Towards the Wellbeing Economy: Implications for Public, Environmental and Financial Policy

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Think Tank of Young Economists of the Future Markets Consultation
Our New Economy (ONE), Sustainable Finance Lab (SFL) & Moral Markets

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This is a publication by the Think Tank of Young Economists of the Future Markets Consultation led by former Dutch Prime Minister prof. Jan Peter Balkenende and prof. Govert Buijs. The project is a collaboration between Our New Economy (ONE), Sustainable Finance Lab (SFL) and Moral Markets and is funded by the Goldschmeding Foundation and Templeton World Charity Foundation, Inc.

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Summary

The world is facing a significant amount of problems. Most acutely are the coronavirus pandemic and the socioeconomic crisis it has caused. There are, however, many longer running issues, such as climate change, rising inequality, financial instability, biodiversity loss, increasingly precarious and stressful working lives, growing power concentrations, and resource depletion.

The economy is at the core of many of these issues and as a result there is a growing recognition that our economy has to be fundamentally reformed to solve these problems. This has led various thinkers and institutions, such as the OECD, to argue we are currently experiencing a paradigm shift away from neoliberalism and the focus on (GDP) growth. There is also a growing coalition of countries and organizations called the Wellbeing Economy Alliance. In the new paradigm, the wellbeing of people and the planet is put at the centre of the economy and society is organised more democratically. In this way, it concerns both a shift ideas and in power.

The shift in ideas relates to how we should think about value creation and preservation. Over the last decades (economic) success was mainly judged on the basis the level of short-term financial gains, whether its look at GDP at the macro-level or quarterly profits at the micro-level. In the wellbeing economy, it is critical put ecological and social aspects as well as the long-term at the centre in how we define progress, for countries with a new range of indicators and for companies with integrated reporting. As such, the new paradigm is (GDP) growth 'agnostic' and instead focuses on sustainably creating and maintaining wellbeing, with its subjective, material, and relational aspects.

The shift in power is about ensuring that our societies function democratically. Research indicates that countries, like the US but also Germany and the Netherlands, as well as international organizations, such as the European Union, are not democratic in the sense that policy outcomes do not reflect the preferences of citizens. Business interests groups, the highly educated and the rich, on the other hand, do see their policy preferences being translated into actual policy. Because of this lack of effective democracy, policies reflect power inequalities rather than serving the wellbeing of all citizens, let alone those of future

generations and nature. To achieve the wellbeing economy, citizens need to be empowered so that actual policies will reflect their informed deliberations. For this reason, local, national and regional governments should experiment with citizens' assemblies, which bring randomly selected representative groups of citizens together to deliberate policy issues with each other, informed and supported by experts on the topic at hand. The economy can furthermore be democratized by promoting and strengthening more democratic forms of economic organization, such as community and civic organizations, cooperatives and social enterprises.

Besides exploring what this paradigm shift entails for the economy in general, this report takes a closer look at the following three fields: (1) the public sector, (2) environmental policy and (3) the financial sector.

(1) For the public sector, this paradigm shift requires us to re-appreciate the public sector and recognize its value creation and innovation capabilities. The role of the state should thus no longer be to simply facilitate and fix markets, but instead actively enable society to ensure the wellbeing of its citizens and to achieve democratically chosen missions. In contrast to neoliberal ideas, privatization and marketization often do not lead to more efficiency and in fact often create problems in terms of equity and resilience. Therefore, we need to be more cautious with privatization and marketization, and reverse past decisions.

Respect for public sector workers has declined over the last decades, but the corona crisis made us realize again that many of these jobs are essential for our society and wellbeing. Empirical studies show that these essential public workers are underpaid in comparison to what they contribute to society. Paying these workers more is not only fair, it is also efficient as it makes jobs with positive externalities more attractive.

The last decades have been characterized by a weakening of the welfare state, which has made citizens, and especially economically vulnerable groups, more precarious. To better ensure people's wellbeing we need to renew the welfare state and seriously consider innovative ideas like a job guarantee, extending the basic services to which citizens have assured access, and less punitive and restrictive income support through benefits as right.

(2) For environmental policy, the paradigm shift leads us to challenge the way in which power structures dominate current policy-making, preventing a socially just transition. For too long we have witnessed the debates across different policy schools, driving us away from pragmatic decision making, preventing compromises. We have also failed to integrate shared perspectives of commonly valued principles such as democracy, equity and power redistribution. Because climate change will challenge the very way we organise our societies, the future of environmental policy should be politics-resilient, as well as more democratic and socially just.

Examples of such policies include an ecological tax-and-dividend which not only taxes carbon emissions but also extends to other polluting and extractive sectors, while also actively redistributing its revenue as a dividend.

It also includes active coordination and financing provided by state-led investments, embracing social industrial policy.

A final example is that of fostering user-led innovation, actively embracing a prosumer economy which provides energy autonomy while promoting the transition to a circular economy.

(3) In the financial sector the main goal is a change of power structure. Currently, the role of the financial sector in our society is too dominant and too big. Financial institutions are often too big to fail and the real economy is serving the financial sector instead of the other way around. The financial sector had the opportunity to get a life on its own, because a public anchor is missing and there is a lack of fundamental structural reform and hence a lot of inefficient regulation. A more supportive and facilitating financial sector is needed in order to accelerate the changes in the real economy which we desire. To get there, we need four things.

First of all, change the way money is created. From a privately held, profit driven form, to public money creation where money is brought in circulation without interest and on a debt free basis.

Secondly, a coordinated debt jubilee is needed to cope with the current debt levels. After this jubilee, prevention mechanisms have to be installed to prevent new unsustainable debt levels from building up again.

Thirdly, more diversity in the financial system is needed to distribute power and serve all forms of demand for credit. A public payment infrastructure, which gives people an alternative to banks, is a precondition for this.

Lastly, to prevent undesirable effects of complex financial products, they need to be able to show their added value to society before they are allowed through a social value test for new financial products.

To achieve the paradigm shift, changes in ideas as well as in power (in)balances are needed. This report contributes to a growing literature that focuses on changing the way we think and talk about the economy. But besides talk, action is needed. Special interests have too long been able to block reforms towards a more sustainable, social and stable economy. Therefore, we call upon citizens, companies, the media, national governments and the European Union to take action and help us move towards the wellbeing economy.

We call...

... upon **citizens** to become actively organised and start the shift towards democratisation;

... upon the **media** to speak about the wellbeing economy instead of referring continuously to GDP, as well as to distance themselves from special interest groups;

... upon the **private sector, including the financial sector,** to develop public-private partnerships and move to social business models;

... upon **local governments** to enable citizens' assemblies and develop local circular hubs;

... upon **researchers and academia** to challenge the GDP hegemony as well as expand their research on pathways towards an economy of wellbeing;

... upon **think tanks and NGOs** to build bridges to lead the way for private and state actors to more societally-relevant roles;

… upon **national governments** to be cautious about privatisation and marketisation, as well as to reap the benefits of its R&D investments, pay more to essential workers, strengthen the welfare state, set benefits as a right, and decrease dependency on banks;

… and finally, upon the **European Union institutions** to consider a fiscal union which may enable it to tackle income inequalities, redesign the ETS and expand taxation to all types of ecological degradation, to provide industrial guidance, start with public money creation, regulate complex financial products, stop stimulating financing via debt through taxation and finally, to actively diversify the financial system.

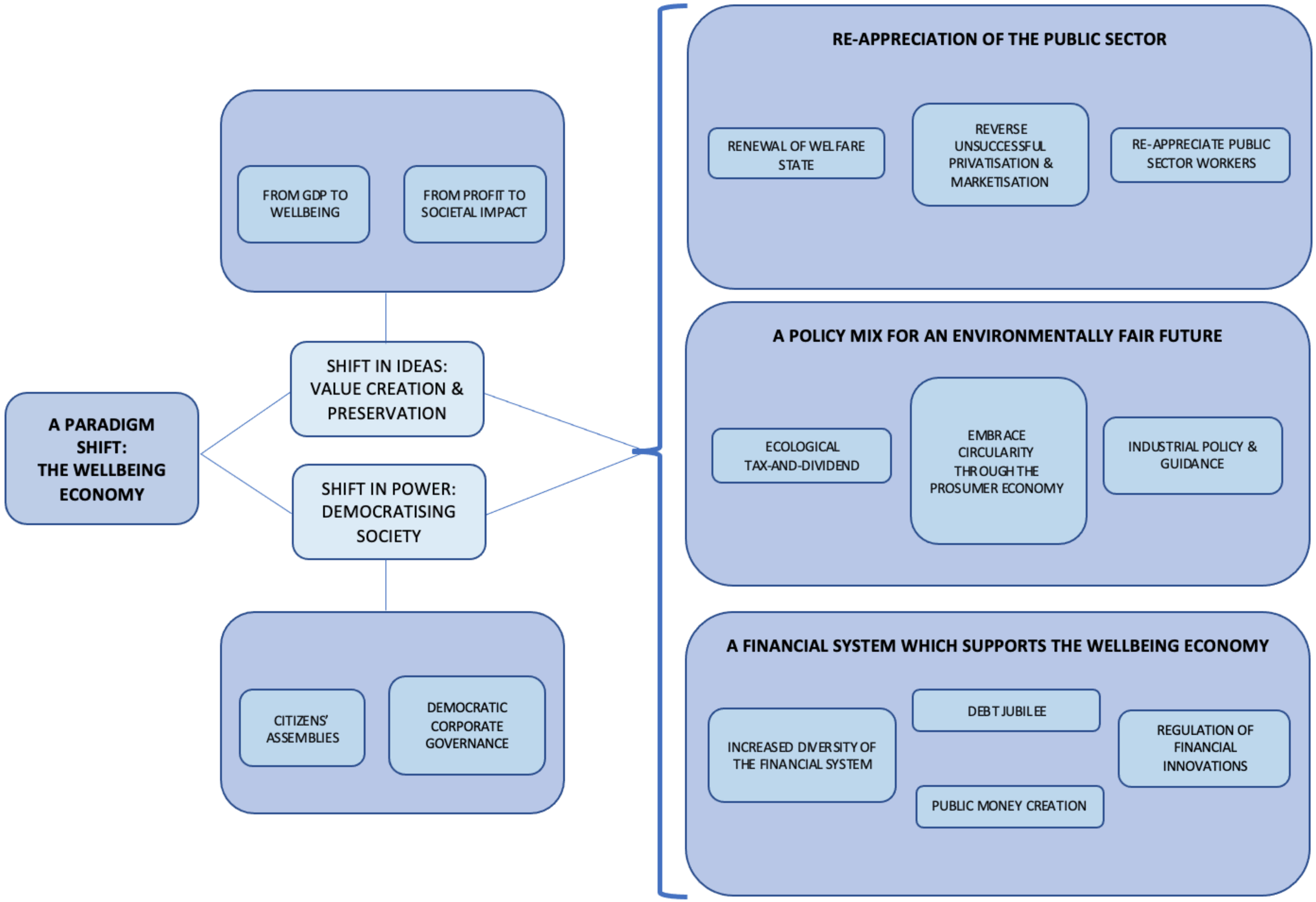

Figure A: Policy proposals within the context of the wellbeing economy

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Introduction

The coronavirus has taken almost two million lives and put healthcare systems in severe pressure. The global health crisis also has enormous socioeconomic effects, leading many governments to extend extra (financial) support to citizens and companies. Financial markets experienced heavy instabilities, causing central banks to quickly take large-scale actions to save the existing systems and put them on life support. Despite all its negative social impacts, the lockdowns caused various places to experience visually noticeable changes in air quality. The underlying ecological issues, such as climate change and biodiversity loss, remain, however, unsolved and pressing as they can lead to more extreme weather and natural disasters, and can threaten our food supply.

Furthermore, within and beyond the current context of the pandemic, several societal problems have worsened. There are increasing wealth and income inequalities between and within countries. Over the last decades, while GDP kept growing, the incomes, happiness and wellbeing of many, if not most, citizens in developed countries have been stagnating. In numerous countries, politics is increasingly polarised which has given rise to authoritarian tendencies. These are all events which threaten democracy and liveability across the globe, and thus demand urgent change.

A paradigm shift

More and more people are arguing that the ideas and policies of the past decades cannot solve these issues. As a result, we are currently experiencing a global shift in political-economic thinking and policy, i.e. a paradigm shift. In the last century, we had two other paradigm shifts and in each case, just like now, this happened in times of crisis. During the economic depression of the 1930s, a shift from the *laissez-faire* paradigm to the *Keynesian* paradigm started and the new paradigm became solidified in the post-war consensus. During the oil crises and stagflation of the 1970s, a movement from this Keynesian paradigm to the *neoliberal* paradigm developed. Since the global financial crisis of 2007-8 and especially since the corona crisis, the neoliberal paradigm is increasingly discredited and weakened. It is being replaced with a new paradigm.

In order to achieve this paradigm shift, we need to change the way we think about the economy, and the way we make decisions in business and politics. Thus, we need to rethink the ideas that shape our understanding of ‘what is important’; as well as to tackle existing power imbalances and organize our society more democratically.

