The Bellagio Convening on New Economic Paradigms

A Report on the Dialogue

October 8-10, 2013 — Bellagio, Italy

AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

NEW ECONOMIC PARADIGMS

Rockefeller Foundation
Innovation for the Next 100 Years

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ABOUT DĒMOS

Dēmos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy.

DĒMOS MEANS "THE PEOPLE."

It is the root word of democracy, and it reminds us that in America, the true source of our greatness is the diversity of our people. Our nation's highest challenge is to create a democracy that truly empowers people of all backgrounds, so that we all have a say in setting the policies that shape opportunity and provide for our common future. To help America meet that challenge, Dēmos is working to reduce both political and economic inequality, deploying original research, advocacy, litigation, and strategic communications to create the America the people deserve.

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About Dēmos' Bellagio Convening on New Economic Paradigms

The global financial crisis of 2008 exposed the weaknesses of the late-twentieth century economic paradigm. Today, the United States and other wealthy countries are experiencing painful structural and political challenges amid declining standards of living for most of their populations. At the same time, the need for development in Asia, Africa, and Latin America is being thwarted by extreme economic inequities and serious collective challenges on climate change and resource distribution.

These trends are suggestive of a previous era, when the economic crisis and global conflicts of the 1930s and 1940s led to many nations adopting a new economic order. This new order was built for shared prosperity and supported by a civic balance between individual freedom and social obligation. Although varied in degree and kind across countries, the resulting policies forged a consensus among business, government, and citizens that organized economic life for roughly half a century. As that consensus unraveled due to challenges posed by globalization, technological change, and shifts in the political landscape, our economy of the last three decades has continued to grow, yet social progress has stalled. We are growing in ways that have proved to be increasingly inequitable, domestically and globally. And in many respects this inequitable growth is also threatening our quality of life and the health of the planet. Yet three years after the official end of the Great Recession, our politics have failed to deliver a vision for a new direction, much less a public debate that could yield any kind of consensus.

Our aim for the Bellagio Convening on New Economic Paradigms was to begin the process of aligning key stakeholders around the very notion of such a transformation, guided by the principles of equitable growth, shared prosperity, inclusive democracy, and ecological resilience—and necessarily with a global perspective reflecting the interconnected and interdependent nature of today's society.

To launch this process, we welcomed a diverse group of 20 luminary participants to Bellagio, including prominent economists, political leaders, representatives from monetary and multilateral institutions, and leaders from community and labor organizations for a three-day retreat. In addition, we commissioned nine background papers, addressing critical themes and important new research related to the core topics addressed in the convening (the papers are now publicly available at www.demos.org/new-economic-paradigms).

As reported in what follows, convening members engaged in a rich set of dialogues, probing deeply into the characteristics and causes of the current crisis and thinking carefully yet ambitiously about the challenges and solutions that lie ahead. The report does not represent a consensus analysis or policy program; it captures substantial agreement on the critical challenges we face and, against that backdrop, stimulating debate and differences on the priorities for change in a global context. In the final day, convening members worked to develop a set of transformative principles for a new economic paradigm, an exercise that proved clarifying and motivating for ongoing work together to broaden the reach of new economic paradigms in this time of great challenges.

As the core themes and challenges debated in Bellagio continue to resonate in our organization and planning, Dēmos is grateful and excited for the opportunity to be part of what is clearly an emerging field of "new economy" transformation. We welcome the challenge, as well as the input and efforts of all who wish to collaborate in this work.

Miles Rapoport
President, Dēmos

Why We Need a New Economic Paradigm

On October 8 through 10, 2013, at the Rockefeller Foundation's conference center in Bellagio, Italy, Dēmos convened a three-day discussion on the inadequacy of the dominant economic paradigm and the quest for more satisfactory principles based on sustainable growth, shared prosperity, civic and economic equity, and social resilience. The prevailing paradigm, sometimes called neo-liberalism or market fundamentalism, fails on many levels.

Members of the convening were in broad agreement on four key dimensions of systemic failure in the current paradigm. First, it produces gross extremes of inequality, both within and among nations. That inequality takes several forms, including economic, racial, regional, cultural and sexual. In the dominant economic paradigm, wealth flows upward to the very top, while regular working people have increasing difficulty finding reliable employment and suffer declining social supports and living conditions. In theory, the rewards to investors stimulate productivity and hence general prosperity. In practice, the benefits are highly concentrated; despite the claims of improved economic efficiency, the inequality is combined with prolonged stagnation.

Second, the prevailing paradigm takes an unsustainable toll on the natural environment. Freer markets are supposed to allocate resources efficiently, but markets under-value the costs of predatory development and the benefits of necessary public goods. As the global South aspires to Western levels of consumption, the existing paradigm forces an unacceptable choice of destruction of the planet versus persistent and dire poverty.

