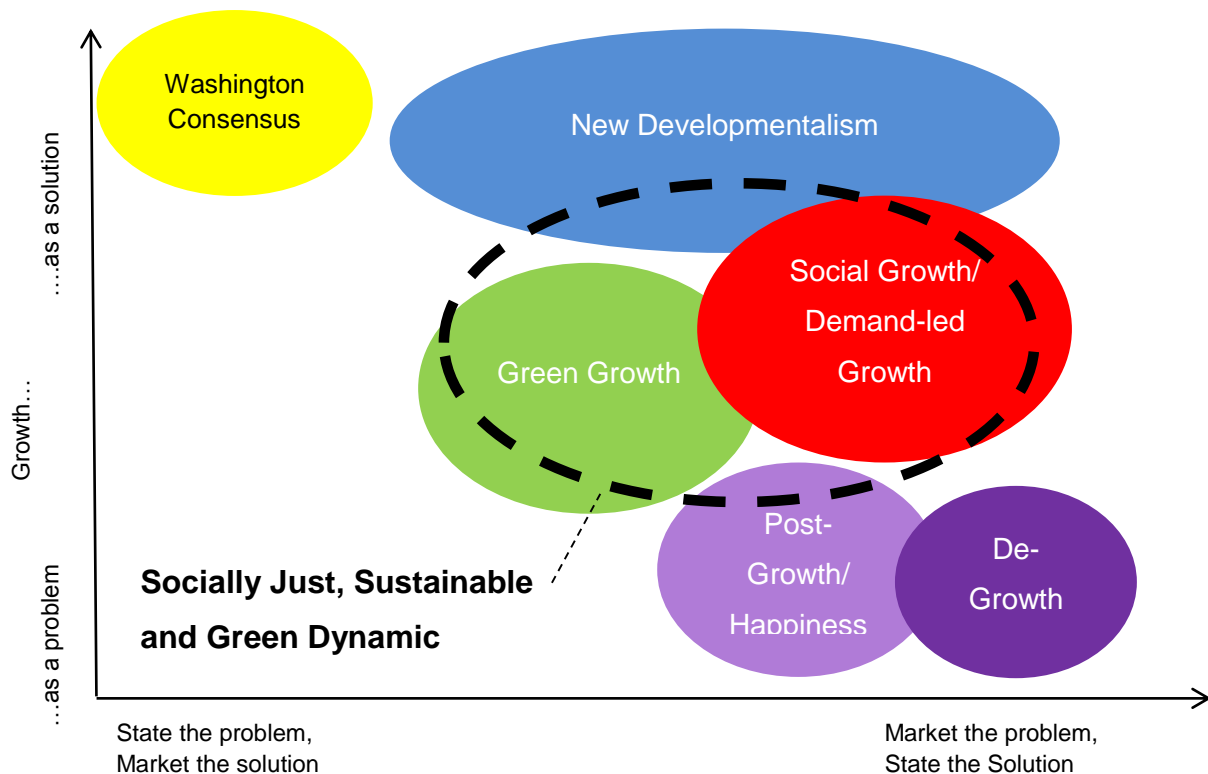
The EoT model needs to describe a virtuous economic cycle capable of tackling the macro-economic, ecological, social and political crises laid out above. The challenges are enormous. In order to mitigate looming disasters triggered by climate change and the end of fossil fuels, nothing short of the complete overhaul of the production, consumption, mobility and housing of all economies is required, or, in other words, the very way in which we live and work. To heal the social divide caused by shareholder capitalism, political economies need to be overhauled to include all people in economic, social, political and cultural life. To vaccinate the real economies against boom and bust cycles, the heart chamber of financial capitalism needs to be reformed, and vast global and domestic imbalances need to be resolved in an orderly way.

Unsurprisingly, a variety of different approaches aimed at tackling these challenges have been promoted by a broad

spectrum of thinkers. In order to build discursive alliances, it is important to be aware of these existing models. The aim is not to build a unique model, but on the very contrary to be compatible where it is possible. Some of these bridges can be built by the way the discourse is formulated (I will propose a discourse matrix which is open to all sides in the next chapter). In this first step, the emphasis will be on academic integrity and empirical validity.

### 5.1. The fundamental principles

The EoT development model is defined by a set of fundamental principles which make it clearly distinguishable from other models. The economy is not an end in itself, but serves the purpose of producing the conditions for a ‘Good Society with full capabilities for all’. In order to achieve these conditions, the EoT development model promotes an equilibrium between steady demand and dynamic supply. Its core normative objectives - inclusiveness and sustainability - are at the same time the engines which drive qualitative growth.





### ***Growth? Yes, but qualitative***

There is a global debate on whether economic growth can and should continue to be the goal of human development. On the most fundamental level, critics argue that there cannot be unlimited growth in a finite world. Therefore, some call for the “end of growth”, while others want to replace the obsession with GDP growth with more holistic and human objectives. On the other side of the spectrum, many fear a ‘lost decade’ of economic travails, sluggish growth, environmental disasters, growing social unrest and even a bigger financial crisis<sup>41</sup>. Hence, to counter the negative impacts of the lack of global aggregate demand, many Asian countries have begun to balance sluggish export demand with domestic consumption. To accommodate population growth and rapid urbanization and to reduce poverty, emerging and developing countries aim to invest two trillion US Dollars per year into new infrastructure<sup>42</sup>. These considerations are detrimental to calls for the ‘end of growth’. There is no question for Asian emerging countries that in order to tackle social and political challenges, their economies need to grow.