The paradigm shift as a shift in ideas: Value creation and preservation

The OECD refers to this new paradigm as *‘Beyond Growth’*, emphasizing that it moves away from focusing on (GDP) growth as earlier paradigms did.[i] Moreover, a growing global alliance of thinkers, organizations and countries refers to it as being about creating a *‘Wellbeing Economy’*.[ii] As such, the aim is to replace the fundamental goal of the economy and public policy. At the macro-level it requires moving away from focusing on increasing the amount of money that is transferred in market transactions (GDP) and putting the wellbeing of people and the planet at the centre. At the micro-level it ask to look beyond the short-term financial gains and pay attention to the long-term and broader social and ecological aspects. The old logic was that the ultimate aim of human life was consumer welfare, which implied that the price of something is a good proxy for its value. And the best way to ensure the maximization of consumer welfare was to have as much of human life and society function according to market mechanisms. Other ways of organizing the economy, such as through public, social and civic organizations, were deemed to be imperfect and suboptimal, and thus had to be minimized.

The wellbeing approach goes beyond this focus on consumer welfare and belief in market mechanisms. Human wellbeing is defined as a multi-dimensional conception of ‘living well’, being concerned with *“a combination of what they have (material), how they are able use what they have (relational) and the level of satisfaction or subjective quality of life that they derive from what they have and can do”* (p. 1124).[iii] This implies taking a broader look at the material or financial situation of people, looking at their income, consumption and wealth. But more importantly, it also implies looking at other dimensions, such as (physical and mental) health, social relations, living environment, and safety. In this new paradigm social equity and environmental sustainability are key. This is partially for instrumental reasons, as a lack of equity and sustainability undermine wellbeing. But they also have intrinsic value, as this approach argues all human and nonhuman life, of current and future generations, has value and is important to consider. In sum, this new approach implies a new theory of value. Rather than taking market prices as indicators of the value, this new approach recognizes the value of non-monetized aspects of human life and nature. This means that when, for example, trees are cut to make profit, the reduction in ecological value should be taken into account, requiring accountants to use integrated reporting. Furthermore, it requires us to respect social minimums, like many of the Sustainable Development Goals, and the ecological planetary boundaries, referred to as staying within the "doughnut" by Kate Raworth.[iv]

The relation between the economy and the broader societal and ecological world changes with the paradigm shift. In the neoliberal framework, society and ecology are instruments to be directed at achieving economic goals. In other words, the primacy is put on the economy, and the society and ecology have to adapt to it. This is also referred to as an '*econocracy*', a society technocratically run to achieve as much economic growth as possible.[v]

In the wellbeing framework, the relations between the economic and broader societal and ecological realms are reversed. The economy becomes a means to an end, rather than an end in itself. People have, therefore, also called this being 'growth agnostic' as this paradigm implies an indifference towards economic growth.[vi] The economy, instead, needs to be adjusted to help society and ecology flourish.

To study wellbeing empirically various new measurements have been developed.[vii] While some advocate the use of a single indicator, such as self-reported happiness, most scholars argue only a broad range of indicators is sufficient to empirically measure wellbeing. A prominent example of such a range of indicators is the Better Life Index of the OECD, which consists of the following items: housing, jobs, education, civic engagement, life satisfaction, work-life balance, income, community, environment, health and safety. There is also debate about the scores of these various indicators can and should be aggregated into one number, as this provides clarity as to whether wellbeing has improved or decreased. Or whether it is better to present these results as a dashboard of indicators, as it is an inherently normative matter as to how to value each item relative to each other which is required to add them up into one indicator.

While the question of which policies should be pursued given the goal of wellbeing, cannot be fully answered scientifically and requires normative political judgement, scientific evidence can help us identify which policies which are particularly effective in improving specific indicators. As such, a growing number of countries, like the United Kingdom, Sweden and Ecuador, are experimenting with integrating wellbeing evidence into different stages of the policy process, from agenda setting and policy formulation to implementation and evaluation.[viii] In 2019, New Zealand presented the first 'wellbeing budget', in which priority was given to wellbeing over economic growth and scientific evidence was used to identify effectively achieve this goal.[ix] As a result, the government choose to prioritize and increase spending on mental health services, child poverty and tackling family violence, as these were identified as areas that in particular could contribute to improvements in wellbeing. New Zealand was namely identified as one of the countries with the most family and sexual violence by the OECD, while UNICEF estimated 27% of children lived in poverty and the suicide rate rose year after year.[x] The 'wellbeing budget' approach does thus not necessarily imply prioritizing mental health services, child poverty and tackling family violence, but instead requires an assessment of which policies could contribute most to a country's wellbeing given the specific situation it is in.

To facilitate countries in effectively making such assessments, it would be useful if a 'Wellbeing Diagnostics' approach would be developed in future research, inspired on the existing 'Growth Diagnostics' approach.[xi] The growth diagnostics approach provides an analytical framework which helps identify the issues that most hold back the old goal of economic growth in order to help with context-specific policy design. We call upon researchers to work on developing a similar analytical framework but then for the goal of wellbeing. As the concept of wellbeing is inherently broader and more complex than economic growth, the diagnostics framework will inevitably also become larger and more complex. Nevertheless, we believe such as an analytical framework, and even just attempts to develop it, will help sharpen our thinking about how we can best improve wellbeing. In the process of developing such a framework, many important and unsettled scientific questions will arise, such as for example what factors have most impact on life-satisfaction and which policies can most effectively tackle these factors. In this way, aiming to develop wellbeing diagnostics helps us identify those areas of research that have particular societal relevance and thus can inform research decisions.

The paradigm shift as a shift in power: Democratizing society

Current institutions seem unable to successfully translate (informed) policy preferences of citizens into policy outcomes. We propose citizen assemblies as a way to strengthen the democratic aspect of politics.

The decisions on how the economy should be organized and function should be made democratically. Despite having representative political institutions, research shows that countries and international institutions, like Germany, the Netherlands and the European Union, do not function democratically in the sense that citizens' preferences do not determine policy outcomes.[xii] Instead, business interests groups, the highly educated and the rich seem to shape what happens. This is measured by statistically analysing whether there are links between the policy preferences of groups and policy decisions by politicians. The included policy questions concern a broad range of issues from economic and social policy to international and migration policy. They furthermore do not require constitutional change and are also not in conflict with people's fundamental rights, thereby each policy options remains within the boundaries of liberal democracy. The test here is not whether the link is perfect, but whether there is a rough correspondence between public opinion and policy outcomes. Surprisingly, not only countries, like the US, in which money plays an important role in politics, are found to have considerable political inequality, but countries, like the Netherlands, which are typically considered to be more egalitarian and have almost no money in politics, have similar problematic outcomes.

As a result of this lack of effective democracy, also known as substantive representation, policies do not serve the wellbeing of all citizens, let alone those of future generations and nature, but instead reflect power inequalities. To put the wellbeing of all citizens at the centre of the economy, thus also requires the empowerment of citizens so that their informed deliberations will be translated into policy. Besides these more instrumental reasons for democratization, most people agree that democracy is the only fair way to organize a society so it is important that we live up to that promise.

To enhance democratization we need to strengthen the societal power of the public, whether it is as citizens, consumers, workers, or members of their local community. In terms of economic organization this requires us to move away from the current market dominance and strengthen more democratic forms of economic organization, such as community and civic organizations, commons, cooperatives and social enterprises. The state also has a crucial and unique role to fulfil in shaping the economy and ensuring it moves in desirable directions. To enhance the quality of democratic decision making of local, national and regional governments should experiment with citizens' assemblies. This deliberative form of democracy brings a randomly selected representative group of citizens together to discuss and *deliberate* policy issues with each other, informed and supported by experts on the topic at hand. These assemblies can make political decisions, inform future political decision making by politicians or citizens in referenda, or help interpret the outcome of a referendum.[xiii] These citizens' assemblies should complement and strengthen existing representative democratic institutions, rather than replace them. When organizing citizens' assemblies particular attention should be paid to formal and informal rules, ways of communication, leaders, relevance, motivation, and even training, as deliberation is, despite being a natural human capacity, not easy.[xiv]

This is not a populist anti-expertise proposal, but instead a proposal that hopes to better combine democratic and well-informed decision making.[xv] The public debate is currently too often dominated by sensation and misinformation, leaving citizens who vote in elections often not well informed. As a result, party politics is often more characterized by media attention, leader likeability and personality, cultural identity and (negative) partisanship, than by policy debates and positioning. At the same time, the current form of representative democracy has proven to be vulnerable to be captured and influenced by special interest groups. The outcome of this political system is therefore too often that decisions are not very democratic, in the sense of not having popular support, or, in case they do have popular support, may not be very well informed, in the sense that it does not build on the most up to date scientific insights and/or expertise of professionals working in a certain field. By letting randomly selected citizens deliberate, in a meaningful way and supported by scientific insights and professional experience about policy options, politics could be made more democratic and well informed.

We applaud recent initiatives by various countries and the European Union to experiment with and apply citizens assemblies to important societal problems and policy questions, and encourage further action.[xvi] In particular, the French case of the Citizens' Convention on Climate, which started in 2019, is telling in how citizen assemblies can help make broadly supported and scientifically informed policy decisions, showing that the two do not have to be opposed to each other.[xvii]

In sum, the paradigm shift from focusing on economic growth to wellbeing requires making the economy an instrument, rather than a goal in itself, and change in power by democratizing society.

This report

This report is part of the *Future Markets Consultation* project led by former Dutch Prime Minister prof. Jan-Peter Balkenende and prof. Govert Buijs, and funded by the Goldschmeding Foundation and the Templeton World Charity Foundation. The core question of this project is how Europe can create an inclusive and sustainable market economy. The project will result in a final report written under the auspices of prof. Jan-Peter Balkenende with the help of an advisory board of influential Dutch economists. Our report, written by a small group of young economists, aims to inform and inspire the consultation process with innovative ideas.

To write this report we have conducted research ourselves, but we also collected input and ideas from fellow members of our generation active in different fields as well as eminent international thinkers. This was done with the help of the interview series *The Future of Capitalism*, in which we spoke with renowned economists and thinkers, such as Joseph Stiglitz, Julia Steinberger, Luigi Zingales, Muhammad Yunus, and Ann Pettifor.[xviii] To collect ideas from the young generation, we organized an online brainstorm event where we spoke in groups about the three different topics, the public sector, environmental policy and the financial sector, as well as the overarching topic of moving towards the wellbeing economy. The group of young people consisted of a policeman, senior civil servant, labour union economist, consultants, academic and policy researchers, central bank employee, employees of commercial banks, leader of the Dutch youth climate movement, a member of Extinction Rebellion and an employee of a multinational oil and gas company.[xix]

In the following chapters we explore what the implications of this paradigm shift are for the public sector, environmental policy and the financial sector. Each chapter begins by setting out a positive vision for the sector. Secondly, the chapters set out the main current problems, followed by proposals for potential solutions that can help us move towards the wellbeing economy.

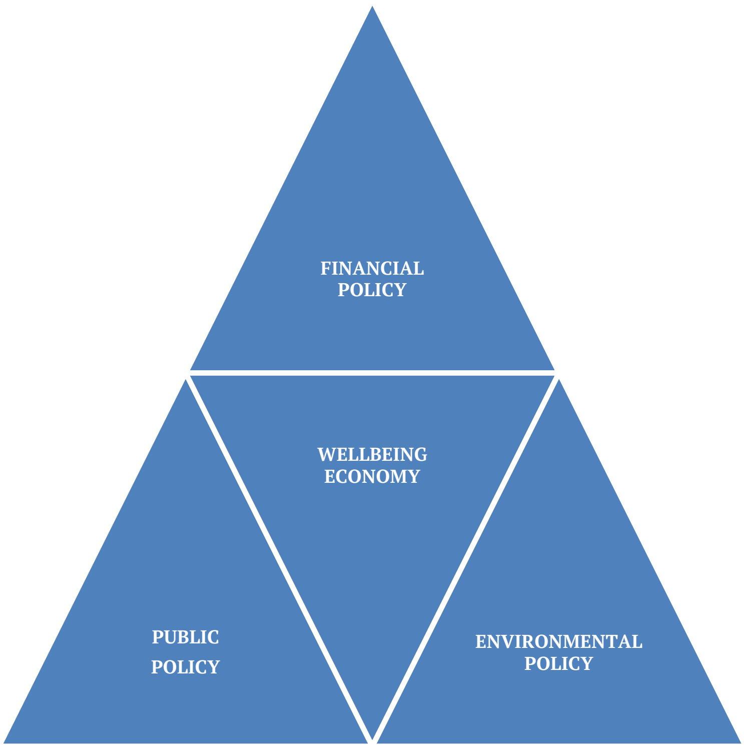

Figure 1: The wellbeing economy

More specifically, for the public sector, we investigate what effective ways of providing public services are and whether privatization and marketization lead to desirable outcomes. Furthermore, we explore whether the pay of public sector workers is in line with what they contribute to society and how the welfare state can best be renewed.

For environmental policy, we investigate whether currently embraced policies are truly fair and just; as well as how the state can effectively play a role in driving mission-oriented policy forward. Additionally, we also delve into ways in which society can contribute to ecological protection and the energy transition, while in doing so can break through currently dominating power structures.

Finally, for the financial sector there is a focus on the core systemic failures within the financial sector and multiple solutions are proposed in order to overcome these issues. Within this search, we look to the power balance between the financial system and the real economy, money creation, wealth accumulation, and debt levels.