Third, globalization of commerce is a core principle of the dominant paradigm. However, there is more than one form of globalization. The current version of globalization, rather than serving as a force for cultural learning and diffusion of humane technologies, and for promoting worldwide social standards and a more sustainable brand of development, serves as a mechanism to destroy social constraints on giant global corporations. Financial elites seeking the highest returns share a common global outlook and lifestyle, while non-elites in different nations are played off against each other. As the rules of finance and trade are globalized, the democratic polity, which tends to be nation-bound, is weakened. The forms of global governance are rudimentary, mostly non-transparent, and vulnerable to capture by elites. Since political democracy is the realm of citizen equality, the current form of globalization weakens civil society and reinforces economic extremes. So, in addition to its strictly economic deficiencies, the prevailing para-

"As the rules of finance and trade are globalized, the democratic polity, which tends to be nation-bound, is weakened."

digm undermines political democracy.

Fourth, the current paradigm has promoted extreme financialization of economic life, by many measures. Such financialized capitalism is vulnerable to bouts of extreme instability and volatility, such as the collapse of 2008. In the current paradigm, the financial sector primarily serves its own enrichment rather than fulfilling its proper role of efficiently allocating capital to the real economy. At the same time, as Monica Prasad's convening paper details, financialization in the U.S. context promotes a perverse "consumerist" culture, where expansive credit, in the absence of robust social benefits and strong labor market institutions, effectively becomes the safety net for household living standards and economic growth. Such financialization reinforces extremes of inequality, politically as well as economically: the financial sector has already recovered from the crash, while ordinary households continue to suffer. Government, pressed by financial elites to balance budget accounts by imposing austerity, reduces social aid and public investment, at cost to personal and social resilience. The liberation of financial capital from the salutary constraints that marked the post-World War II era is at the very center of the dominant economic paradigm and its deficiencies.

Paradigms Lost

The economic paradigm that has been ascendant since the 1970s reflects the success of economic elites in overthrowing the more egalitarian social compact of the post-war era. That compact, however, was the product of very special historic circumstances; it was also incomplete and exclusionary in its membership.

In the social settlement that grew out of the Great Depression and World War II, political democracy defined and regulated a managed form of capitalism. Full employment was accepted as a national goal; workers' organizations were given legal recognition; corporations, banks; and labor markets were regulated; and public investment including social insurance was dramatically increased. Even so, African Americans and women were largely excluded from the compact, which was for white, male breadwinners, with dependent women and children as secondary beneficiaries. The compact depended on the assumption of regularized payroll employment, which did not describe all workers then and describes even fewer today.

Internationally, the Postwar social compact of the North Atlantic area co-existed with colonies in the global South and with rapacious forms of mineral exploitation. Other issues such as health, safety, and environmental regulation, as well as expansion of civil rights, were not added until a generation later—as economic foundations of the basic social compact began reverting to a more fundamentalist form of capitalism. Just when excluded groups and causes were demanding entry into the democratic tent, the tent began collapsing.

In addition to being incomplete in its inclusion, the Postwar bargain did not acknowledge the limits to material consumption. Part of what allowed the high rates of growth of the 1940s, 1950s, and 1960s, which in turn created a larger economic pie to share, was the illusion of endlessly cheap energy and limitless natural resources. That myth was shattered in the 1970s, first by the OPEC oil price increase, then by the warnings of the limits to growth, and finally was confirmed by the realities of global climate change. And yet nearly half a century later, though explicit climate-change deniers are widely denounced as anti-science extremists, much of the rest of American society remains in tacit denial as the quest for cheap carbon fuels continues and even intensifies.

In retrospect, the Postwar paradigm of a highly regulated form of capitalism, quite apart from the thorny issues of inclusion and later of sustainability, grew out of unique historical circumstances. The Great Crash of 1929 and the Depression that followed discredited the ideology of laissez-faire, discredited the management of government by economic conservatives and weakened the political influence of large corporations and banks. These circumstances created an opening both for trade unions as a countervailing political force and for activist government. The coincidence of World War II following directly afterward created more prestige for government as well as full employment. The War also created patriotic acceptance of very high tax rates on large incomes. The low interest rates imposed by the Federal Reserve as a strategy of financing the large war debt further contained the influence of speculative finance.

In Western Europe, circumstances were different in the 1930s and 1940s. Depression weakened democracy and gave rise to totalitarianism. But the Postwar created the conditions for an even more advanced form of managed capitalism or social democracy. The war discredited both fascism and the corporate elites that had allied themselves with fascist governments. The extreme unemployment that incubated the war combined with the threat of communism to create a postwar consensus on behalf of an economic paradigm that combined full employment with public investment and social insurance. Both center-left and center-right parties and governments redoubled efforts to demonstrate that a mixed economy could produce economic opportunity and security for ordinary citizens.

The global financial and economic architecture devised by the Allies at the Bretton Woods conference of July 1944 created international rules intended to facilitate domestic policies of full employment and managed capitalism. These included fixed exchange rates, prohibitions against speculative capital movements, and plentiful credit for economic reconstruction and development. As a consequence of all this, the quarter-century after the war was a period of rapid growth, public rebuilding, and broadly shared prosperity as well as of the harnessing of private finance for social purposes.