However, there is a consensus that the obsession with GDP growth leads to great ecological and social distortions and needs to be replaced with a qualitative growth paradigm. Growth, if measured in GDP or more holistic benchmarks, is not an end in itself, but a means to tackle these challenges and produce a better society. The fundamental function of the economy is to produce the conditions for a Good Society with full capabilities for all.

### ***A social market economy, guided by a smart state***

The neoliberal model denies its own political economy, and proclaims that economic development grows out of the random interaction of individual market actors. Myth or not, ‘free-market driven innovation’ failed to make the necessary shift towards sustain-

able energy, production, housing and mobility. The experience of the past three decades shows that unfettered markets do not offer any solutions to ecological, economic and social challenges, but are part of the problem.

The EoT rejects such blind faith in “the magic of the market”, and encourages broad societal deliberation over direction of development. In order to achieve this, the relationship between market and democratic state needs to be rebalanced<sup>43</sup>. In order to break the vicious cycle of debt and devaluation, the state needs to set the path towards restructuring the economy, inclusive distribution and employment. However the states, ideologically discredited and financially crippled, have largely abandoned their policy guidance function. In order to set a sustainable growth path, the state needs to regain confidence and policy space. The choice is no longer between a ‘big’ or ‘small’ state, but how to build a ‘smart state’ capable of preventing risk, correcting distortions and giving policy guidance.

However, economic globalization has outpaced the ability of national states to manage it. To keep the flow of knowledge, finance and technology that underpins sustainable growth in emerging countries, the global economy needs to stay open and rule-based<sup>44</sup>. At the same time, international cooperation and global governance need to be strengthened.

### ***Stability and Balance***

Global imbalances as well as the instability of financial capitalism set the stage for the financial crisis. Long-term sustainable growth needs a stable and balanced foundation. In order to enable steady development without periodical distortions and set-backs, the boom and bust cycles typical for financial capitalism must be avoided. Vaccinating against the instability emanating from the globalized financial markets is therefore crucial. Resolving the underlying trade and financial imbalances is



also necessary to achieve a new global equilibrium.

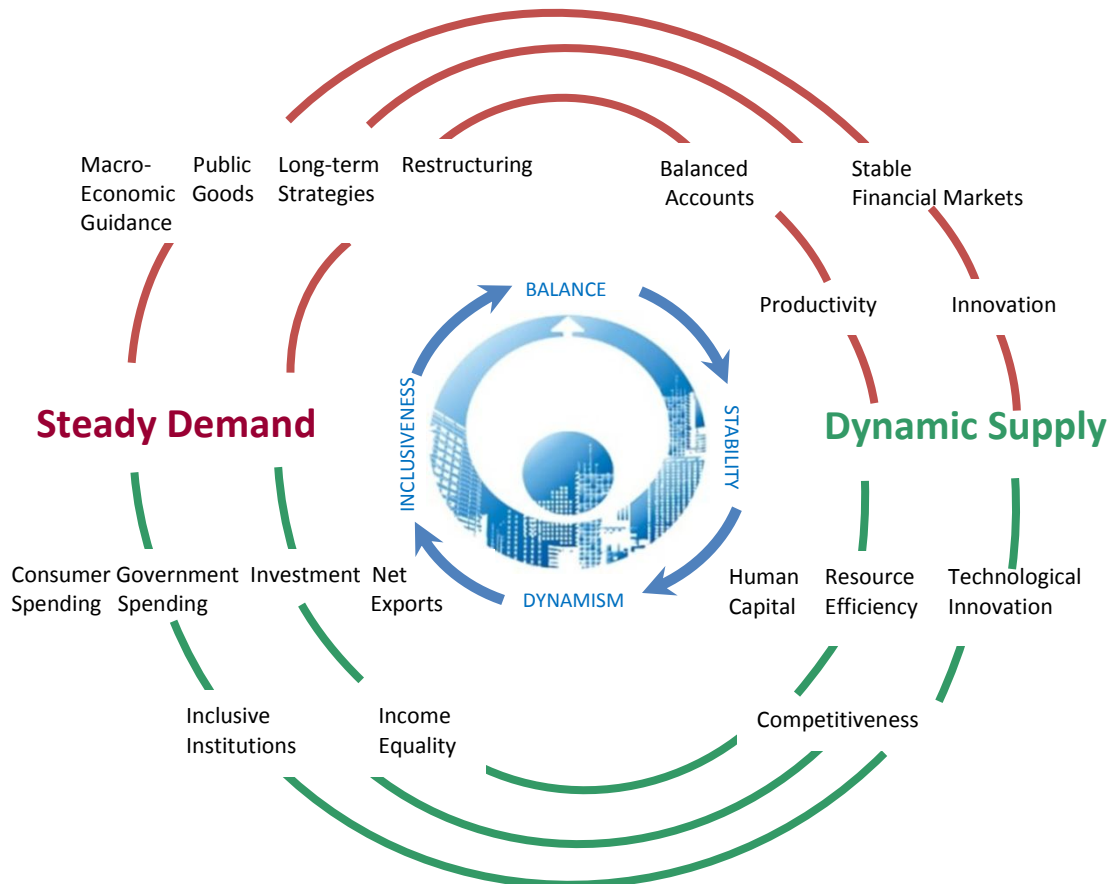
Finally, economic growth cannot be sustainable if the ecological and social environment is unstable. Preserving the means of livelihood and cushioning the impact of rapid socio-economic transformation are normative policy objectives in their own right, but they are also key framework conditions for economic development.