In the conclusion, we discuss how the ideas for the different sectors relate to each other and what needs to be done to achieve the proposed changes.

Re-Appreciating the Public Sector

Introduction: A renewed public sector for the wellbeing economy

The public sector has a crucial and unique role to play in economies, next to the private sector and civil society. In the ideal world, there is a balance between these different sectors which allows them to complement and strengthen each other. The role of the public sector in this balance is to create a fair and equal playing field for the private sector and civil society.[xx] Fundamental rights are to be protected by the rule of law, and corruption, collusion and exploitation prevented. This requires a strong constitutional and judiciary system that is operationally and financially independent from political actors and special interest groups, and provides all citizens with access to the law and justice.[xxi]

But the public sector also actively creates (economic) value through its own activities, such as healthcare and education. These activities facilitate the private sector and civil society to grow even more, but more importantly they contribute to human wellbeing and a flourishing society. The same applies to the state's entrepreneurial and innovative activities, related to long-term investments and research. These activities should enable societal progress in democratically chosen directions, sometimes called missions.[xxii] This allows citizens to collectively create and develop the society they want to live in, rather than be at the mercy of powerful special interests. Another important role of the state is to ensure the wellbeing of all its citizens in a sustainable and fair manner. Everyone receives good and accessible education and (health)care. Everyone has a good place to live and is able to meet their daily basic needs. And everyone has the opportunity to contribute to the common good and to be rewarded for this. Collectively created value is collectively shared, rather than appropriated by special interest groups. And in this way, the public sector should fulfil its crucial and unique role in enabling society to be free, fair, and prospering.

In this chapter, we look at the public sector and how it should be reformed to come closer to the ideal sketched above. The last decades the public sector was generally deemed to be the problem, rather than (part of) the solution. A key aspect of what is needed is therefore to re-appreciate the public sector and realize what its real value is. More specifically, we need to let go of the idea that we should privatize and marketize the public sector because it otherwise would be inefficient. We need to better reward public sector workers as their pay currently too often does not reflect their contributions to society. And we need to strengthen and renew the welfare state with the help of innovative ideas. Below, we firstly analyse the problem and secondly propose solutions.

The Problem: Seeing government as the problem

The neoliberal way of thinking about the public sector was neatly captured by US president Ronald Reagan who said: "*government is not the solution to our problem, government is the problem*".[xxiii] This line of thought has been highly influential over the last decades and to this day affects policy making. The idea that the public sector is inherently inefficient, bureaucratic and only extracts value from the private sector, rather than actively creating value itself, is still widespread. According to this logic, at best the government could do something if the market first is not able to do it itself. But even when the market fails, the government should not necessarily step in because in many cases it will make things only worse. As such, the government has basically only one role: facilitating and conforming to markets.

Citizens often have, however, other preferences and ask the government to act upon their behalf. Neoliberal thinkers have therefore argued the market should be protected from citizens and have advocated restraining democratic institutions from acting upon such wishes of the public.[xxiv] As a result, various aspects of economic policy making and regulation are taken out of democratic control and put into private hands or independent agencies controlled by technocrats and economists.[xxv]

These ideological notions about the government being 'bad' and the market being 'good, have also shaped the way we think and approach public sector workers. While public sector workers, such as teachers and police, used to be highly respected, today they are often disdained and increasingly even attacked.[xxvi] This goes hand in hand with the neoliberal narrative that the public sector is not there to ensure our collective wellbeing, but instead prevents us as individuals from doing what we want, or in economics jargon maximizing our utility. Paul Collier argues this has turned us into behaving like entitled individuals, rather than members of a community.[xxvii] In relation to public services, we have begun to see ourselves as consumers rather than citizens, thinking in terms of markets even in places where they do not exist. Rather than fulfilling these public roles for us, public sector workers are now often seen as acting against us when they do their work. A key part of the problem is thus this negative way of thinking and talking about the public sector

Besides thinking and talking negatively about the public sector, there are three key issues with the public sector that will be discussed below: (1) unrealistic expectations of privatization and marketization, (2) failing to properly reward public sector workers for the societal value they create with their work, and (3) the negative consequences of weakening the welfare state.

Excessive privatization and marketisation

The last decades have been characterized by a privatization and marketization of the public sector. Water supply, transportation, telecommunication, parts of education and healthcare, and even prisons, in some countries, have been put in the hands of profit seeking corporations. The main reason for this was that it was supposed to improve efficiency. Unfortunately, empirical evidence, examined in more detail shows that privatization and marketization have not delivered on this promise of more efficiency. Furthermore, it seems to have led to a number of issues, such as excessive workloads, bureaucracy and management, labour shortages, unequal and inequitable access, and a lack of spare capacity needed in cases of crisis like the coronavirus pandemic. Given the widespread desire among people to have autonomy in their work, fair outcomes, and resilient systems these consequences are undesirable. Therefore, we need to abandon the idea that privatization and marketization of the public sector always lead to better outcomes. This does not mean that private companies and market mechanisms should be completely banned from playing a role in providing public services. But it does mean that we should be more reluctant about privatization and marketization, and perform critical analyses about their (likely) effects, rather than ideologically assuming they will be good.

Given the centrality of healthcare to the public sector, and in particular to discussions about privatization and marketization, below we examine the empirical evidence about the effects of privatization and marketization of healthcare.

The idea underlying the privatization and marketization of healthcare was that market competition by private for-profit companies would improve efficiency and bring down costs, and at the same time stimulate innovation, increase 'consumer choice', and enhance the quality of services.[xxviii] Despite the fact that many economists had pointed out that various characteristics of healthcare, such as information asymmetries, would cause markets to work imperfectly, many believed that at least striving towards a 'perfect' market would lead to more positive outcomes. This thinking was informed by simplistic ideological binaries such as the inefficient and bureaucratic public sector versus the productive and innovative private sector.

So what does the evidence say? Here we distinguish marketization from privatization, and the privatization of funding from that of provision. First, there can be (market) competition without privatization. Public providers, for example, can be forced to compete with each other over contracts and/or clients. Second, there are different aspects to privatization, most importantly between funding and provision. Public funding can come from general taxation or mandatory social insurance, while private funding is paid by users on an individual basis, voluntary private insurance or charity.

The evidence is clear that private funding of healthcare is both inequitable and inefficient.[xxix] The United States is virtually the only rich country that still largely operates on the basis of private funding and as a result struggles with expensive and inequitable access to healthcare and relatively poor health outcomes.[xxx]

The differences are less clear between public and the mix of public-private provision of healthcare. Generally, a distinction is made between the Beveridge national health service model, in which there is mostly public provision, and the Bismarck social health insurance model, in which there is a mix between public and private provision. The health outcomes between the two systems are roughly similar. Beveridge systems seem to struggle somewhat with longer waiting lists, while Bismarck systems are slightly more expensive, although the difference is small when compared to the American private funding model.[xxxi]

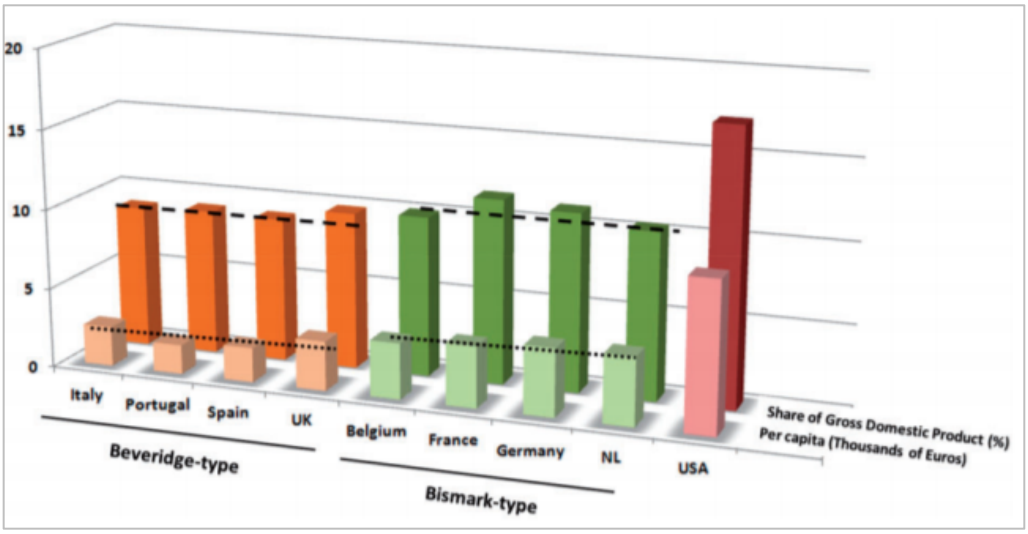

Figure 2: Healthcare expenditure in 2016 [1]

At the level of hospitals similar results can be found. Systematic review studies of European hospitals find that public hospitals have the best performance, followed by private non-profit hospitals, and that private for-profit hospitals perform worst in terms of efficiency and quality of care.[xxxii] The idea that privatization increases efficiency, which has shaped the last decades of policy decisions, is thus unfounded and contradicted by empirical evidence.

Market competition likewise is not the 'silver bullet' it was argued to be. But evidence suggests it is also not always a bad thing. As a result it can sometimes be useful for specific objectives. But it has to be carefully done and closely monitored to prevent negative effects, or as the expert panel on effective ways of investing in health of the European Commission write:

> *"Introducing or increasing competition in the provision of health care is a challenging undertaking. The conditions for success and risks for failure need to be carefully assessed in every case. In the right context, and with appropriate policy design, introducing competition can help to meet some health system objectives, although it is unlikely to contribute simultaneously and positively to all. The introduction of provider competition requires additional policy actions—first, to ensure that the market functions properly; and second, to ensure there is careful, constant evaluation of outcomes. Ensuring market*

[1] Garattini, L., & Padula, A. (2019). Competition in health markets: is something rotten? *Journal of the Royal Society of Medicine*, 112(1), 6-10.

> *transparency through the availability of information on quality, price and other relevant dimensions, to the extent that this is feasible and affordable, is essential if competition is to improve health system performance. However, the challenge of measuring and comparing quality across services should not be underestimated."* (p. 232)[xxxiii]

This brings us to another important aspect of privatization and marketization: Contrary to the myth it generally increases the amount of regulation and bureaucracy, rather than decreasing it.[xxxiv] There are important information asymmetries between users and providers of healthcare that makes the process vulnerable to predatory practices when profit incentives and competition are introduced. To ensure activities are conducted according to public interests regulation and administrative control is thus required. And this is no easy task because good healthcare has many aspects, some of which are easy to measure while others are not. As a result, there is often the danger that providers excessively focus on the measured indicators for performance, while neglecting other aspects. In this way, a paradox can arise in that striving towards more efficiency can actually lead to less efficiency. Spending more time and resources on tracking, administering and measuring activities to improve their efficiency, can cost more than what it delivers. Or in economics jargon, the decrease in production costs by more administrative management focused on efficiency, can be offset by the increase in transaction costs.

Here it is also important to keep in mind that efficiency is only one of several objectives that healthcare systems aim for. Privatization and marketization do not only fail to deliver on their efficiency promises, they also have negative effects on the equity and resilience of healthcare systems. Private for-profit healthcare providers have an incentive to focus on treating younger, healthier, richer, easier and more lucrative patients as they are more profitable.[xxxv] This can have the undesirable effect of creating parallel healthcare systems, in which private for-profit hospitals focus on 'harvest the low-hanging fruits'[xxxvi], while public hospitals tread the older, less healthy, and poorer patients that require more costly treatments, thereby also undermining the solidarity needed for public funding. In this way, privatization and marketization require changes in underlying morality. For society this poses the question whether it finds it acceptable to commodify human health. Whether it is right to profit from others' sicknesses and weaknesses? And whether having more money makes someone more deserving of receiving good care?

As to resilience, the coronavirus pandemic has clearly shown that an excessive focus on short-term efficiency can be harmful to long-term resilience.[xxxvii] Having unused spare capacity costs money in normal times, in times of crisis they are however crucial and prevent disproportionate (health) costs. Countries with a lack of adequate acute care equipment materials struggled extra with keeping the coronavirus under control and preventing more deaths.

So how then can it be that many countries over the last decades have privatized and marketized their healthcare systems if this does not lead to better outcomes? Misguided and ideological beliefs as well as self-interested rent-seeking seem to provide the answer. For-profit hospitals, for example, have been able to expand their market shares thanks to access to favourable public reimbursements schemes and aligning the financial interests of physicians with those of itself.[xxxviii]

In sum, privatization and marketization have not delivered on their promises. Often they have led to less, rather than more, efficiency and also caused problems in terms of equity and resilience. Therefore, we need to let go of the neoliberal idea that privatization and marketization are (nearly) always desirable.