Both the Postwar paradigm and the successor neo-liberal paradigm were not just theoretical constructs. They were systems, anchored in a politics that tended to reinforce and expand their logic. In the system of managed capitalism, well-mobilized voters, trade unions, and broadly popular government programs served as counterweights to the influence of economic elites. Beginning in the 1970s, as elites strategically weakened the capacity of government and trade unionism to deliver broad prosperity, popular faith in the efficacy of government waned. In the U.S., corporate success in elevating unlimited campaign spending as a form of democratic expression further undermined countervailing democratic forces and increased cynicism about government, politics, and democracy itself. Further assault in recent years on the right to vote makes the current era the first one in two centuries in which the franchise is being narrowed rather than broadened.

The unique historical and political circumstances that made possible the Postwar paradigm are no longer present. New, pressing issues of inclusion, sustainability, and global social justice place even more demands on a new paradigm to replace the current one. At the same time, deliberate policies of the deregulation of commerce and finance and the liberation of political money have undermined the reach of the democratic polity to temper the extremes of a market economy. Thus the quest for a new paradigm is both urgent and challenging, amid circumstances less auspicious than those of the Postwar boom.

Engaging the Issues

In addressing what a new paradigm or paradigms might look like and what goals they should serve, the conveners of the conference posed several questions and commissioned several background papers. Among the key questions were:

- What possible paradigms might be identified?
- What is the economic, technological, cultural, environmental context in which we seek a new paradigm?
- What explains widening inequality?
- What role does globalization play?
- How do we raise global living standards sustainably?

Looking forward to the conference and beyond, the conveners identified core goals and posed questions about how different paradigms might facilitate them: greater equity and inclusion; reconciling sustainability with shared prosperity; the proper role of financial markets; the structure and social purpose of the corporation; new forms of enterprise and ownership; the role of democracy in reclaiming a more socially just and sustainable corporation, as well as a more equitable economic system.

At the conference, the discussants began by identifying actual and possible paradigms. At the outset, four were proposed: the current or neo-liberal paradigm; the postwar or social-democratic paradigm; a paradigm of state-led development; and an aspirational paradigm that reconciled shared prosperity with greater inclusion and sustainability. As discussions progressed, the state-led approach was rejected as not really a conceptual paradigm but a strategy that took widely divergent forms in different nations. The Postwar social-democratic one was jettisoned as historic and applying to different circumstances but offering valuable lessons about managed capitalism. The four were boiled down to two: the current neo-liberal paradigm; and a new approach that would blend the best of the Postwar social compact with urgent demands of sustainability and broader democracy and membership.

Along the way, discussants delved more deeply into a variety of policy areas that define new and existing economic paradigms.

Inclusion, Equity, and Activist Government

One recurring issue was the question of inclusion: who is a full member of the economy and the political democracy? Globalization and immigration complicate this challenge, since hundreds of millions of people who find themselves working outside their countries of citizenship have reduced rights, or no rights at all. As the human rights activist Gara LaMarche once put it, nobody should be excluded from the social contract—yet vast numbers of people are excluded, even in democratic nations with advanced social policies. Electorally, the overwhelming majority of migrant workers, both documented and undocumented, are barred from normal democratic participation—thus weakening one key counterweight to the influence of economic elites by excluding from politics large segments of workers.

The exclusion of immigrants is a close parallel to the historic exclusion of African Americans from American democracy, with similar results. The negative impact of being excluded from democracy harms people of color directly but also diminishes the capacity of the democratic polity to serve as a counterweight to concentrated wealth and to help non-wealthy people generally. Historically, racial privilege for lower income native-born whites crowded out economic solidarity among the working class as a whole. As elites have found new ways to suppress minority voting and to dilute minority votes via redistricting, the impact once again is economic as well as racial; to regain lost ground, both the civil rights revolution of the 1960s and the social democratic revolution of the 1930s will have to be fought all over again.

As detailed in Michael K. Brown's convening paper, "Divergent Fates," the social compact of the New Deal and post New Deal largely excluded African Americans. Subsidized housing and mortgage finance explicitly allowed and often required racial redlining and segregation. Occupations where people of color were concentrated, such as farm work and domestic labor, were kept outside the Social Security, minimum wage, and unemployment compensation regimes as a condition of Southern legislative support. Occupational and wage inequities in the industrial North, at all education levels, have persisted into the present despite the passage of historical civil rights legislation. In many respects, that social compact, while helping lower income whites, reinforced Jim Crow, north as well as south. Universal health care, as convening member john powell observes, was rejected in 1948 because it would have required desegregation of southern hospitals. Well into the Civil Rights Era, programs that disproportionately helped African Americans, such as Aid to Families with Dependent Children, became the target of backlash, and the successor TANF program (signed by a Democratic president) is far more meager and punitive than AFDC. The assault on affirmative action continues in this tradition.