There is a trade-off between the need for public investment and consumption and fiscal sustainability. Even if the link between sovereign debt, inflation and growth is not as straight-forward as proponents of austerity falsely claim, <sup>45</sup> its long-term repercussions for fiscal stability and policy space must be taken seriously. At the same time, the need for structurally balanced budgets must be reconciled with the need for short-term anti-cyclical crisis response

measures. All too often, fiscal sustainability is used as an excuse to delegitimize the will of the majority and forego the provision of quality public goods. While being an important element of sustainable growth, fiscal sustainability must not be abused to undermine the mandate of elected governments to set the development path.

### Steady demand, dynamic supply

Under the shareholder-value paradigm, markets obsessed with short-term gains have failed to invest in productivity and innovation. Short-termism became the prevailing business strategy, and investors and bankers were empowered to extract capital from the corporate sector and use it for speculation. Without the “steroids” of debt-driven consumption and “jenga leveraging”, markets, fundamentalism fails to produce adequate aggregate demand.







Income inequalities and the cut-back of the state are not only destroying the social fabric, but choke off economic growth due to the lack of consumption and investment demand<sup>46</sup>. Past strategies to create aggregate demand, by either pushing export surpluses or encouraging sovereign and consumer debt, created the domestic and international imbalances that led to the financial crisis. The flaws of the global reserve system, combined with the lack of trust in the Washington Consensus-dominated International Financial Institutions, led to the build-up of massive reserves in emerging countries, which further weakened global aggregate demand<sup>47</sup>.

The new growth path needs to balance between dynamic supply and steady demand. To recover global and domestic imbalances, income-driven demand needs to be the fuel that keeps the growth engine running. A more equal income distribution will not only stabilize societies rocked by rapid economic and social transformation, but stimulate consumption amongst those most likely to spend it. To unleash the 'supply-side' dynamic of 'creative destruction', innovation and productivity continuously need to be strengthened<sup>48</sup>. However, innovation and productivity cannot be generated out of extractive use of finite sources, but require the inclusive use of all talent in a society.

### ***Inclusiveness creates dynamic***

In the neoliberal model, economic dynamism grows out of the incentives set by inequality and competition ("Greed is good"). Free markets are believed to drive innovation and productivity, while competition over resources strengthens efficiency. However, three decades of supply-side economics have produced only moderate productivity gains. At the same time, "shareholder-value capital-ism" has widened the social divide to a level last experienced before the Great Depression.

In contrast, dynamic growth in the EoT model is driven by inclusiveness. By providing full capabilities for all, a society is able to benefit from the full potential for innovation and productivity of all its citizens. All people must be able to fully participate in economic, social, political and cultural life. If citizens are challenged by nature or face discrimination due to their race, gender or religion, the state has an active role to play in removing these obstacles. All citizens must have access to education, health care and credit and must be able to start an enterprise or make best use of their talent. The market must benefit the people, not the other way around.

## **5.2. Growth Drivers**

Every economic model pins its hope on a set of mechanisms which are believed to drive growth. In the EoT model, the "growth drivers" make these assumptions visible.

### ***Income-driven Demand***

Income equality not only promotes innovation and productivity<sup>49</sup>, but stimulates consumption demand and investment via the Keynesian multiplier effect<sup>50</sup>. To offset sluggish aggregate demand, domestic consumption demand amongst low-income earners needs to be strengthened. A progressive wage policy needs to ensure that productivity gains are translated into higher incomes and higher consumption. At the same time, the wage anchor will relieve inflationary pressure which makes development economically sustainable.

### ***Human Capital***

Greater inclusiveness triggers innovation by making the best use of all talent in society. Tapping into the innovative genius, creativity, entrepreneurial energy, and productivity of all people unleashes the full inclusive growth potential of a society. Both the state and the private sector have a role to play in the empowerment of people to make best use of their talents. The provision



of public goods by the state not only strengthens consumption demand, but also increases labor productivity by improving the qualification and health of the workforce. The ability to set incentives makes a comprehensive social security system superior to mere handouts and subsidies<sup>51</sup>. Providing social security reduces the need for excess savings to reduce exposure to life risks, helping to strengthen aggregate demand<sup>52</sup>. Social security systems have proven to cushion the social impact of economic crises, and buy time for necessary restructuring without destroying the qualifications of the workforce.