Undervalued essential workers

Since the outbreak of the corona crisis, there have been many calls to re-appreciate the public sector, and healthcare in particular. When lockdowns were announced to stop the spread of the coronavirus, many governments published lists of *essential jobs and services*. While other sectors, such as business consultancy and tourism, could temporarily shut down or reduce their activities, these kinds of work had to continue because they are *essential* to the wellbeing of people. The lists typically included occupations such as nurses, teachers, childcare workers, home care providers, warehouse workers, truck drivers, delivery workers and grocery store clerks. Many of these jobs are disproportionately done by women and are therefore sometimes called ‘pink’ collar jobs.[xxxix]

Many, however, noted that while these kinds of work were all of a sudden being seen as essential, many of them were underpaid and had relatively bad working conditions and low prestige.[2] [xl] In many countries, things have gotten worse over the last decade as many governments decided on austerity and cutting budgets for public sector work, to bring the public debt down after it rose spectacularly because of banks bailouts. The undervaluing of many essential jobs is in stark contrast to jobs, for example in finance and consultancy, which are well paid and have high prestige, but at the same time are generally viewed as less crucial to society and sometimes even unnecessary or 'bullshit'.[xli] Many people even feel the work they do is meaningless. Across forty-seven countries on average 8% of workers think their job is socially useless, meaning that almost one tenth of people wake up every working day to spend most of their waking hours doing tasks that they consider to be pointless (see the variation between countries in Figure 3). Among the most socially useless jobs were sales, marketing and public relation professionals and managers, debt collectors and finance managers, business services agents, accountants and economists, as well as artists, hospitality workers, factory operators and assemblers. Interestingly public sector jobs were significantly less often viewed as socially useless. On average about 3% of public sector workers viewed their own job as socially useless, while 11% in the private sector did so.

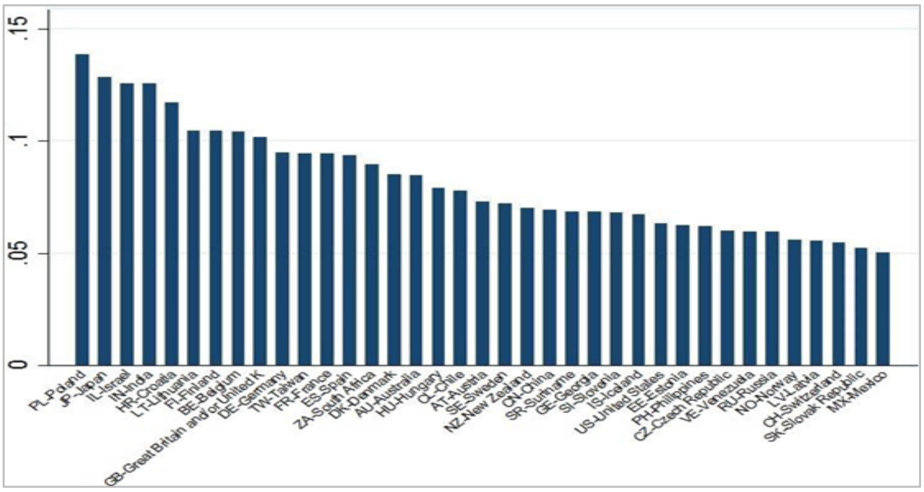

Figure 3: The fraction of workers who consider their job to be socially useless in 2015 [3]

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[2] There is often substantial inequality within the public sector between relatively high paid specialized doctors, senior civil servants and directors on the one hand, and nurses, teachers, and police on the other hand.
[3] Dur, R., & Van Lent, M. (2019). Socially useless jobs. Industrial Relations: A *Journal of Economy and Society*, 58(1), 3-16.

Our economy at the moment does not seem to reward and respect work that contributes most to it. Or even worse, it often seems that *'the more valuable your work is to society, the less you'll be paid for it'*.[xlii] In economics jargon, this is a problem of *externalities*. The costs and benefits to society are not reflected in, and thus 'external' to, the prices of work, the salaries people receive. Demand and supply forces such as scarcity and consumer preferences are reflected in pay, as are power relations as bargaining power is critical in market transactions.

Empirical evidence is still slim but research so far indicates that low paying jobs generally have positive externalities, while high paying jobs have negative externalities.[xliii] While low paying jobs do not seem to be able to capture or share in the benefits they create for society, many high paying jobs seem to be characterized by wealth extraction and rent-seeking. Even if we look narrowly at their impact on GDP, having more teachers, researchers and engineers in a country are a good thing, while lawyers and people working in finance have a negative impact on GDP. And it is important to note that these spillover effects are considerable. The positive externalities of the work of teachers and medical researchers are, for example, respectively twice and five times as large as their salaries.[xliv] The differences in pay cause people to move towards highly paying work, sometimes called a brain drain, even though these have negative externalities. One study estimates that the brain drain of graduates in science, technology, engineering and mathematics (STEM) into finance has caused a loss of 6.6% in labour productivity growth in US manufacturing.[xlv]

For the UK, the social value of six different professions was estimated and compared to their typical salaries as follows:

Job	**Yearly salary (approximate)**	**Estimated social value destroyed per £1 paid**	**Estimated social value created per £1 paid**
City banker	£5 million (£2 440 per hour)	£7	
Advertising executive	£500 000 (£244 per hour)	£11.50	

Tax accountant	£125 000 (£61 per hour)	£11.20	
Hospital cleaner	£13 000 (£6.26 per hour)		£10
Recycling worker	£12 500 (£6.10 per hour)		£12
Nursery worker	£11 500 (£5.61 per hour)		£7

Table 1: Value created vs value destroyed by different professions[4]

In sum, the market seems unable to successfully reward contributions to society and wellbeing. Changing the main goal of the economy from GDP growth to wellbeing, thus also requires changes in how we value and reward work. Michael Sandel explains the different perspectives and their implications for work as follows:

> *"If the common good is simply a matter of satisfying consumer preferences, then market wages are a good measure of who has contributed what. Those who make the most money have presumably made the most valuable contribution to the common good, by producing the goods and services that consumers want. ... From the standpoint of the civic conception, the most important role we play in the economy is not as consumers but as producers. For it is as producers that we develop and exercise our abilities to provide goods and services that fulfill the needs of our fellow citizens and win social esteem. The true value of our contribution cannot be measured by the wage we receive, for wages depend, as the economic-philosopher Frank Knight pointed out, on contingencies of supply and demand. The value of our contribution depends instead on the moral and civic importance of the ends our efforts serve. This involves an independent moral judgement that the labor market, however efficient, cannot provide."* (pp. 208-209)[xlvi]

Market outcomes depend on supply and demand, as well as power relations. As such, pay provides a poor proxy for contributions to societies' wellbeing. In other words, the neoliberal idea that the market creates a fair and desirable distribution of pay seems to be

[4] Lawlor, E., Kersley, H., & Steed, S. (2009). *A Bit Rich: Calculating the real value to society of different professions.* New Economic Foundation.

faulty. To ensure that what people are paid reflects what they contribute to society a different approach is needed.

Weakening of the welfare state

The coronavirus pandemic has put the spotlight on our social safety nets and exposed many, and often long running, weaknesses and problems. Recognizing that existing welfare programs were not enough, many governments decided to provide additional income support for its citizens. Importantly income support often came without many requirements, thereby breaking with the trend of the last decades to make welfare support less unconditional.

In many countries this trend started during the 1970s or 80s, as neoliberal thinking about the role of the state in the economy became dominant. In some countries, such as Chile, the UK and US, this change in thinking happened fairly rapidly because of a change in who was in power. Many European countries, however, experienced a more gradual shift in which most policymakers and political parties, including Christian and social democratic parties, started to embrace neoliberal ideas.[xlvii]

In this way, these parties moved away from social market ideas and the Keynesian social democratic approach. This earlier approach was motivated to never repeat the horrors of the 1930s and 40s, with the Great Depression, mass unemployment, the rise of fascism and a world war. Core aspects of this approach were to aim for full employment, ensure everyone a minimal income and collectively provide basic services like healthcare and education. The neoliberal approach, inspired by the stagflation of the 1970s, aimed to weaken and break down the welfare state that was built up over the previous decades.[xlviii]

The neoliberal solution to combating stagflation was to "*abandon the objective of full employment and substituted the primary policy aim of controlling inflation*" (p. 173).[xlix] Rather than seeing unemployment as the main problem, some 'natural' level of unemployment was seen as necessary to keep inflation low. The goal of full employment thus was replaced with keeping unemployment around the 'natural' rate, below which inflation would rise.[l] Unemployment moved from being seen as a social problem caused by malfunctions in the capitalist economy, to being the problem of individuals who choose to be unemployed by not accepting lower 'market-clearing' wages. For this reason, the unemployed no longer deserved to be helped by society, whether it was through government investment in jobs or income support. Instead, policymakers should aim to maintain the 'natural' rate of unemployment and strengthen 'incentives' for the unemployed to work, so that the 'natural' rate of unemployment would go down. Income support became more conditional and less generous, often becoming 'means-tested'.

The decades after the 1970s are characterized by structurally higher levels of unemployment and increased precariousness among economically vulnerable groups. With the focus on economic growth, this was, however, not necessarily understood to be a bad thing, as it 'incentivized' people to more actively participate in the economy. But when changing the main goal to wellbeing, this does form a problem because it substantially hurts the wellbeing of these people. Being unemployed not only destroys human capital, but it also hurts people's wellbeing by taking away a sense of purpose, social contact and regular activity.[li] Furthermore, recent research has found that being economically insecure has a negative impact on people's mental health and performance, especially for young people who are disproportionately hurt by weakening the welfare state.[lii] The neoliberal approach to weakening the welfare state is thus inadequate in terms of enhancing human wellbeing and should be abandoned for this reason.

The Solution: Re-Appreciating the Public Sector

A core aspect of the paradigm shift from neoliberalism to the wellbeing economy is the re-appreciation of the public sector. In the neoliberal paradigm, the public sector was seen as 'the problem' and as a result it was privatized and marketized and its workers were underpaid and undervalued. In the wellbeing economy, the true value of the public sector should be rediscovered and re-appreciated.

This does not mean that the public sector should be idolized or that we should move towards a fully government controlled planned economy. It does, however, mean that the public sector should not automatically have negative associations and the commercial private sector positive ones. We should recognize value creation, entrepreneurship and innovation in the public sector as we do in the commercial private sector. Spending on welfare should be seen as a social investment, rather than only social retrenchment, as it enables human development and private economic activities.[liii] Similarly, we need to acknowledge that value extraction, bureaucracy and stagnation are not challenges unique to the public sector, but also form issues for the private sector, possibly even more so.

This different and more balanced way of thinking and talking about the public sector has important implications for public debates, education and even dry and neutral-looking statistics. Rather than treating public spending on education and healthcare as consumption at the value of its cost price in GDP statistics and government budgets, we should recognize that these expenditures are investments that create far more value than they cost.[liv] But besides thinking and talking differently, we should also act differently. More specifically, we should restore the public sector, properly pay public sector workers, and renew the welfare state.

Proposal 1: Restoring the public sector

As explained above the fact that privatization and marketization have led to many problematic outcomes, does not mean that there is no place for profit-making private companies and markets in the economy. It does, however, mean that their role is limited, just as the roles of the government as well as civil society are important but limited. We need a balance between the three sectors and symbiotic relationships between them, rather than having one exploiting the others as the commercial private sector increasingly did over the last decades.[lv] When the government, for example, invests in innovation, it should also be able to reap some of the benefits this creates as this allows the public sector to invest in new projects. This is key in stopping the parasitic pattern of privatizing profits and socializing losses, which unfortunately continues to this day.

Reconsidering privatization. Restoring the public sector means that we should be more cautious and careful with privatization and marketization. To help critically investigate whether privatization can be appropriate and will lead to success, Heijne[lvi] developed the following four requirements: (1) customers need to pay for their own usage and products; (2) supply and demand need to have choice between competing alternatives; (3) profit making through these economic activities does not go directly against public interests; and for economic activities in an international field (4) there has to be open and fair competition. Following these criteria also implies rolling back past (failed) privatization, as it was also applied in cases where these requirements were not met.

Less bureaucracy, more trust in professionals. A key aspect of the changes of the last decades that has to be undone is the increase in administrative control and bureaucracy. Contrary to what was often expected this has often gone hand in hand with privatization and marketization. When rolling back privatization and marketization, specific attention has to be paid to reducing bureaucracy. In some cases existing administrative demands might be completely unnecessary or easily allow for more efficient information systems which reduce the administrative burden on public sector workers, potentially with the help of digital technologies. In many cases, this will, however, prove to be difficult to do. Here another option should be more seriously considered: putting more trust in independent professionals. The word trust is critical here as this implies having less (administrative) insight and control over public sector workers. Rather than asking public sector workers to document almost any task or activity they fulfil, their performance, for example, be evaluated on a periodic basis. Such an approach can be more efficient as it reduces transaction costs and gives professionals more freedom to provide more tailor-made solutions. Professionals do, however, need to be worthy of such trust and therefore should be given proper training and education to prepare them to independently make decisions.

Reconsidering the role of financial incentives. Professionals should have incentives that reward desirable behaviour. But perhaps even more important is that they should not have narrow (financial) incentives that can go against public interests, as is, for example, the case when doctors are paid per treatment they do. Here prevention is not rewarded, while unnecessary treatments are. This is not an argument against trusting doctors or saying that they are greedy and will do anything to patients to earn more money. It is an argument against systems that reward undesirable behaviour, as such systems prevent, rather than help, people do their work properly. Incentives have to be based on measurable indicators, which only partially reflect the outcomes. As such, they have the danger of leading to the negligence of aspects that are not measured and a narrow focus on 'gaming' those aspects that are measured. Formal processes to assess and reward performance can therefore have the danger of goal displacement.[lvii] When introducing (financial) incentives, one has to be very careful to prevent such undesirable effects, as they can cause incentives to do more harm than good.