The lingering effects of past federal and state policies persist. Patterns of residential segregation, which were the result of deliberate government policies that nominally ended nearly half a century ago, remain locked in place. African Americans continue to have limited housing choices, and the sub-prime collapse had disproportionate and devastating effects on black financial wealth. Even though the biggest government social programs mostly benefit whites (Social Security, Medicare, tax favoritism for owner-occupied housing and for retirement savings), the “safety net” is associated with helping minorities, which makes it politically vulnerable. Safety net programs have suffered disproportionate cuts in the austerity era. Social Security and Medicare, thus far, have been protected. The attack on affirmative action has retarded racial inclusion efforts, long before the present and future effects of past discrimination have been remediated.

As the research of Professor Robert Putnam and others has demonstrated, it is a challenge for democracies to navigate diversity. Solidarity thrives on cohesion. Groups are more inclined to tax themselves to provide benefits for their own kind. (Hence the support for high levels of school taxes in homogeneous affluent suburbs.) In Europe, where a narrow electoral majority has favored social-democratic policies of progressive taxation and broad social spending, the increased presence of refugees and immigrants from very different cultures undermines the voter coalition. In the very heartland of the welfare state, Sweden and Norway, center-right coalitions now govern. A backlash among native working class voters against their tax money going to help immigrants has reduced core support for social-democratic parties. In much of Europe, the second largest party is now an explicitly nationalist anti-immigrant and anti-system party.

The imperatives of inclusion and diversity are difficult even in good economic times, and become more of a challenge in hard times. As Ira Katznelson famously observed, for a very long time there was affirmative action for whites, but compensatory affirmative action for non-whites is perceived as favoritism. In the U.S. and in much of the West, fear of the “other” has led many lower income whites to give political support to politicians who don’t serve their economic interests. This dynamic has been super-charged by the incumbency of an African-American president, during a prolonged economic slump. The perceived (and actual) downward mobility of white males, especially the non-college-educated, has contributed to these trends. Two generations ago, white men had virtually no competition from women or from people of color for entrance to elite universities and for professional careers and good blue-collar jobs. Men benefited from a support system at home, in the form of traditional wives. Today, women are a majority of students in medical and law schools, well-paying blue-collar jobs have evaporated, and men are expected to do more of their share around the house. The wife as former domestic support system is otherwise engaged, in the paid labor force (though women still do far more than half the “second-shift” tasks of housework and child-rearing.) Whether justified or not, white men except at the very top have suffered a relative decline in their privileged living standards. This has political consequences.

The rising insecurity of the working middle class and the downwardly mobile new poor feeds the far right as well as the hostility to otherness. As convening member and former Danish Prime Minister Poul Nyrup Rasumssen has observed, it is hard to imagine reversing the drift to rightwing populism unless a sense of opportunity and security is restored.

A new paradigm would simultaneously need to rebuild the capacity of govern-

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ment to help provide broad economic opportunity and security while damping down strife and mistrust among diverse groups. There is potentially a virtuous circle here if it can be activated. When living standards are rising, there is less fear of dissimilar people competing for good jobs or of paying taxes. Universal social programs tend to emphasize similarity, not difference, and to build solidarity. It is also possible to have "targeting within universalism," providing additional resources to under-served groups within the context of a universal program such as public education or Social Security. Trade unions, despite past racist tendencies, have been a constructive force in recent years for racial inclusion. Trade union members and their families tend to have far more progressive views on economic and social issues than demographically similar non-union members. Union organizing drives, by their very nature, succeed only when they transcend barriers of race and ethnicity. A resurgent labor movement could produce more islands of inter-racial solidarity. The presence of broad ethnic political coalitions in close alliance with unions in New York City and Los Angeles suggests that Professor Putman's observation about diversity frustrating democracy is only a tendency, not an iron law.

The Global Dimension

To look at the issue of inclusion and equity through a global lens further complicates the question. The vast majority of the world's people live at far lower material living standards than nearly all Americans. Over a billion are desperately poor. Gender inequality and oppression are far more extreme in much of the world. However, there is escalating poverty in the U.S. and improving the condition of the world's poor does not require widening inequality, given the right policies.

The problem, however, is that the existing paradigm tends to give us the wrong policies and force the wrong choices. Global labor standards, for example, exist in principle via conventions of the International Labor Organization. But the enforcement of these conventions is very feeble. So, workers in most poor countries have no meaningful protections against horrific labor conditions and no meaningful right to organize trade unions. As commerce has globalized, enabled by both technology and by trade deals, multinational corporations roam the world in search of the cheapest and most docile labor forces. Nations seeking to gain a foothold in global export markets compete with one another to offer the lowest wages.

While global labor standards are weak, corporations have succeeded in negotiating trade and investment agreements with the full force of domestic law. For the first four decades after World War II, trade agreements were actually about trade. They mainly addressed reciprocal reduction of tariffs and the phase-out of quotas, subsidies, and other so called non-tariff barriers. But in the run-up to the 1990 Uruguay Round of trade negotiations, which resulted in creation of the World Trade Organization, corporations and banks hit upon the strategy of defining ordinary forms of economic and social regulation as non-tariff barriers. These concepts are enshrined in the WTO, and even more intensely in bilateral trade agreements.