### ***Effective capital allocation***

Allocating capital for productivity and innovation is crucial for sustainable and dynamic growth. The real economy needs a solid financial foundation to allow for industrial restructuring (especially with a view to the Third Industrial Revolution), research and development, the qualification of the workforce and the development of markets. The globalized financial sector has systematically failed to perform its key role of allocating capital and managing risk<sup>53</sup>. Accordingly, banking needs to be turned into a service function for the corporate sector<sup>54</sup> again. In order to reduce the inherent instability of financial capitalism, the risks emanating from the financial sector need to be minimized<sup>55</sup>.

### ***Productivity and Innovation***

Dynamic growth is driven by productivity and innovation. This requires major investment in infrastructure, machinery, organization, human capital, research and development and resource efficiency. However, de-leveraging, restoring fiscal balance and establishing a new basis for long-term growth will take time in Europe, America and Japan. Therefore, staying clear of any planning hubris, the state policy needs to set the path to 'move up the value-chain'. Industrial policy<sup>56</sup> can set incentive

structures to encourage investment in productivity and innovation.

Strategic investment under an 'Ecological Industrial Policy'<sup>57</sup> may lead the way, and at the same time strengthen aggregate demand. Green innovation will be one of the major driving forces of the post-carbon economy. Green jobs through new qualifications of the workforce, new markets for green products, and energy security through lateral energy networks and renewables may unleash the dynamic of a 'Third Industrial Revolution'<sup>58</sup>.

### ***Resource Efficiency***

Higher resource efficiency slashes costs, drives time total factor productivity, and strengthens the competitiveness of the industrial sector. At the same time, it contributes to stable natural environment in a time when natural disasters linked to climate change are increasingly being felt in Asia.

## **5.3. Strategic Aims for state, private and civic sectors**

To get these growth engines fired up, the private sector, state and civil society need to join forces to create the necessary framework conditions. Policy making needs to set priorities and focus on the following strategic challenges.

### ***Socially just growth***

1. In a global low-growth environment, emerging economies need to reduce their dependence on industrial country demand and strengthen domestic growth drivers.<sup>59</sup> In order to offset sluggish aggregate demand, consumption demand needs to be boosted by a more **equal income distribution**, notably through a progressive wage policy. Social Protection and progressive tax systems are needed as automatic stabilizers of aggregate demand<sup>60</sup>. Given the sober prospects for sluggish growth and rising unemployment in industrial econo-



mies, the state needs to ease social tensions through re-distributional policies.

2. **Inclusive economic institutions** need to empower everyone to participate in economic life. In order to mobilize all talent, equal market access and decent work opportunities are essential.

3. The state needs to provide **smart public goods** such as education and health care to strengthen workforce productivity. For instance, smart unemployment schemes keep workforce productivity high by supporting (short time) employment after sudden busts, helping to retain a skilled workforce and encourage retraining.

### ***Sustainable growth***

4. To enable economic recovery in industrial countries, all sectors (state, household, financial and corporate) need to deleverage<sup>61</sup>.

In order to hedge against the instability and external shocks emanating from the global financial system, **macro-prudential regulatory frameworks** must be put in place. Short-term speculation and the shadow banking system must be banned or at least brought under tight regulatory control. In order to achieve this goal, states need to (re-) build regulatory frameworks and the capacity for effective control of the financial sector.

5. On the international and national level, policies need to be introduced that hamper the ability of investors to quickly extract capital and risk bankruptcy, and even cause the collapse of entire economies. A new Bretton Woods system for monetary governance needs to set the rules for commercial and financial flows. Reforming the global reserve system is a necessary step to unwind global imbalances in a controlled way. The role of the US Dollar as the dominant global reserve currency needs to be reevaluated<sup>62</sup>.

Global cooperation and effective governance is needed to coordinate rebalancing and avoid protectionist zero-sum games.

Easing the (perceived) need to hold on to massive currency reserves will help to boost global aggregate demand. Core market regulatory policies, such as bankruptcy, competition policy and financial regulation need to be codified at the global level<sup>63</sup>.

However, the flawed economic theories and policies of the Washington Consensus are still encoded in the DNA of international institutions, including bilateral (free trade and investment) treaties, continuing to undermine the ability of states to effectively manage their risk and respond to crises. **Global governance needs to be reformed**, or it will be sidelined by rivaling institutions founded by emerging powers<sup>64</sup>.

6. In order to minimize the instability emanating from international trade imbalances, macro-economic policies should aspire to **balance current accounts**. While export demand plays a crucial role in the transformation of emerging economies, vulnerabilities to external shocks may be mitigated by stronger domestic demand. In addition, policy coordination on the international level is needed. Further trade liberalization should refrain from shock therapies and follow a gradual course, combined with measures to redevelop the workforces of struggling industries.

7. In order to regain policy space and avoid sovereign debt crises, **fiscal sustainability** is crucial. States need to structurally balance their budgets. To square the circle between the need for public investment and consumption, anti-cyclical crisis response on the one side and fiscal sustainability on the other, states need to widen their tax base (including closing down tax havens), introduce progressive tax policies and avoid ballooning debt, especially in foreign currencies. Well beyond crisis response, state spending needs to be reconfigured to make it anti-cyclical.