Proposal 2: Properly paying public sector workers

As discussed above many essential workers are currently underpaid compared to what they contribute to society. So what can we do to ensure essential work is better rewarded and valued?

One idea to value work more in line with contributions to society is to create profession-specific taxes and subsidies based on estimated externalities.[lviii] The logic here is to create the right incentives to generate a better and more efficient allocation of talent. The aim of these profession-specific taxes and subsidies is to reverse the brain drain into high paying sectors with negative externalities, such as finance.[lix] According to estimates of Lockwood, Nathanson & Weyl, the most effective way to generate a better allocation of talent is to create profession-specific taxes, rather than simply adjusting income tax rates.[lx] But while different tax rates per profession might work well in theory, it will be difficult to successfully put into practice as it will probably give rise to lobbying and rule-bending in favour of powerful professions.

Given the fact that many of the professions with positive externalities, such as teaching and research, are within the public sector, Lockwood, Nathanson & Weyl argue a better strategy might be to go for the simpler solution: paying undervalued public sector workers more. This requires only a change in the government budget, as these workers are already paid through public funds. As such, it is a political question of whether democratically chosen governments are willing to allocate sufficient funds to essential workers. In many cases, wages of public sector workers are not market-conform, in the sense that similarly high educated workers in the private sector earn more than those in the public sector. In the Netherlands, for example, primary school teachers earn considerably less than their counterparts in the private sector.[lxi] At the same time, there is a shortage of primary school teachers. Any simple supply and demand analysis will show that increasing wages increases the amount of people who want to do the work. Increasing the wages of public sector workers can thus both help with ensuring enough people will do this important work as well as rewarding it more properly.[lxii] Or in jargon, both in terms of efficiency and equity this is desirable.

The argument for market-conform wages in the public sector sometimes, however, has a very different focus. Rather than focusing on the lower parts of the income distribution, this argument focuses on the top, arguing top officials and professionals in the public sector should earn as much as the top earners in the private sector. In other words, it is an argument for copying the inequality of incomes from the private sector into the public sector. These inequalities are, however, mainly based on power relations and the contingencies of supply and demand, rather than on what people contribute to society.

In many western countries, excesses at the bottom have become increasingly problematic with a growing number of working poor and precarious workers, also known as the precariat.[lxiii] At the same time, excesses at the top have also increased. While in 1965 major US CEOs earned on average 20 times as much as their workers, today they earn over 300 times as much.[lxiv] In Europe differences are less extreme, but still range from a CEO-to-average employee pay ratio of 51 and 54 times in Belgium and Italy to 70, 84, 99, 105 and 113 times respectively in Sweden, Germany, the Netherlands, the United Kingdom and France.[lxv] Research indicates that, contrary to what was believed earlier, such extravagant CEO compensation hurts, rather than helps, the long term performance of the firm.[lxvi]

To prevent such unfair and inefficient outcomes, minimum and maximum wages can limit excesses, both at the bottom and the top. At the economy-wide scale, many countries have minimum wages, but very few have tried a maximum wage. At the sector-wide scale, this is, however, different. In the Netherlands, for example, there is a maximum wage within the public sector, putting a limit at 130% of the income of ministers, called the *Balkenendenorm* named after the then prime minister Jan Peter Balkenende. Finally, one can also implement maximum and minimum wages at the firm or organization level.[lxvii] The result of many local experiments all over the world with in total over fifty thousand participants, was that the extremes of full equality as well as unlimited inequality were unpopular. The most popular choice was to achieve a balance between these extremes by allowing the highest paid worker to receive 10 times more income than the lowest paid worker in a firm. In 2013, a Swiss canton decided on a difference of 10 times in a law putting a limit on how much the highest paid workers at public banks can earn. But irrespective of the precise level at which maximum, and minimum, wages are set, they can, contrary to what is often argued, help ensure that people's rewards for their work better reflects their contributions to society.

We advise other countries, regions and sectors to learn from these examples of how pay can be made more fair and reflecting contributions to society. In particular, we advise to facilitate and organize democratic discussions and deliberations about what is a fair and proper distribution of income. Citizen assemblies can, for example, determine, or inform, what the minimum and maximum incomes should be in society, or a specific sector.

Proposal 3: Renewing the welfare state: A new policy mix

The coronavirus pandemic has exposed many of the weak points in existing welfare systems and as a result many ideas about how to reform the welfare state are gaining traction. Renewing the welfare state is also highly important for people's wellbeing, as research shows that the citizens of countries with reliable and generous welfare states have higher wellbeing and happies.[lxviii] Many of these put their hope into one policy idea, thereby having the tendency to become ‘silver bullet' proposals.

Basic income is the most famous of these, which refers to an unconditional monthly (minimal) income for all citizens financed through government taxes.[lxix] Rather than giving people money, another proposal argues all citizens should have the opportunity to perform paid work and contribute to society.[lxx] To realize this they argue for a nationally funded but locally implemented job guarantee, which would provide the unemployed with the chance for a minimum-pay but secure job with good conditions and benefits in caring for people, communities and the earth. Another prominent idea is to ensure that all citizens have, free or affordable, access to an extended set of basic services, which includes not only healthcare and education, but also child care, adult social care, housing, public transport, and digital information.[lxxi] While the government would ensure universal and sufficient access to basic services, it does not necessarily imply that the government alone provides these services as this could also be done in collaboration with private for-profit and civic non-profit organizations.

While these proposals have many strengths, the economy is too complex for one policy to be a ‘silver bullet’ and solve today's problems. Therefore, we argue that the solution lies in smartly combining them into a good policy mix, in which individual policies strengthen and complement each other.

It seems to us that a job guarantee and extended basic services could work well together as they complement each other by ensuring everyone has access to (paid) work as well as basic services. A full-fledged universal basic income, on the other hand, seems to be more difficult to combine with the other policies. It would require an enormous increase in the government budget and taxes, but it would also generate conflicting logics in the welfare state. Both, universal basic services and an universal basic income namely function to allow people to meet their basic needs. Having both at the same time thus seems to take away their additional benefits, while creating double costs. Similarly, having an universal basic income takes away a key aspect of the job guarantee, giving people the opportunity to earn a living.

A combination of a job guarantee, extended basic services, and benefits as right, therefore, seems most promising. Similar to basic income, these policies help reduce poverty and inequality, and improve the bargaining power and freedom of citizens and workers. But in contrast to basic income, they would, however, not lead to more market dependence and polluting consumption. Instead, they would contribute to social cohesion by strengthening the reciprocal principle of enabling everyone to contribute to and benefit from the common good. Furthermore, it could have important ecological implications by enabling a just transition. Extended public services would be able to increase human wellbeing without increased pollution, if done ecologically conscious, showing that the two do not have to be connected. And perhaps most importantly, the job guarantee would create ‘green’ jobs and reduce the need for economic growth to create jobs.

Additionally, these policies would more effectively ensure human wellbeing. Similar to basic income, this policy mix, with benefits as right, would ensure everyone has a minimum income, but it provides more than just money. A job guarantee not only provides people with the chance to earn an income, it would also provide regular activity, time structure, social contact, a sense of purpose, status and identity.[lxxii] Extended basic services are a secure way of providing universal, free or affordable, access to basic services, while it remains to be seen whether an unconditional universal basic income will effectively enable all citizens to meet their basic needs through the private market.

And finally, this policy mix would not require a stark increase in taxes, as a basic income would. While an unconditional universal basic income would cost about 25% of GDP in European countries[lxxiii], extended basic services would only require additional investment of 4% of GDP.[lxxiv] A job guarantee is estimated to require an investment of 1-2% of GDP, but could be budget neutral as it would reduce other government expenses related to social problems, such as (mental) health, human capital loss and crime.[lxxv] Replacing the existing means-tested benefits with less punitive and restricted benefits combined with the job guarantee program, means that only those unemployed choosing not to do a higher pay guaranteed job will receive it. The fiscal implications of this are uncertain, but are unlikely to be of significance as it will probably mean a smaller group will receive more generous benefits. To finance the extra government expenses related to this policy mix, taxes on (net) wealth, land, data, inheritance, unhealthy consumption, financial transactions and pollution could be introduced, or increased, as this would contribute to a fairer, more stable and sustainable economy.

See our report '*Renewing the welfare state'* for a more extensive discussion of the various options and the proposed policy mix.[lxxvi]

Conclusion

To conclude, we need to re-appreciate the public sector and the coronavirus pandemic has shown how overdue this change is. More specifically, we need to start paying public sector workers more in line with what they contribute to society. We need to abandon the idea that privatization and marketization, always and in any sector, improves efficiency, and reprioritize other objectives, such as equity and resilience. Instead, professionals need to be given more independence, moving the system away from relying on administrative control to building on trust. And finally, we need to renew, rather than further weaken, the welfare state by seriously considering the ideas of extended basic services, a job guarantee, and less punitive and restrictive income support through benefits as right. Each of these aspects plays a critical role in moving towards an economy that puts wellbeing at its centre.

A New Chapter for the Environment and the Economy

Introduction: A sustainable economic future for Europe

When envisioning the ideal economic system of the future, an essential element is that it must function within the limits of nature, as otherwise it is doomed to be environmentally as well as economically unsustainable in the long run. Such an economic system should incentivise responsible production and consumption, allowing natural ecosystems to regenerate. It should respect the space for natural processes, while putting technology to the service of the environment. And it should also allow humans and other living beings to live in harmony with each other, giving and taking from the earth alike.

It is a long road to put into practice this vision of an economic system of the future. By having already polluted and extracted such large amounts of natural resources, sometimes it may seem that the task at hand is impossible. However, starting off with environmental policies that embrace values such as democracy, equity and power redistribution might get us on the right path. In this way, we can achieve lower levels of greenhouse gas emissions and pollution, as well as a human model which is compatible with a healthy planet.

The environment and the economy: Debates and perspectives

In the last 25 years, global environmental governance has been explicitly concerned with global warming and greenhouse gas emissions. An example of this lies under the first extension of the UNFCCC COP[5] already in 1997, the Kyoto Protocol. Such a protocol was the pioneer in setting a carbon cap, allowing countries to trade carbon dioxide (CO_2) emission permits with each other: the first model of ‘cap-and-trade’ system.[lxxvii] However, thereafter, concerns beyond global warming and emissions expanded to highlight the importance of biological diversity, ecosystem integrity and deforestation, among others. Product of this were the UN international panels on biodiversity and desertification (UNFCBD[6] and UNFCCD[7]).

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[5] United Nations Framework Convention on Climate Change Conference of the Parties

[6] United Nations Framework Convention on Biological Diversity Conference of the Parties

[7] United Nations Framework Convention on Combating Desertification

These conventions, although having achieved a few binding commitments across most of the developing world, have come along with heavy debates. These have often pointed out that the conventions have been predominantly focused on a type of ‘weak sustainability’, embracing the idea that 'sustainable economic development’ is achievable by ‘re-accommodating’ environmental issues and that “natural capital can be substituted by human capital”.[8] Such ideas have increasingly been accompanied by ‘green growth’ policies, which use governments’ spending power and industrial policy for boosting employment and economic growth, whilst still allowing concern for clean technologies and R&D.

Differing from these ideas, opponents of ‘weak sustainability’ claim that green growth policies are founded in the disprovable claim of *absolute* decoupling of economic growth from environmental degradation – namely, that an economy can continue to grow, while reducing its impact on the environment.[9] Instead, proponents of ‘strong sustainability’ tend to embrace ideas of ‘degrowth’, ‘post-growth’ and ‘agrowth’, which are based on recently rising movements which embrace concepts of anti-modernisation, ecology, bioeconomics, democracy and justice.[lxxviii] Nevertheless, ideas of ‘green growth’ have had a second[10] significant rise in popularity in the last months. Since the COVID-19 socioeconomic crisis began, more than 140 green recovery plans have been proposed by a variety of governments around the world[lxxix] and many more from several agencies and NGOs, including our ‘Investing in green and social employment’ proposal.[lxxx]

This is not surprising, given the more politically moderate nature of ‘green growth’ proposals. In fact, criticisms of ‘degrowth’ ideas abound, not only from those who resist to

[8] The concept of substituting natural capital by human capital proposes that human-driven technological advances will ‘make up’ for the loss of natural capital, in line with a Malthusian point of view (see Figge, F. (2005). Capital Substitutability and Weak Sustainability Revisited: The Conditions for Capital Substitution in the Presence of Risk. *Environmental Values* 14 (2): 185–201)

[9] Degrowth proponents highlight that while creating economic growth which does not harm the environment is impossible, growth can be done in less environmentally harmful ways – thus accepting the concept of relative decoupling as a possibility (see Jackson, T. (2016). Prosperity without growth: foundations for the economy of tomorrow. Oxford: Routledge. Taylor & Francis Group)

[10] The first significant rise in popularity is found in the aftermath of the Great Recession of 2008 (see Meckling, J. & Bentley, B. A. (2020). The evolution of ideas in global climate policy. Nature Climate Change 10(5), 434-438)

let go of paradigms embracing economic growth, but also from others who simply find that the focus of 'degrowth' on GDP is insufficient for a true paradigm shift.