Members of the convening agreed that we need better public understanding and debate on the anti-regulatory and other non-trade aspects of so-called trade agreements. Unlike the labor standards of the ILO, the new trade and investment rules are legally enforceable. Bilateral deals such as NAFTA, the proposed Trans-Pacific Partnership and the proposed U.S.-Europe agreement (T-TIP), would go even further and allow far more authority for corporations and investors to sue in domestic courts to overturn regulations. As Lori Wallach has demonstrated, this strategy, which has emerged largely under the radar, has nothing to do with trade as normally defined, since tariffs and true barriers to trade between the U.S. and EU are vanishing low. Yet center-left parties as well as center-right parties in both the U.S. and Europe support and carry out this corporate agenda that destroys the ability to have a managed form of capitalism, while also trumping national political democracy. Regulatory decisions made by national legislatures can be overturned by bodies of private law, as inconsistent with non-transparent trade agreements.

The trade question is further complicated by the fact that poor nations need exports in order to develop their economies. Often, the governments of developing nations resist the imposition of basic global social standards, which they view as a covert form of protectionism because standards interfere with their low-wage export model. At the same time, trade unions in the global South and North are able to agree on norms that protect workers in emergent economies without depressing the capacity to develop export economies, so in most cases the charge of protectionism turns out to be a red herring.

An upside of globalization is the ability to learn from other nations. For the past half century, Western Europe has had a more social economy than the U.S., with greater equality, more social consumption, lower levels of carbon emission relative to economic output, and no less robust overall economic performance. Thanks to the fact that more of the national product is spent socially and incomes are more equal, for the bottom 80 or 90 percent of Europeans living standards are higher than in the U.S. Performance in Europe has been depressed in recent years, mainly because of the financial collapse and the perverse austerity policies that followed. Yet because of the spread of the neo-liberal paradigm from the Anglo-Saxon countries to the rest of the North Atlantic area, income inequality has widened in the last two decades in nearly all of Europe, according to comparative studies by the Russell Sage Foundation.

Harnessing Finance

The function of the financial industry, in principle, is to efficiently convert savings to investment in the real economy. The financial industry supposedly earns its fees for providing the service of accurately pricing credit and appropriately allocating capital. But with the shift to neo-liberalism, finance has mainly been about its own enrichment. The failure of the financial industry to accurately price such risks as credit default swaps, subprime loans and securities built on them, has produced economic catastrophes whose costs vastly outweigh the alleged benefits of freer financial markets.

Central to the shift to a market-fundamentalist paradigm has been the liberation of finance from the constraints that marked the period between the 1930s and the 1970s. The dynamics were both economic and political. The inflationary environment of the 1970s squeezed corporate profits and left banks vulnerable to a process of "borrowing short and lending long." The stagflation of the 1970s also discredited the Keynesian economic management associated with then-dominant center-left parties and governments. As business-friendly governments took power in the U.S. and Britain, business elites redoubled their political efforts to secure financial deregulation.

This process occurred in several waves. The 1933 Glass-Steagall Act, which had strictly separated government-guaranteed commercial banking from more speculative investment banking and the underwriting and trading of securities, was gradually weakened by administrative loopholes over two decades and eventually repealed outright in 1999. In the meantime, banks and shadow banks invented new business models, such as hedge funds and securitization of consumer credit, which circumvented other rules, and neither regulators nor the Congress modernized regulation to keep up with the new practices. Mortgage lenders devised an originate-to-distribute model, in which the risk of bad loans was securitized and passed along to others. Big investment banks made money both by backing loan originators, and by turning loans into securities, on which they could also turn a profit by underwriting and trading. Conflicts of interest and non-transparency were built onto these strategies, with the result that neither risks nor super-normal profits were competed away by market forces. Essentially, bankers were free to create as much liquidity (money) as their imaginations could invent, with leverage ratios that were close to infinite. The towers of paper were backed by far too little actual capital should markets ever turn against them, as markets did with a vengeance in 2008.

What was termed "de-regulation" was really three different shifts: the explicit repeal of some rules (such as Glass-Steagall); the ideological refusal to enforce other rules or to examine newly invented abuses that required new regulations;

and plain corruption in the regulatory process. Fed by such de-regulation, the new license for finance and the huge profits to be made from conflicts of interest in the creation and trading of non-transparent financial products interacted with the decline in the purchasing power of median wages. The result was what one astute critic, the British political economist Colin Crouch, has termed "privatized Keynesianism," and what Prasad terms "mortgage Keynesianism" in her convening paper. In the period after the 1970s, incomes were stagnant or declining, but. thanks to the housing bubble, asset values were increasing. The securitization of subprime loans helped to pump up the bubble. So households maintained purchasing power by borrowing against their homes. Students could not afford rising college tuitions in the face of declining public support for higher education, but the financial sector helpfully provided loans guaranteed by government.