### ***Green dynamic growth***

8. Preserving the means of livelihood requires an aggressive push forward in the



**decoupling** of production, housing and mobility from energy and resource usage. States need to set incentives and define standards in order to speed up the shift towards a low carbon economy.

9. Where the market fails to follow long-term strategies, the state needs to **guide investment in innovation and productivity gains**<sup>65</sup>. Public investment in infrastructure, qualification and research & development can fill the gap and strengthen productivity and innovation.<sup>66</sup> The private sector should explore the markets for renewable energies, green products and services. Ecological industrial policy can play a bridging role in the introduction of green technologies into the markets, until their competitiveness is guaranteed by economies of scale<sup>67</sup>. A smart mix of holistic pricing mechanisms, regulation and targeted investments helps guide research and development, and sends signals to investors and markets.

### In sum

Taken together, the outlines of an alternative development model are beginning to show. In the next phase of the EoT project, national working groups need to refine these ideas and adapt them to the local context.

## VI The EoT Discourse Matrix: Translate the development model into a tool for political communication

Chances for implementation of policies recommended by the *EoT development model* depend on more than their academic value. To win the struggle against the status quo coalition, a rainbow coalition needs to pool its forces on a common platform. In order to level the political playing field, this rainbow coalition needs to promote a suggestive and potent discourse. Hence, the technical *EoT development model* needs to

be transformed into a tool for political communication.

The *EoT discourse matrix* aims to make the first step in this direction. It reduces complexity by organizing the overwhelming wealth of knowledge into three dimensions of socially just, sustainable and green dynamic growth. Along those communicative axes, it takes only four steps for policy instruments understood only by experts to be argumentatively linked to a normative vision which is emotionally tangible for the layman. Vice versa, the normative vision gives orientation for state and private policy makers and facilitates the development of coherent policies. The discourse matrix suggests argumentative lines that make it easy to build a narrative around them:

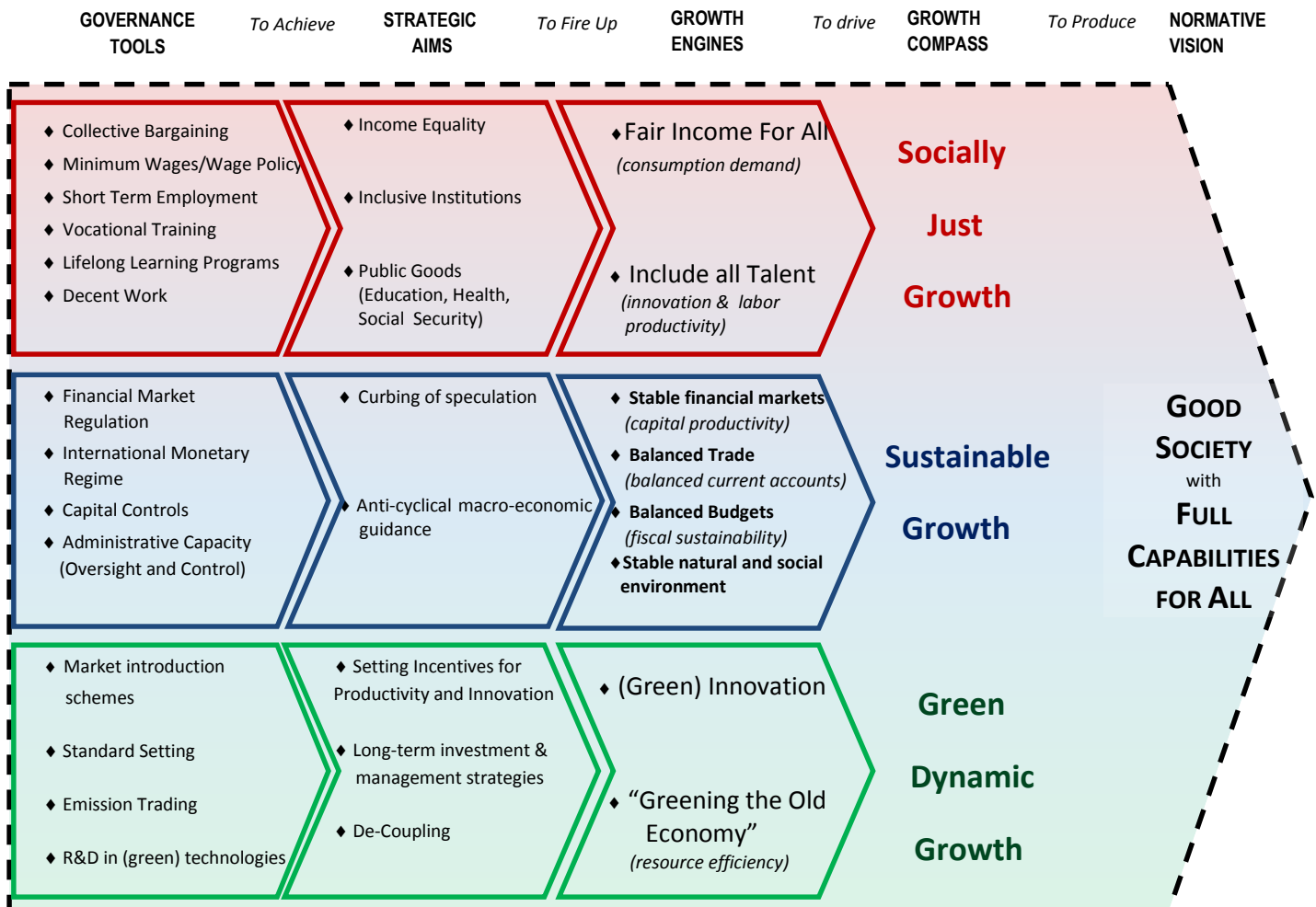
- The *normative vision* gives orientation for the general public in political debates over the grand direction of society.
- The *growth compass* serves as a guiding tool for state, private and civic policy makers to work towards the kind of growth needed to produce the conditions for the normative vision. At the same time, it places the economy into the bigger picture of ecological, social and political challenges.
- The *growth engines* make visible the key assumptions of what drives the economy. The growth engines are the focal points for the EoT narrative that links technocratic policy making to the vision of a better society.
- *Strategic aims* suggest priorities for policy makers of all sectors.
- Finally, *governance tools* recommend individual instruments for policy makers. Due to the heterogeneity of local contexts, national multi-stakeholder workshops are best placed to determine tailor made mixes of governance tools. The Asia-Europe EoT dialogues acted as a clearinghouse for shared experiences and lessons learnt with governance tools, but refrained from formulating blueprints for national policies.