Thus, it is imminent and of utmost importance to reconsider how a 'pragmatic approach' can be constructed. Under such a pragmatic approach, politically feasible ideas should be reconciled with the recognition that fundamental paradigm changes are necessary to achieve environmental sustainability, at the same time finding common ground between weak and strong sustainability proponents.

This chapter attempts to provide solutions under such a pragmatic framework, proposing some ideas which do not challenge but serve as complements to each other, bringing insights from different schools of thought and policy realms. At the same time, this approach aims at achieving short and long-term feasibility, as well as finding shared perspectives of commonly valued principles such as democracy, equity and power redistribution.

To build such a framework it is necessary to begin with a brief analysis of the current policies we are confronted with today; and as this report is focused on the future of Europe, we shall begin by discussing the most recent European innovation: the European Green Deal, and why despite embodying an ambitious agenda it still falls behind from delivering a just deal. Shortly after, the chapter proposes a series of policy proposals which attempt to convey pragmatic solutions.

The problem: The need for a socially just energy transition

In December 2019 the European Commission (henceforth EC) released its 'progressive' agenda for a European Green Deal (henceforth EGD), including the framework and roadmap to achieve climate neutrality in 2050, circularity programmes, farm to fork strategies, decarbonisation schemes and plans of carbon leakage reduction.[lxxxi] However, the EC's EGD has effectively bypassed the use of the word 'New' in its name; a word which has historically[11] embodied social and financial aspects that are key when embracing any socially-concerned policy programme.

Furthermore, the EC's EGD, despite acknowledging the need for a 'just transition'[12] – namely that the resulting inequalities from environmental policies need to be reduced, thus providing a level-playing field for households and workers across all income brackets - has only accommodated a package of a total of €150 billion for ten years; a mere 0,09% of 2019 EU GDP per year.

The EC's proposed 'Just Transition Mechanism' (henceforth JTM) consists of three pillars: a fund, an 'InvestEU' scheme and a loan facility at the European Investment Bank; and it focuses on skill-provision, energy efficiency and SMEs projects, as well as investments in the energy and transport sectors. However, although mentions of 'social infrastructure' – e.g. city facilities which enhance citizen wellbeing – are found in the proposal, no specific and targeted measures are directed towards enforcing the reduction of poverty, nor towards tackling inherent structural inequalities which will be exacerbated by the energy transition - not only in Eastern Europe, but across the entire Union.[13]

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[11] The term 'New' refers to ex-US President Franklin D. Roosevelt's New Deal from 1933, where he, in the aftermath of the Great Depression, attempted to defy the destabilising powers of the financial sector, while improving the social safety net in the country through the creation of several federal programmes and agencies, as well as programmes directed to providing unemployment relief. Within the context of a Green 'New' Deal, the concept is translated from its 1933 use to the current crisis, where there is the need to tackle problems in different fronts: social inequalities, decreasing environmental health, and financial instability; and now, the socio-economic crisis resulting from the COVID-19 pandemic. Some have made such a proposal in the US, the UK and in Europe; see NEF (2019) A Green New Deal: Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices (https://greennewdealgroup.org/wp-content/uploads/2019/06/a-green-new-deal.pdf); The Green New Deal for Europe (2020) Blueprint for Europe's Just Transition (https://report.gndforeurope.com/cms/wp-content/uploads/2020/01/Blueprint-for-Europes-Just-Transition-2nd-Ed.pdf); and GPO (2019) 116th Congress 1st Session H. RES. 109: Recognizing the duty of the Federal Government to create a Green New Deal (https://www.congress.gov/116/bills/hres109/BILLS-116hres109ih.pdf)

[12] Such a mechanism is inspired by the term coined in 2015 by the International Trade Union Confederation, which emphasised the need for dialogue between workers and policy-makers in the design of the energy transition, as well as new skill training and social protection, among other policies (see ITUC (2015). *Frontlines Briefing March 2015 - Climate Justice: There are no jobs on a dead planet.* International Trade Union Confederation D/2015/11.962/5)

[13] According to the European Commission, 34 million European households have reported an inability to keep their homes warm in 2018, which is most of the times due to a combination of having a low income, a high expenditure on energy consumption, and poor energy efficiency (https://ec.europa.eu/energy/topics/markets-and-consumers/energy-consumer-rights/energy-poverty_en); thus as the EU shifts towards cleaner forms of energy – thus implying higher taxes on pollutant technologies – energy poverty in the Union is expected to only worsen.

As many have already claimed[lxxxii], climate change will challenge the very way we organise our societies; specifically in terms of the current dominance of short-termism by politicians and firms, which is inherently incompatible with fighting climate change. Thus, politics-resilient economic-environmental policy needs to integrate ways in which the interests of the citizenry are inherently and inextricably ingrained in the system, such that power politics cannot dispose of them as easily as it has been in the past. Therefore, we argue that the right policies have already been designed, and we must now dispose of the existing frameworks of power in order to bring them into fruition.[lxxxiii]

The solution: A policy mix for an environmentally fair future

Proposal 1: An emission-trading system, a carbon tax or an ecological tax-and-dividend?

Besides tackling power imbalances, climate policy should also be concerned with unequally distributed ecological footprints and income inequalities resulting from the demands of the energy transition. An innovative tool, such as an ecological tax-and-dividend may embody the solution for tackling these inequalities, while simultaneously allowing for the right valuation of ecological processes and materials. However, in order to construct such a solution, reviewing the current state of taxation mechanisms, and their implications, is crucial.

In terms of carbon footprints – because in the EU we do not yet tax ecological footprints – a recent study[lxxxiv] has shown that the top 1% polluting EU households emit 22 times the per capita climate target (which has been set at 2.5 tCO2eq/cap.), while the bottom 50% emits about 2 times the per capita climate target. Additionally, the top 10% and 1% respectively consume substantially larger amounts of highly emitting goods and services such as air and land travel (Figure 4).

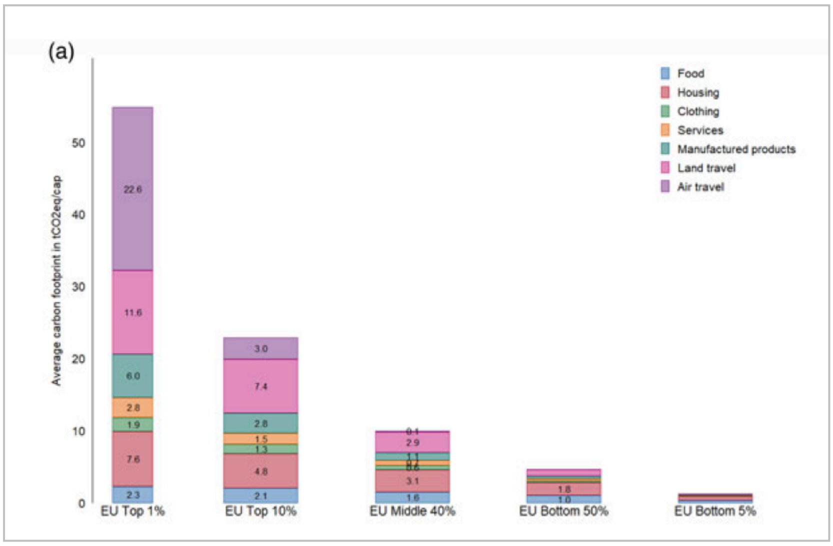

Figure 4: Average carbon footprint (CF) distribution by consumption category in the European Union [14]

These findings in fact highlight the need to heavily tax those with a higher footprint and a higher expenditure in the most emitting sectors, as well as those sectors which contribute to such footprints.

One way in which European environmental policy has attempted to tackle such unequal carbon footprints is through the European Emissions Trading System (henceforth ETS), which makes highly emitting industries pay more than less emitting ones. This in principle makes sense, however, there are several issues which challenge the suitability of the current system. To begin with, land travel is not included, thus failing to properly tax the emissions of this sector – in fact, emissions under the ETS only cover an estimated 40% of total EU emissions, amounting to 1.7bn out of a total of 4.2bn tonnes of CO_2 emitted in the EU. Other sectors excluded are agriculture, transport and waste, among others. And, by simply observing the trends in prices of airline tickets, consumers are not paying higher prices for the higher emissions that the airline industry is incurring – a clear downside of the ETS, highlighting the need for taxes at the consumer side of the transaction, which might only then effectively decrease highly emitting consumption.

A blended ETS + consumer tax or a fully carbon tax-based system – the latter recently gaining traction across the world[lxxxv] – would effectively place responsibility on the consumer

[14] Ivanova, D., & Wood, R. (2020). The unequal distribution of household carbon footprints in Europe and its link to sustainability. *Global Sustainability*, 3.

side, affecting consumer awareness and behaviour. Additionally, such a system would also create what complexity economists call 'a reinforcing feedback loop', in other words, a reinforcing mechanism which would further incentivise emissions' reduction (see Figure 5).

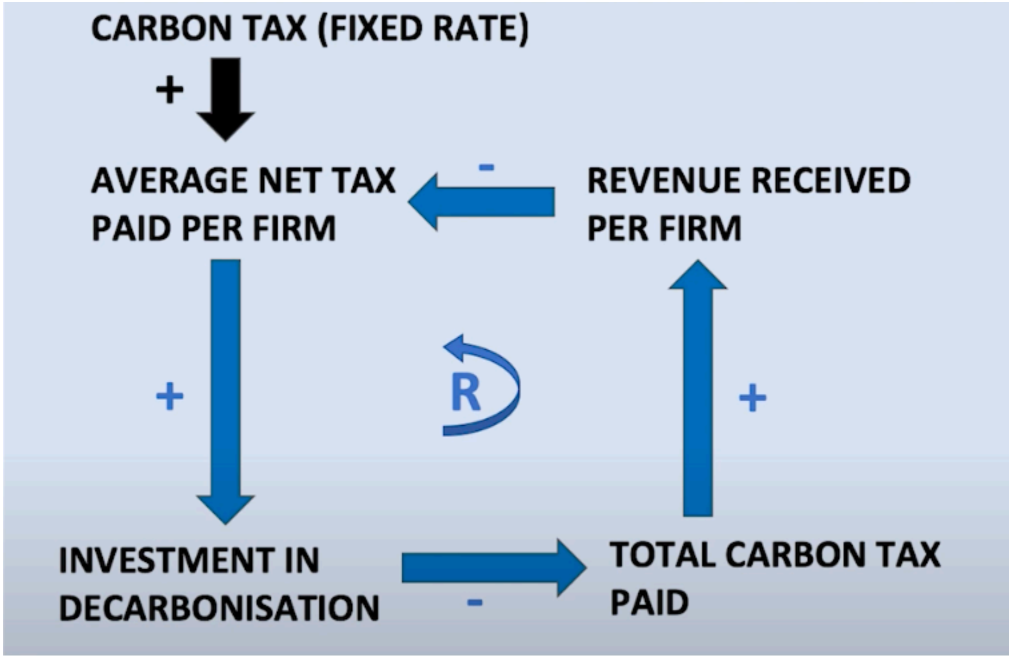

Figure 5: Reinforcing mechanism as a result of a CO_2 tax [15]

However, because carbon taxes are highly unpopular, and because they may contribute to deepening income and social inequalities,[16] either re-designing the current ETS into a blended system, or instating a carbon tax-based system, both pose the challenge of tackling income inequalities.

An idea to overcome this, which is increasingly gaining attention[lxxxvi], is that of a carbon 'fee and dividend'. This consists of placing a carbon tax or emission permit, and then redistributing its resulting revenues to those who are most negatively impacted by the transition to cleaner consumption; thus preventing any type of regressive taxation. In Europe, one emission permit (= 1 tonne of CO_2), which under the EU ETS is currently priced at €25[lxxxvii], would generate funds which can be redistributed to citizens in the form of a flat dividend, currently amounting to €95/year per citizen. However, the price is well below the

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[15] Sharpe, S. (2019). *Policy Lecture 5*. Rethinking Capitalism London: UCL Institute for Innovation and Public Purpose.

[16] Transitioning to electric vehicles, installing solar panels, and making use of other clean technologies is highly inaccessible to the population with the lowest income levels, thus exacerbating inequalities.

suggested ideal of €190/tonne[lxxxviii], and if we were to include non-ETS sectors into a carbon taxing system, a flat dividend would be significantly higher. These different options are illustrated in Table 2 below.[17]

	ETS emissions only	**ETS + non-ETS emissions**
Current emission permit price of 25€/tonne	€380/year per family of four	€940/year per family of four
Price of €190/tonne	€2880/year per family of four	€7200/year per family of four

Table 2: Possible carbon dividends per family of four in the EU, under current emission levels (2018)

However, because of a likely lack of political support for such sudden price rises, and in order to "give investors time to anticipate long-term decisions"[lxxxix] a gradually adjusting carbon price schedule seems to be the logical proposal. In fact, in the US, a yearly rise of $5 to $10 has already been proposed, while others, such as researchers van den Bergh & Botzen, instead propose "a conservative" starting price of $125, to which then adjustments can be made according to the emission targets achieved. [xc]

Under any of the above-proposed prices and systems, flat dividends of such magnitudes would be likely to encourage public support for setting the tax/emission permits at a high price to limit global temperature rise below 2 degrees – as stated in the European Green Deal. Yet, a clear concern about such a flat dividend would be that those located at the top income levels would too receive a dividend, thus lessening the potential for reducing income inequalities within and between EU countries. Thus, such a dividend could be exclusively handed to those located at the bottom income levels through mechanisms such as a negative income tax, or be used to finance energy transitions for low income groups. Additionally, or alternatively, a fraction of this tax revenue could be held at the government level, in order to

[17] The calculations of these numbers are as follows: currently the EU is emitting about 1.7bn tonnes of CO_2 (under the ETS in 2018). If we assume polluting continues at similar levels in the coming years and prices of emission permits remaining at €25, a carbon tax would generate €42.5bn in total revenues. This, redistributed flatly across 448 million citizens results in a €95/year dividend. However, under the price proposed by Nordhaus (2018) – namely, €190 per tonne – it would generate a dividend of €720/year per citizen. Furthermore, taking into account the non-ETS emitting sectors – currently emitting 4.2bn tonnes (in 2018) –a flat dividend of €1800/year per citizen could be distributed.

spend on the provision of basic services, such as healthcare, education and public infrastructure, increasing the quality of life of citizens.