But the false prosperity concealed grave risks on both sides of the equation. The balance sheets of banks, which financed their own operations in overnight lending markets, could be wiped out if investors began to doubt the value of the collateral. And rising household purchasing power was only as sustainable as the housing bubble. When one side of the equation collapsed, so did the other.

The trouble with privatized Keynesianism is that the purchasing power evaporates when the crash comes, just when additional demand is needed. As housing values collapsed, people ceased being able to borrow against their homes. On the contrary, one in seven was left with a mortgage worth more than the value of the house, and ten million were at risk of foreclosure, further depressing housing values in a declining market. More than ten trillion dollars of home equity, the principal form of savings of the middle class, was wiped out. Privatized Keynesianism, in economic terms, is pro-cyclical. Its dynamics tend to deepen slumps. With genuine Keynesianism, expanded government purchasing power can bridge over the shortfall of private demand and invest in social needs such as better infrastructure and social supports.

However, as finance became more potent economically, the financial industry also became more powerful politically. Leading Wall Street figures successfully pressed government not to increase public outlay but to reduce it, in the name of restoring investor confidence. Both political parties in the US, and social democrats as well as conservatives in Europe, have been complicit in the policies that have financialized the economy. Even in the aftermath of the collapse, partial reforms such as the Dodd-Frank Act have not been sufficient to fundamentally change the dominance of the financial economy at the expense of the real one, and have not altered the basic business model that relies on windfall trading profits rather than the more prosaic traditional bankers' role of evaluating and making loans to ordinary enterprises. Banks continue to aspire to the role of hedge funds.

As a very slow recovery goes into its sixth year, heroic asset-purchase policies by the Federal Reserve have worked to keep general interest rates low, offsetting some of the fiscal drag of budgetary austerity. But the Fed's so called Quantitative Easing

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program, made up of $85 billion a month in purchases of Treasury bonds and mortgage-backed securities, has only flooded the banking system with cheap money but has not caused that money to flow out at adequate scale into the real economy. The financial industry is still mainly about the profits of the financial industry. And the concentrated legislative influence that comes with concentrated wealth has underwritten a relentless lobbying campaign to weaken or obstruct implementation of the Dodd-Frank Act.

So the outsized political power of finance, over both political parties, continues to enforce austerity and prevent more fundamental reform of the financial industry.

A new paradigm would require drastic constraints on finance, both to restore the banking system to its proper role in the economy, to limit the risks of future cycles of bubble and collapse, and to limit finance's political sway.

Worker Living Standards

A further question addressed by the conference was the relationship of worker skills to widening inequality. A standard storyline in the neo-liberal paradigm is that widening inequality of income and wealth reflects primarily an increased demand for skills that reflect advanced education and exceptional talent. This dynamic is compounded by globalization of production, in which American workers with only routine skills are thrown into direct competition with foreign workers who will produce at comparable productivity for a fraction of the wage. In this view, the cure for inequality is better schools and better skills.

However, as several participants pointed out and as economist Josh Bivens documented in one of the pre-conference papers, most of the shift to precarious jobs is the result of deliberate corporate strategies and deregulation of labor markets, not a shift in the supply or demand for worker skills. In the economy of the postwar paradigm, workers had far lower skill levels but the real wage structure was more compressed and the income distribution more equal. Much outsourcing is also the result of tax policies that reward US-based corporations for producing offshore. It is true that both technology and the current structure of trade rules make it easier for very low wage workers overseas to compete directly with US production workers. But with different policies on infrastructure, procurement and industrial strategy, much of that work could be brought home.

To the extent that better education and training is part of the solution to earnings and national competitiveness, the US system for producing a skilled workforce is broadly dysfunctional, with huge gaps, mismatches and unrealistic expectations about what midlife expenses can be borne by displaced workers or workers seeking better skills. The heavily marketed yet largely unregulated private system of vocational education only adds to the dysfunction and the intergenerational inequality. As labor economist Lisa Lynch pointed out in the convening, the existing system is ad hoc and haphazard, adding that a better skilled workforce is also a more effective and engaged citizenry.

It is also the case that as manufacturing becomes more automated, an ever increasing share of the labor force will work in a service economy most of which cannot be moved offshore. It is deliberate policies of paying low wages and casualizing terms of employment that have produced a labor market of precarious jobs. These policies can and must be reversed. Trade unions and other strategies of worker representation are key to this process. At the same time, members of the convening also recognized that some parts of the workforce in advanced economies are extremely vulnerable to overseas competition and technological displacement, and addressing these challenges will likely require a new acceptance of certain kinds of public employment solutions, such as work-sharing and national jobs programs.

The Necessity of Sustainability

It is possible—and likely—that two seemingly opposite things are true. On the one hand, the obsession on the part of market economies with ever increasing material consumption, as measured by GDP growth, is taking an unsustainable toll on the natural environment. On the other hand, worsening income distribution of the past four decades has depressed living standards for most Americans, a condition that only intensified after the financial collapse. So, paradoxically, an economy that over-taxes resources is nonetheless suffering from a shortage of aggregate demand, a concept that remains useful even with a radically different consciousness about the environment.