The discourse matrix can guide corporations in the development of new products, investors and consumers in making informed choices, political parties in the development of programmatic platforms, researchers in setting up projects, and ministries, bureaucracies, civil society and the media in planning, implementing, controlling and scrutinizing policies. This requires a long-term vision (“In what kind of society we want to live in?”) and a policy compass (“How do we get there?”). The matrix provides the criteria and benchmarks (“Are we going in the right or wrong direction”) to enable a meaningful public debate. By putting policies into the bigger picture, it allows scrutiny of their merits and shortcomings (e.g. “Which path is set by these incentives?”). In other words, the EoT discourse matrix facilitates debates in

pluralist societies over the right development path by sending guiding signals to its fragmented sub-sectors with a view of aligning all actors on a common goal.

However, while reducing complexity is a necessary first step, it is hardly enough to win discursive hegemony. What is needed is to translate the technical expert jargon into the plain, simple language spoken at the kitchen table. The neoliberal discourse, spun by legions of word wizards, has succeeded in formulating its main messages in suggestive and potent narratives. “Trickling down” and “getting the state off your back” are modern day equivalents of the “invisible hand” and the “animal spirit”. “Let the markets sort it out” and “free enterprise from red tape” have acted as the compass for a generation of policy makers. However, as simplistic as these narratives may sound,





they are by no means mere slogans. They are firmly rooted in the neoliberal view of the world, and based on neo-classical economic theories. Still, the way that they were formulated matters, because it placed the neoliberal discourse right at the center of the political field.

In Asia, neoliberalism is influential, but never became hegemonic. There is no such thing as an “Asian ideology”, as mainstream discourses in different societies vary significantly. However, the status quo in each society is equally fortified by the hegemony of certain ideas, beliefs and attitudes. Deeply rooted in local culture, they draw legitimacy from ancient myths, collective identities and national traumas. Here as there, in order to shift the development path, these discursive hegemonies will have to be broken and replaced by a new narrative.

In the following, I will translate the technical EoT development model into a matrix for political communication. While placing the elements along the discursive axis of a normative vision, growth drivers, strategic aims and governance tools, I will explore the potential to link them to existing theories and potential allies. With a view of building discourse alliances, the EoT variables need to be formulated in a way that they can evoke associations and build bridges. Participants of the EoT Asia Europe Dialogues understood well that their endorsement for the following terminology is only the starting point for the next phase of the EoT project which will re-evaluate and further develop the narrative. By making the rationale behind the choice terminology visible, I hope to encourage this strategic debate over how to best construct a powerful discourse.

### **6.1 Normative Vision: “Good Society with full capabilities for all”**

Balancing liberty and equality has been the main challenge for democracies since Plato<sup>68</sup>. More recently, Isaiah Berlin called for empowerment as positive liberty, and

John Rawls promoted positive equality for the least advantaged as a pillar of justice<sup>69</sup>. Amartya Sen’s combination of freedom and equality is a mission for state, private sector and civil society to create “full capabilities for all” by pro-actively removing obstacles that prevent individuals from exploring their full potential<sup>70</sup>. Hence, the Economy of Tomorrow needs to produce the conditions for a “Good Society with full capabilities for all”.

Providing public goods to create equal life chances is compatible with the European progressive ideal of the “Good Society”<sup>71</sup>. In the Asian context, “Development as Freedom” is appealing for liberal democracies like India, while East Asian developmental states can associate it with the guiding role of the state. The emphasis on social harmony, and the active role of the state in producing the conditions for a Good Society are compatible to East Asian values.