Nevertheless, taxation which is solely placed on carbon-intensive activities may lead to an increase in consumption of other polluting/extractive goods. This 'substitution effect' – effectively substituting carbon for other polluting activities – would increase the demand for further raw material extraction and plastic use – practices which are in themselves highly ecologically and environmentally unsustainable. Therefore, to tackle environmental degradation and embrace ecological awareness, taxes on raw material use and waste must also be established across a wide range of sectors. Clear examples include plastic use and meat products, as well as other consumer goods which require extensive raw material extraction – thus strengthening the case for a circular economic model. Under such an ***ecological* taxation system**, tax revenues would increase even further, leading to higher benefits for low income households (be it in the form of negative income tax, support for financing their transition to clean energy, or through the provision of basic services). At the same time demand for polluting and extractive industries would be reduced, and "long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and recycling" would be promoted.[xci]

Finally, the redistribution of an ecological dividend within the context of the European Union may potentially highlight the need to achieve integrated institutions. Otherwise, the tax-and-dividend framework would operate under an uncoordinated structure, where taxes would be enforced at the EU level, while leaving income inequalities for individual countries to deal with. A possible solution would be to develop – as it is already being discussed within the context of common unemployment insurance[xcii] – an *ecosocial* European fiscal union, which then is able to tax ecological footprints, as well as then redistribute the benefits it creates with those at the bottom of the income ladder.

Proposal 2: Industrial policy and guidance for achieving environmental sustainability

The idea of an 'entrepreneurial state' highlights the active role of the state in promoting research and development (R&D) activities, while enabling to hold equity and receive dividends to repay initial investments. Such a proposal is based on the idea that by involving the state as an active financial actor in the economy, more ‘real economic value’ may be created. Additionally, investments in R&D may then be geared towards problem-solving, effectively being mission- and society-oriented – where wellbeing lies at the core.[xciii]

The necessary technological innovation for the energy transition, almost just like any other significant technological innovation, is characterised by a high uncertainty phase in its initial stages. Thus, precisely because private sector financing – such as venture capital – tends to be more risk averse than public sector financial institutions, an entrepreneurial state might be the right actor to finance such stages. Additionally, the state’s key role is not limited to financing, but also extends into decreasing uncertainty through political assurance; in other words, if the state shows explicit commitment to a set of industrial policies, the additional private financing will flow in as well.

Furthermore, cross-sectoral policies needed for long-term, high-investment and high-employment ‘green’ projects need to be coordinated in order to be fruitful. Thus state-coordinated industrial policy plays a key role in developing a new “techno-economic paradigm”[xciv], through green innovation and investment.[xcv]

In light of the COVID-19-pandemic, which has – so far – resulted in significant job losses and decreasing incomes across Europe[xcvi], these insights pose a ready-to-go alternative for policy making, challenging the state’s role as an ‘externality interventionist’. Instead, it creates momentum for embracing an active state, which drives R&D investments and directs a coordinated industrial strategy towards sectors with a high job-creation potential, and to those which are ready to transition to more sustainable business models. For example, coordinated industrial policy geared towards the construction sector can create substantial jobs by making existing infrastructure more climate change-resilient and energy efficient, leading to a sustainable recovery. Another example can be found in sectors which are ready-to-transition to a circular economic model, providing jobs and sustaining more environmentally-friendly consumer products.

Furthermore, industrial guidance could prove useful for redistributing pollutant and extractive-tax revenue across the EU. This can be done by providing policy advice for country-specific sectoral investments, either in compensation and re-skilling programmes for phased-off industries, or in creating new sectors through extensive R&D. Additionally, industrial guidance can also direct investments towards smart grids powered by prosumer households, and idea which will be further explained in the next section.

Within the context of the ecological tax-and-dividend, and also in line with the current European Green Deal, there is the possibility of creating localised investments in phasing-out currently polluting industries and in moving towards more sustainable sectors. A simple example is the airline industry in the Netherlands, where additional investment money could be spent on financing the development of electric railways; or the meat industry in Ireland, where the money could be invested in developing vegetable-based protein products.

The materialisation of such investments would have to be supervised and regulated by the EU, by both (a) drafting a list of strict requirements for such industries, and (b) country-specific in-depth industrial policy guidance. In this way, mission-oriented industrial policy and guidance may not only achieve a fair and effective energy transition, but also create an innovative and purposeful way of doing policy, where the values and wellbeing of society lie at its core.

Proposal 3: Embracing the prosumer economy

This third proposal for climate and environmental policy stems from a very different point of departure, namely from highlighting the role of civil society in the economy, embracing its *prosumer* capabilities. As several scholars have been highlighting already for some years[xcvii] the increasing feasibility of connectivity across society enables us to become *pro*sumers - namely, producers and consumers[18] - of energy through the installation of smart grids, as well as of a wide variety of products which are made of recycled plastics and manufactured via household-3D printing.

Energy-generating technologies & smart grids. Through the active role of citizens in energy production, households and citizens are empowered by a fully democratic system of energy generation and use, which contributes to reducing carbon footprints while reducing their

[18] See alternative definitions in Kotilainen, K. (2020). *Perspectives on the Prosumer Role in the Sustainable Energy System*. Tampere University.

energy bills to zero. This would provide them with a sense of autonomy through the distribution of the power of owning energy production. Such a system begins with the installation of energy-generating technologies at the household,[19] for which substantial investments are needed. These could be financed by national and EU-wide subsidies, some of which may come from a type of the aforementioned ecological tax. Additionally, other, larger investments will have to take place at the neighbourhood, regional and national levels, where smart grids need to be installed to exchange energy across space. For this, active industrial policy needs to be in place, so that the needed amounts of investment and R&D are allocated towards their construction, their long-term maintenance, and the re-skilling of their prospective users.

3D-printing. The second idea stemming from a prosumer economy paradigm is that of 3-D printing, which embraces the recycling of household and industrial-use plastics, and their use as input in manufacturing a wide variety of consumer products, such as a guitar, a lamp, kitchen tools, among others.[xcviii] Not only can this type of manufacturing contribute to reuse of plastics while reducing the need for the extraction of raw materials, but it also may create additional household income.

Finally, it is key to mention that the state should also play a significant role in enabling the prosumer economy to flourish – to prioritise it above the current players – by divesting from current industrial and monopolistic modes of energy production, as well as by investing – through means of subsidies – into home and neighbourhood-based equipment for the production and distribution of such energy and its surplus.

Conclusion

In this chapter we have argued that the economic system needs to operate within the limits of nature; while it must also embrace key human values such as democracy and equity, so that we achieve a model which is compatible with a healthy planet and the wellbeing of the people. In attempting to design such a model, we have argued that a pragmatic approach is most suitable, as it reconciles politically feasible ideas with the recognition that

[19] Be it in the form of solar photovoltaic panels (PV) or geothermal heat pumps, as well as smart appliances which efficiently track and predict energy use.

fundamental paradigm changes are needed. Key policy outcomes of such a pragmatic and democracy-embracing approach are an ecological tax-and-dividend which redistributes wealth while contributing to environmental protection and emissions reduction; a call for mission-oriented policy through industrial guidance for directing investment towards sectors which contribute to real economic value-creation as well as to the ecological value-preservation; and finally, the involvement of citizens in embracing the prosumer economy, where power is redistributed while ecological protection is embraced from the very bottom.

A Financial System for Wellbeing

Introduction: The ideal (financial) system

If we want to focus our economy around the overall wellbeing of all living things on planet earth we need a financial system which supports this aim. Due to the fact that our financial system is not bound by a natural law, but is designed by humans as a social contract, we are able to redesign it so that it helps us to cope with the issues we are facing today. Obviously, in doing so we are restricted by international interdependencies and governmental structures such as national states and the EU.

Money is an artifact which serves multiple functions. It is being used as a calculation tool, store of value, to pay for products and services and to collect taxes.[xcix] If our economy would be a human body, money would be the blood which enables things to flow to the right place. Like blood, money has a steering function since productivity is stimulated via the incoming flow of credit. The word credit is derived from the Latin word *credere* which means *believe.* With credit, someone believes or trusts that the other will pay it back. This credit can be allocated via financial institutions so that production and innovation can occur. Ideally, this entire financial system should serve the real economy by maintaining a facilitating and steering function. In this way, desirable innovation and production can occur.

The problem: Financial value over wellbeing

Currently, our financial system does not put the wellbeing of all living beings on earth at centre stage. On the contrary, many contemporary problems aren't solved since there is a lack of money (i.e. artifact) whilst all real required resources (i.e. people and materials) are often available. For example, why is there not enough capacity in the Dutch health care system whilst potential medicine students cannot start their study due to capacity restrictions of schools? It is due to the scarcity of an artefact in the form of money. The financial system currently is too big, has a negative dominant and decoupled function towards the real economy, and is not stable enough to cope with crises.

This main issue can be divided in the following three different subproblems.

Imbalanced wealth accumulation

There is enough money, but we are using it incorrectly.[c] This is the subtitle of the latest book of professor Dirk Bezemer and a very accurate analysis of one of the core problems of our current financial system. Money, and therefore power, is accumulating with a small number of people. Within our system, it's possible to make money with existing money at a faster rate than people can make money by working through labour.[ci] Francois Bourguignon, former head of economy at the World Bank, shows that due to globalization wealth inequality between countries has declined less than the inequality increased within countries.[cii] Additionally, a growing amount of private money creation is used to buy existing financial assets or real estate. This leads to even more inequality, since people who own these assets are already wealthy and profit extra via the rising prices of these financial assets and real estate. It also creates financial bubbles, which causes economic instability. Simultaneously, people with little wealth are in increasing numbers not able to buy a house. Namely, the main reason that housing prices are rising is because new money is created to buy existing houses. Other reasons are financial deregulation and financial innovation. Thus, it is not primarily linked to the demand and supply side of housing.[ciii]

Wealth accumulation not only leads to a social decline (i.e. inequality between people) but to a natural decline as well. Herman Wijffels, former president of the Rabobank and cofounder of Sustainable Finance Lab states that there is an abundance of financial capital, but a deficit of natural capital and social capital.[civ] According to the OECD, worldwide broad money (i.e. M3) increased by a factor 35 from 1980 to 2015.[cv] Simultaneously, the sources of social and ecological capital were hollowed out. As for our ecological capital, or natural world, we can see a decline of 68 percent in population size of all animals worldwide since 1970.[cvi] As for our social capital, income inequality increased in most of the developed and developing countries since 1990. Additionally, there is a huge concentration of power and wealth at the top 1 percent of society and this wealth gap is still rising. Currently, wealth inequality is as high as in 1905.[cvii] For example, their share of total income per country increased in 59 out of 100 countries from 1990 to 2015.[cviii] Looking to the richest 1%, their wealth increased by 27.5% during the COVID-19 pandemic. This is because gains were made via the global stock markets and central bank stimulus was, indirectly via quantitative easing, focused on the financial sector and big businesses.

We propose as a general guideline that we should use the financial capital to restore the natural and social capital. This is possible, if the benefits related to new credit outweigh the burden and risks in the future related to financial, social, and ecological aspects. In other words, the criterium should be: does the inflow of new money lead to a desirable outcome or not?

Finance dominating the real economy

The second problem is the dominant role of the financial sector in relation to the real economy. Arnoud Boot, co-chair of Sustainable Finance Lab, already stated in 2015 that our financial system is bankrupt mainly because the missing public anchor and unsustainable debt levels.[cix] With public anchor, he means a system to keep the financial sector supportive to the real economy instead of becoming too big, get a dominant function, and be counterproductive. Now, the financial system had the opportunity to get a life on its own without maintaining a supportive function towards the real economy[cx]. This can be observed via, for example, the tremendous increase of interactions between financial entities without clear positive effect for the real economy. Moreover, the size of shadow banking (i.e. lending outside the regulated banking system) has increased with 75% after the financial crisis of 2008. This type of banking face less regulation than traditional banks and thus is associated with higher levels of risk. Note that this industry was at the centre of the financial crisis when the subprime mortgage market collapsed and still poses a big risk to the financial system.[cxi]

Thus, you can argue that from a certain size the financial sector does not add value to the economy but extracts from it. For example, in the United Kingdom people responsible for making the national budget are troubled with making a calculation about the added value related to the financial sector so they choose to take a fictional value.[cxii]

We have to ask ourselves why we need to have such financial activities, since the added value for society as a whole is extremely doubtful. The aforementioned example is just one example of a bigger trend; the financial system is decoupled from the real economy and adopted a negative and dominant function towards the real economy. The Bank of International Settlements (i.e. BIS) concluded that there is a negative relationship between growth in the financial sector and growth in the real economy. They state that from a certain size of the financial sector, which is exceeded by Holland and most of the Western countries, the faster the financial sector is growing the less the real economy grows.[cxiii] So, it is urgent to revise this relationship.