Conventionally, restored prosperity is associated with reduced unemployment and higher wage and salary income, and is reflected in improved growth. Other things being equal, higher growth leads to tighter labor markets, which improves worker bargaining power and tends to raise wages. In recent years, however, other things have not been equal—the bubble boom of the early 2000s was in fact associated with more inequality, not less. Though increased growth has long been a mainstream economic policy objective, Keynesians and free-market advocates divide over the appropriate government role in this effort. Keynesians support higher taxes and public investment and occasional deficits as economic stimulus; free-marketeers associate improved growth with tax cuts and less government, and often tolerate deficits to create momentum for budget cutting.

"We need to redefine growth and possibly limit some forms of growth."

But for many critics with an environmental sensibility, "growth" as defined by GDP is the wrong target and may be the wrong goal altogether. Critics of the current growth paradigm divide over both diagnosis and remedy when it comes to sustainability. There is general agreement on the need to develop better indicators of well-being, since GDP erroneously measures "bads" as well as "goods" and undervalues forms of economic activity in the household and community that are not priced in markets and hence not counted in GDP. Members of the convening were strongly supportive of initiatives to reform prevailing metrics and accounting systems. But this leads to a larger, more challenging point: to the extent that we still desire something called growth in order to improve material living standards for the majority of households (whose purchasing power relative to hours worked has been flat or declining since the late 1970s), we need to redefine growth and possibly limit some forms of growth, so that higher global living standards are environmentally sustainable.

Those who espouse this latter view, representing a majority of discussants at the Bellagio convening, hold that a very different path to material well-being could produce better living standards for the vast majority with a far lower toll on the natural environment. The ingredients of this part of a new paradigm include drastic reductions and early elimination of carbon fuels in favor of renewable energy; much more serious conservation measures; greater social investment and social consumption, via such public goods as increased investment in children, families, public health, and green forms of infrastructure; less profit-driven forms of enterprise, such as worker co-ops, as well as non-market forms of exchange.

This path also has diplomatic implications. If the West were to embrace drastic reductions in its own carbon emissions and to agree to cheap or free technology transfer to the global South, emergent economies such as China and India might be more inclined to leapfrog over the U.S.-led model of heavily externalizing, resource-intensive economic development and instead invest massively in green forms of energy and development. The failure of the West, especially the U.S., to get serious about addressing global climate change has produced a deadlock on the post-Kyoto process.

However, for a minority of participants in this wider debate, "sustainable development" is just a modified form of Keynesian economics and cleaner "growth" is an illusion. Even with drastic reductions in greenhouse gas emissions, a lower toll on water supplies, investment in green infrastructure and the like, the planet is already on a path to ruin. The deep ecology viewpoint contends that we need to get "beyond growth" as a goal and become reconciled to far lower levels of material consumption per se.

At points, this conversation becomes partly an argument over who is the realist and who is the utopian. For the deep ecology perspective, realism is recognizing the extent of the planet's existential crisis and the unreality of expecting the earth to withstand increases in material consumption. For the sustainable development perspective, we cannot expect billions of desperately poor people to abandon their desire for better living standards. As Lydia Powell, who heads the Centre for Resources Management in New Delhi, observed, "Trying to sell this to a population that has hardly tasted any quality of life, starting from a roof over their head, is going to be very difficult. People look at the West or urban elite and say 'we want to be like you.'" And to the extent that Western nations, especially the U.S., have disproportionate geo-political power, it is utopian to expect that any elected leader could persuade a majority of suffering American voters to volunteer for further reductions in depressed real incomes. The irony is that an economy of ever increasing materialism has led to downward mobility. As Tamara Draut noted, "People have more and more 'stuff'—flat screen TVs, iPads—but the things that people really care about have gotten so far out of reach—goood education, healthcare, decent housing."

In recognizing this contradiction, we can begin to see that the tension between sustainability and equity may be less about levels of consumption than about types of consumption: if we direct more of our national product toward public goods such as affordable housing, health care, and education for all, the higher household costs associated with more sustainable forms of production and consumption will be much easier to bear and, indeed, probably far less of a burden on households than today's skyrocketing health and education costs.

Whether in the form of greater market equality, or more robust provision of public goods (or likely some combination of both), without an extensive redistribution of income and wealth, it will be difficult if not impossible to build majority support for strong sustainability policies in the U.S. Labor economist Bill Spriggs put it bluntly: "You're not going to win this with ecology first. You have to win it with equity first." In effect, there is a race between less destructive and more egalitarian and sustainable forms of prosperity and the degradation of the planet—and time is not on our side. However, as sustainability expert Simon Zadek argued in the convening, China, because of its centrally planned economy and capacity for massive public investment, represents a test case of which path will be chosen by emergent economies that still suffer from mass poverty.