### **6.2 Growth Compass: Socially just, sustainable and green dynamic growth**

Some of the ‘post-growth’ discourses originated in Asia (“happiness”<sup>72</sup> and “self-sufficiency”<sup>73</sup>) and are widely discussed in the region and around the globe. On the other hand, there is suspicion about all approaches that aim to slow down GDP growth. India and China’s persistent refusal to join a global climate governance regime is, among other things, motivated by the wariness of a hidden agenda to spoil their economic development. Accordingly, calls to tackle climate change by reducing consumption or to resolve international trade imbalances by slowing exports are not seen as realistic options. References to ‘happiness’ and ‘self-sufficiency’ notwithstanding, ‘de-growth’ is not compatible with the Asian mainstream. However, the EoT emphasis on “qualitative growth with a higher normative purpose” (producing the conditions for a Good Society) echoes the skepticism of holistic post-growth discourses.



The growth compass will more than anything else define the EoT model. With a view of translating the model into a tool for political communication, labeling the growth compass must be informed by the need to build bridges to existing models and to form discourse alliances. Hence, naming the three axes “Socially just, sustainable and green dynamic growth” aims to place the Economy of Tomorrow model at the center of the ‘discursive landscape’<sup>74</sup>. Placed at the center, it allows the forming of alliances with a multitude of players.

The field of ‘socially just growth’ used to be held by social democratic paradigms in the era of Fordism. Since the rise of neoliberalism, progressive discourses have been on the defensive. Recently, the approaches of “Social Growth<sup>75</sup>”, “Decent Capitalism<sup>76</sup>” and “The Spirit Level<sup>77</sup>” tried to take back the discourse hegemony. The United Nations and its development banks promote “inclusive growth<sup>78</sup>” (e.g. “broad based growth, shared growth, and pro-poor growth”). ‘Socially-just growth’ is compatible with all of these approaches, and echoes the tradition of progressive movements.

The ‘sustainable growth’ dimension is not easy to define, because its elements are inherently intertwined with ‘socially just’ and ‘green dynamic growth.’ Nonetheless, with a view for discursive alliances, it makes sense to distinguish a dimension that explicitly addresses the instability and imbalances of financial capitalism. ‘Sustainable growth’ revives the Keynesian approach, while being compatible to the ‘New Developmentalism’<sup>79</sup> which is popular in Asia.

In order to better communicate green growth in Asia, the focus should be on ‘dynamic growth’ potentials, as opposed to the burden sharing stressed by global climate governance negotiations. Asian participants favor a pragmatic “do one thing without leaving the other” approach to tackle ecological crises. The hope is to mitigate climate change through a mix of emissions targets, technological innovations, industrial restructuring and a change of consumption

patterns, while at the same time retaining high growth rates. Hence, the EoT discourse should link ‘green growth’ to the opportunities of ‘dynamic growth’, and not to the stability of ‘sustainable growth’. “Green dynamic” growth refers to green growth discourses such as the “Green New Deal”<sup>80</sup> and the “Third Industrial Revolution”<sup>81</sup>.

Taken together, the combination of “socially just, sustainable and green dynamic growth” serves as a platform for rainbow alliances between social democrat and labor movements, critics of financial capitalism, enlightened conservatives, environmentalists and developmentalists. It strikes a very similar tone to India’s ‘Faster, Sustainable and more Inclusive Growth’<sup>82</sup>. Thailand’s development plan aims at a “Just Society, Quality Growth and social, economic and natural Sustainability”<sup>83</sup>. The emphasis on balance echoes the Chinese ideal of ‘harmonious development’. At the same time, the EoT model is clearly distinguished from the neo-liberal ‘Washington Consensus’ and radical concepts of ‘De-growth’<sup>84</sup>.

### 6.3 Growth Engines

The growth drivers are the centerpiece of every narrative. They are the link between technical policy making and the normative goals. The growth engines explain what really drives the economy. In a sense, they are the “magic” that both laymen and professionals lay their hopes on. At the same time, they to a large degree predefine what is required to fire up those engines.

***“Socially just growth is driven by fair incomes for all and inclusion of all talent”***

The EoT emphasis on human capital as the main source of productivity and innovation aims to counter the neoliberal vilification of labor and public goods as mere costs which undermine competitiveness. The new emphasis on “inclusive institutions”<sup>85</sup> as a key driver of growth allows the re-evaluation of



the provision of quality public goods as a means of workforce qualification and labor productivity. The focus on labor productivity allows employer concerns over competitiveness and labor demands for workforce qualifications to be combined.

The mini-narrative telling that story could sound something like this:

*“The provision of education, health care and social security empowers all people to fully explore their talent. By strengthening capabilities for all, inclusive institutions drive socially just growth.”*

Income-generated consumption allows the link between concerns over external vulnerabilities to the social question of income equality.

*“Income equality stimulates consumer spending from the majority of the population. Income-driven consumption demand drives socially just growth by closing the social divide between rich and poor.”*

***“Sustainable growth is driven by stability in financial, social and natural environment as well as balance in trade and budgets.”***

The emphasis on ‘stable financial markets’ connects the EoT discourse to a broad spectrum of critics of financial capitalism, from the post-Marxist left (Attac, Occupy!), the labor movement, and Neo-Keynesians to ordo-liberals and conservative critics of “excesses” (Christian democrats). After the Asian financial crisis of 1997/98, the Asian mainstream has always been wary of unregulated financial markets and free capital flows.