One concept that potentially bridges the divisions between the sustainable development and deep ecology perspectives is the paradigm of a "social economy."

As Neva Goodwin and others have observed, a social economy has less private material consumption and a greater valuation of social goods; it has less of a reliance on the profit motive to allocate production and consumption, and a flowering of communitarian institutions. This oasis, in combination with more robust provision of traditional public goods such as education and health, helps to alter the political sensibility of the electorate. Goodwin calculates that the social, non-market economy, conventionally assumed to be around ten percent of GDP, is more like at least one-third. This approach, while very promising, leaves open the questions of just how much reduction in carbon emissions and in material living standards is required to heal the planet, and how such policies might be brokered politically in the short and medium term.

Towards a new paradigm

The word resilience captures much of what is desired in a new paradigm. A resilient economic system would be highly innovative and dynamic, but not at the expense of individuals and families, as the present system is. Buffers against inevitable change would be social, not the sole responsibility of individuals. A resilient system would provide excellent health coverage socially, to help children and adults to ward off and to recover from illness. It would include high quality, development-oriented early education, to give lower income children some of the same advantages enjoyed by the children of the affluent. It would de-link such fringe benefits as health and retirement from employment, to reflect a world in which the paternalistic corporation is a vanishing species and change is the norm.

Some of the most effective labor market programs in the world, such as those of Denmark and Sweden, facilitate the continuous up-skilling of the labor force, making for a highly competitive as well as more egalitarian economy. A Dane who loses a job because of cyclical downturns or technological shifts can receive education and training for a new job, with the state paying up to 90 percent of the earnings of the worker's previous job as well as tuition costs. Thanks to these policies, Denmark has Europe's highest rate of voluntary turnover, and there is little lock-in to preserve benefits and little fear of pursuing new jobs and careers. A resilient lifetime learning strategy for the U.S. would pay the living costs for students attending community college as well as providing low or free tuition. The low completion rate at our community colleges is not for lack of diligence on the part of students, but reflects the fact that nearly all must work full or part time to support themselves and their families.

A resilient system would strive to produce more sturdy and flexible citizens, able to adapt to changing circumstances, but not thrown back solely on their own resources, which are so widely divergent by race, gender and class. It would promote communities able to recover from natural and human disasters, able to take diversity as a source of strength.

Resilience also describes goals for environmental policies. A new paradigm would both invest in prevention of further climate change, as well as adaptation to the change that is already inevitable.

In their concluding session, the participants at the Bellagio convening resolved to envision an ideal paradigm, apart from short-term political realism, in the hope that compelling and broadly shared aspirations could help to generate the necessary politics. The basic principles included:

Broader equity and inclusion, through expanded rights of citizenship and political participation, and richer social institutions, both as an end in itself and to counter forces of political division and market materialism that disempower democracy.

Adequate livelihoods for all, moving "from an economy which rewards work mainly through market values to an economy that honors, rewards and celebrates work according to human values and in a way which is truly inclusive."

Respecting the earth's natural limits, with a system aimed at sustainable human development.

A new role for finance, moving from a financial system that extracts wealth from and creates extreme risk for the real economy, to a socially beneficial system of capital investment and lending that supports small and medium enterprise, real innovation, and household financial needs.

Recasting the role of business, moving from a system dominated by concentrated control of capital and narrowly beneficial profitability, to a system characterized by more community control of resources, broader distributions of productive ownership, new fiduciary models for business responsibility, and widespread adoption of higher workforce standards and environmental standards.

Globalization and trade as a means, not an end, moving from a system that puts ceilings on what governments can do to regulate corporations to one that puts a floor under what corporations must do, and creates worldwide basic social standards.

New values and cultural transformation, moving from an economy that depends on and fosters materialism and consumption and individual competitiveness to an economy that promotes values of cooperation, shared prosperity, flourishing communities and a healthy and resilient natural world.

2013 Bellagio Convening Participant List

- **Angela Glover Blackwell**, Founder and Chief Executive Officer, Policy Link, United States
- **Abigail Carlton**, Associate Director, Secure Livelihoods, Rockefeller Foundation, United States
- **Lew Daly**, Director of the Sustainable Progress Initiative and Senior Fellow, Dēmos, United States
- **Lisa Donner**, Executive Director, Americans for Financial Reform, United States
- **Tamara Draut**, Vice President of Policy and Research, Dēmos, United States
- **Lorenzo Fioramonti**, Associate Professor of International Political Economy and Jean Monnet Chair in Regional Integration and Governance Studies, University of Pretoria, South Africa
- **Neva Goodwin**, Co-director, Global Development and Environmental Institute, Tufts University, United States
- **Mary Kay Henry**, International President, Service Employees International Union (SEIU), United States
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- **Poul Nyrup Rasmussen**, Former Prime Minister of Denmark
- **Bruno Roelants**, Secretary General, International Organization of Industrial and Service Cooperatives, Sectoral Organization of the International Cooperative Alliance, Brussels, Belgium
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