*“Financial sector regulation and a new Bretton Woods regime for money governance will discourage short-term speculation and encourage long-term investment in productivity and innovation. Stable financial markets reduce the risk of boom and bust cycles and allow for sustainable growth.”*

The need for balanced trade offers a bridge to skeptics of globalization on the left (Attac, Occupy!) and advocates for ‘fair access’ in the Global South (World Social Forum, Focus on the Global South).

Fiscal sustainability is one of the most contentious and politically charged issues in Europe and the United States. In Thailand and Indonesia, the acute wariness of the European sovereign debt crisis translates into strong criticism of “populist spending” and warnings about long-term “fiscal doom and economic collapse.” On the other side, progressives fume over the devastating economic and social effects of austerity policies, and dismiss fiscal sustainability as a pretext by the elites to cut social spending. Hence, there is a clear need to regain hegemony over the meaning of fiscal sustainability. In the EoT model, fiscal sustainability and balanced budgets aim at stability and a macro-economic equilibrium, but are not a pretext for fiscal hawks to hold the policy making process hostage.

The UN ESCAP has revised its previous focus on aggregate nominal targets and now promotes greater emphasis on the quality and composition of public expenditure, rather than aggregate budget deficit and public debts<sup>86</sup>.

*“Macro-economic policies aiming to recover global and domestic imbalances provide the necessary stability for sustainable growth”.*

The need for environmental and social stability obviously overlaps with the socially just and green dynamic dimensions. However, it is helpful to stress the stabilizing function of stable environments.

*“A stable natural environment and social peace provide the necessary stability for sustainable growth”.*





***“Green dynamic growth is driven by the greening of the old economy and green innovation”***

The innovation triggered by investments in green technologies has been formulated by the “Green New Deal”, “Third Industrial Revolution”<sup>87</sup> and “Ecological Industrial Policy” concepts. In Asia, it may be useful to point to the importance of avoiding the mistakes of industrialized countries by “leap-frogging” directly into resource-efficient production, mobility and housing<sup>88</sup>. In order to highlight the opportunities of green innovation, EoT stresses the “dynamic” potential of green growth:

*“Investment in green technologies opens opportunities for new green markets and green jobs. Green innovation drives green dynamic growth”.*

However, the EoT discourse cannot only focus on the opportunities of green growth, but must promote dynamism in all sectors. The main challenge of Asian emerging economies remains to ‘move up the value chain’ in order to escape the ‘middle-income trap’. The emphasis on guidance by the state is fully in tune with the philosophy of the Asian developmental state and compatible with the ‘Beijing Consensus’. In Europe, the guiding role of the state is in the tradition of the social democratic model. In the United States, after three decades of antagonism over “big government versus small government”, there is a growing thread that promotes a “smart state” that steps in where the markets fail.

*“The smart state needs guide where markets fail. To set the path towards dynamic growth, the state needs to install incentive structures for investment in productivity gains and innovation.”*

Path setting by the state is aimed not only at green innovation, but also at green productivity gains. Resource efficiency links competitiveness concerns over energy costs to energy security concerns and environmental concerns over carbon

emissions. The de-coupling of production, mobility and housing from the use of finite resources has already been translated as “Greening the Old Economy”.<sup>89</sup>

*“Greening the old economy means de-coupling the way we produce, live and travel from the use of finite resources.”*

## **VII Outlook: Mobilizing political muscle for change**

In its next phase, the Economy of Tomorrow project will continue to build the EoT development model. In order to find answers to the broader ecological, social and political challenges and build the foundations for a ‘Good Society’, discussions should include economic historians, political scientists, environmental and climate change experts, and philosophers. Most importantly, national working groups will have to adapt the model to the local context, and outline a tailor-made policy mix which is appropriate to tackle the specific challenges for their societies. At the same time, the work on an alternative narrative will now begin. The EoT discourse matrix marked a first step towards a new discourse. The technical jargon needs to be translated into the plain language spoken at the kitchen table. Hence, the EoT project will move well beyond the community of economists, and explicitly invites communication experts to join in.

The Economy of Tomorrow model is more than a policy compass and discourse matrix. It also serves as a platform on which a broad societal coalition can join forces despite their differences. The pooling of forces in a rainbow coalition is a key condition for success in the political struggle over shifting the development path. In other words: the chances for implementation of socially just, sustainable and green dynamic policies depend on the ability of the rainbow coalition to mobilize political muscle with a view of influencing the political calculus of decision makers. The EoT project aims for



the creation of rainbow coalitions between political parties, administration, business communities, implementation agencies, employer federations and trade unions, NGOs, universities and think tanks, professional federations, central banks, development planners and media.

Given the shift of the global economy towards Asia, a new hegemony in Asian discourses will undoubtedly have an impact on discourses in the West. A common Asian-European progressive narrative will affect how people around the world think and talk about the relationship between state, society and markets. The Economy of Tomorrow project does not only search for answers for the challenges of today, but aims to prepare the discursive ground for the political struggles over the Economy of Tomorrow.

## Endorsement

*The subscribers do not declare full agreement with all theses. In their private capacity, they subscribe in support of this paper's theoretical approach and main policy recommendations.*

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## Literature and Footnotes

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