Unsustainable debt levels

The third and final main issue within the current financial paradigm is the huge amount of unsustainable debt, both private and public

There is a tremendous increase of worldwide public (i.e. state) debt levels due to COVID-19. Public debt levels, as a percentage of GDP, in developed countries are comparable with the debt levels during WOII. The worldwide average public debt is currently almost 100% of GDP, which is a record high. In the eurozone the budget deficit increased from 0,6% to 10.1%, in the United States it increased from 6,3% to 18,7% and in Canada from 0,3% to 19,9%.[cxiv] Although research shows that public debt levels in the Netherlands can rise without more economic instability, public debt levels worldwide are a huge problem.[cxv] This public financial instability is expressed into the fact that 80 countries are currently asking for financial help at the IMF.[cxvi]

Next to the public debt levels, private debt is probably even more problematic. Almost all of our money worldwide is debt based, since it is created via commercial loans and the amount of cash (i.e. public money, value based) is declining. If private debt levels (i.e. companies and households) exceeds 88% – 100% of GDP, it has an negative effect on economic growth and can even lead to systemic failures such as the financial crisis of 2008.[cxvii] In 2019, the total number of members of the OECD who didn't exceed this limit was zero. Luxembourg is in the lead with 465% of GDP, whereas Slovenia has the lowest private debt levels, namely 115% of GDP. The Netherlands have a private debt level of 289% of GDP in 2019. Note that there is a difference between private debt levels for productive means and non-productive means. Productive debt levels are related to real innovation, increase of employment rate, increase of overall wellbeing whereas non-productive debt levels only lead to a bubble in the financial systems via an increase of prices of financial assets and real estate. Thus, if private debt levels are too high it negatively affects economic growth and people and companies may not be able to pay back their debts and go bankrupt. If this happens, there are all kinds of negative effects such as people losing their homes and jobs, costs of unemployment, and criminality. Also note that the seriousness of the situation may be hidden by the very low interest rates in some countries, but in the long run this is a huge risk when interest rates rise.

So, there are multiple fundamental systemic errors within the current financial sector. Therefore, it is necessary to come up with fundamental solutions.

Finance supporting the wellbeing economy

The main solution is embedded into the general transition from the current negative dominant function of finance into a positive supportive function of the financial sector related to the real economy, more specifically, a real wellbeing economy. In this new function, the financial system will give guidance in production and innovation through the steering mechanism of money creation and allocation of credit. In this way, the financial system could function as a catalyst of desirable developments via the support of entrepreneurship related to the goal: focus our economy around the overall wellbeing of all living things on planet earth.

How we could get there can be explained through the following solutions.

Proposal 1: Public money creation

The first and probably most essential part of the solution is the system of money creation. The central question is how this system should function ideally. Currently, 93% of all money in the Netherlands is created via private banks via commercial loans with the goal of profit maximization.[cxviii] In other words, each time a person or company issues a new loan new money is created.[cxix] Important to note is that with each loan, the newly created money is equal to the principle of the loan, so the interest has to be paid back via the amount of money which is already in circulation or will come in circulation in the future via new loans. This type of money creation implies the need for continuous growth because otherwise you are not able to pay back the loan.[cxx] [cxxi] The remaining part of the money supply is created via public central banks. Note that after WOII the total privately created money was only slightly higher than 50%. So the dominance of private money creation is a rather recent phenomenon.

A growing part of private money creation is being used to buy financial assets and real estate. In this way, money stays in the financial system without generating a higher wellbeing for humanity. Additionally, prices of houses rise so it will become harder by time for people to buy a house.
Ideally, there would be only money creation for productive means. However, since the question ‘what is productive’ is hard to answer, this remains a grey area. But, in order to stop all money creation for unproductive lending (i.e. not leading to higher wellbeing, but only to financial bubbles and speculation) a coordinated transition period is needed. For example, incrementally decrease the loan-to-value ratio for houses while preventing investors to buy houses for rental and a debt relief for current house owners due to the decline of housing prices. In the first period, this debt relief may not be necessary but in the end a situation is created where no new money will be created to buy existing houses so this will lower housing prices. Note that two generations ago, it was possible to buy a house with savings whereas now you need to have two full time incomes to get a loan. In the end, if household debt would decline via a decline in mortgages people will have more money left to buy other goods and services. In order to buy a house, you could still lend money via a bank but the bank would then be a purely financial intermediary between savings and issuing loans.
In order to steer money creation towards desirable productive means we need close cooperation between the government and the financial system. The government could, via fiscal or tax policy in the real economy, make desirable production and innovation more attractive than undesirable forms of entrepreneurship.

Then the question is who should have the power to create money. The ability to create money is inherently related with power. And as we know, power tends to corrupt. So, regardless of the choice of who is creating money, it goes hand in hand with a possible corrupt power structure and the related risks. However, due to the fact that the current financial system mainly works well for the financial system itself, current private banks can have a ‘too-big-too-fail’ status and there is a undesirable relationship between the financial world and the real world it is time to change the current power structure.

The government has to redefine the boundaries of the financial system. This is needed, because we need to solve an unprecedented set of ecological and social issues. The government can decide what has to be done in society, create the amount of money which is needed to do that, and bring it into circulation on a debt and interest free basis. Note that the amount of money has to be adjusted based on a desirable inflation rate (e.g. 2%). Simultaneously, there can be a private market where debtors meet creditors.[cxxii] The main risk is that governments will create too much money (e.g. Zimbabwe from 2007 or Weimar Republic) or steer it towards the wrong direction. The first risk can be solved by giving the power of money creation to an independent, public entity such as a central bank while keeping 100% transparency with feedback loops to the government. The second risk is harder to manage, because it is embedded in the ability of a government to visualize a desirable future and make good decisions.

Money creation could work within this model in two ways. First of all, the government could create money to stimulate entrepreneurship related to the common good (e.g. infrastructure, education, health care, housing, food systems and so on). Another essential common good is to create a minimal standard of living for everyone which is linked to the aforementioned stimulus of the common good. Everyone should be able to get this so-called social floor in their lives. This money creation should be debt free, and with a zero percent interest rate. Secondly, they can create money which then is distributed via private banks but guided by the government.[cxxiii] This credit guidance can be done in multiple ways. For example, the government can benefit loans related to the restoration of our ecology. In this way, the government can benefit private banks who use the newly created money for green or social goals. Also, the government can simply prohibit loans related to buying financial assets and existing real estate.

In this model, private banks function as a financial intermediary who, based on their risk assessment, distribute money. In other words, the money creation function of private banks would no longer be possible and is going to be a public function.

Proposal 2: Debt jubilee

The second solution is related to the problematic public and private debt levels. Countries, businesses and individuals are increasingly incapable to pay off their debts. Obviously, the corona crisis made this situation more severe.

If someone is not able to pay off their debt, you may relieve this debt. Among others, the president of the World Bank argues that especially the poorest countries need a debt relief in order to overcome this crisis.[cxxiv]

You could even go a step further and redefine the relationship between creditor and debtor whereby there is a shared responsibility, an option to debt relief, and societal responsibility when there are payment problems related to external factors (e.g. corona, war, extreme weather conditions). In the biggest part of our history, debt relief was normal and according to the Bible and Koran creditors are suspicious and asking interest for a loan is unacceptable. Thus, our core ideas related to debt has changed and can be changed back to what it has been in history. The goal now is to relieve people from unsustainable debts and avoid new forms of unsustainable debt levels to rise again. This can be done by changing tax rules related to finance via debt, relieve our youth from debt via public initiatives, give more help to debtors in general, and lowering interest rates on credit for consumption[cxxv].

In order to organize a debt relief, or so called debt jubilee, you could create a bad bank (i.e. bank to buy bad loans and debt) which buys debt and unpayable loans in a coordinated way.[cxxvi] Another way to do it is via a regional credit bank who serve people with high debts via the Swedish model. In this model, debtors communicate via this bank instead of multiple creditor entities. Debtors can also get credit via this bank to fulfil their basic needs. Additionally, debt will be relieved every seven years.

Proposal 3: More diversity in the financial system

The third proposal is related to diversity in the financial system. Namely, in many countries there is a small set of large banks which are too big to fail. These large banks mainly do similar things and increasingly focus on larger corporations. However, if you want to have a healthy ecosystem where the entire demand side of credit is met, you need to have different types of banks and financial institutions who can do that. Additionally, you need a more dynamic market where creditors can meet debtors in order to stimulate innovation instead of the current risk averse credit of banks that dominates the European financial sector.

Another way to get to a more diverse financial system is making it harder to form power concentrations which are not in line with a healthy competitive market. This can be done in multiple ways. First of all, you could set a maximum limit of market share per bank. Secondly, by taking away the money creation power of private banks which is mentioned in proposal 1. Thirdly, by giving the population a stable and safe alternative which will be elaborated in the next paragraph. Fourthly, by regulating financial innovation and have more proportional and principle based regulation. Lastly, by setting a maximum value of the entire financial sector as a percentage of GDP in order to maintain a healthy power balance between the financial sector and the real economy. This is very important, since this problem of power concentration is seen as one of the most crucial issues within the current system.[cxxvii]

Another part of the solution lies in the payment infrastructure. In a more stable financial system it is needed to have a public payment infrastructure which is safe, stable, and less affected by a financial crisis. The reason why this is needed is that people are, via such an infrastructure, not negatively affected by a financial crisis because governments need to save banks due to their too-big-to-fail status. So, if a private bank is threatened by bankruptcy, a society is less dependent on such a bank and there will be no need to spend public money in order to save it.

Central banks are already trying to set up such a system in a digital form via ‘central bank digital currency’ (CBDC) or digital euro in Europe.[cxxviii] The Dutch Central Bank wants to have a pioneering role in this transition.[cxxix] CBDC is a digital form of public money. On the one hand, CBDC is able to counterbalance upcoming digital currencies of Big Tech whilst on the other hand it has a balancing effect on the decline of cash in our society. Another indirect positive effect is that private banks are stimulated to organize a healthy and resilient business model, because governments are no longer obliged to save banks and people have a safe alternative. As big banks lose (part of) their state guarantee smaller competitors will be able to compete on a more equal footing, thus increasing the diversity of the system.

Proposal 4: Regulate complex financial products

The last proposal is the design of financial regulation. As a society, we have to ask ourselves the question 'what is the added societal value of complex financial products?' In the end, often only financial professionals benefit from too complex financial products. Often governments, or even internal management of financial entities, are not completely aware of the available set of financial products which are bought and sold and, more important, what their effect is on our real economy. It is clear now that financial innovation combined with financial deregulation is partly responsible for financial bubbles, too volatile capital fluctuations, and a disruption of the real economy. Basically, with each financial product or service we have to understand if it serves the financial system itself without a valuable relationship with the real economy or not. In order to do this, we need a better understanding of the dynamics of our financial system.

Jules Muis, former vice president and controller of the World Bank, brought up a clear and effective solution for this particular issue. He argues that the president of a central bank has the yearly task to explain to the state which financial innovations have taken place and in which way these innovations or products serve society. If this relationship cannot be made, this innovation or product should not be allowed.[cxxx] Another idea from Muis is to review new financial products before they could enter the market. This can be done, but a huge regulation entity is needed to do the job since the financial sector is now considerably larger than the regulatory sector. The Dutch Central Bank already made clear in 1995 which risks are concerned with derivatives and why it is necessary and mandatory to control and regulate these products. Although the central bank was aware of the risk, they were not able to prevent a financial crisis in 2008 due to a trend of globalisation and explosive financial innovation.[cxxxi]

Conclusion

In summary, we need to get back to a situation where we have a simple and transparent financial system which serves the real economy and therefore the society. In this way, people are supported to realise their ideas and production and innovation which is needed most at a certain time is stimulated. In this new relationship, the financial sector works as a catalyser for human and planetary flourishing without experiencing the negative and disruptive effects which have taken place in the last couple of decades and it will lead to a more just and sustainable world.

Conclusion

In 2020, humanity has been shocked by the COVID-19 crisis. Shedding light on ongoing societal problems which have only worsened since the beginning of the year. This has exacerbated the need for a ‘paradigm shift’, one which will allow us to construct a societal model which questions the way we think about the economy, as well as the way in which we make decisions in politics and business.

To achieve the paradigm shift in the public sector, in environmental policy and in the financial sector, two things are needed:

First*, we need to change the way we think and talk about them*. With this report, we contribute to this change in ideas, which is gaining speed thanks to a growing literature embracing these new ideas about what is important in the economy.

Second, *we need to tackle existing power imbalances and organize countervailing power to special interests groups*. Research shows even in formally democratic countries and institutions, like Germany, the Netherlands and the European Union, citizens do not determine policy outcomes, while special interests and elites do.[cxxxii]

For each of the three topics discussed in the chapters this is highly relevant. Whether it is the fossil fuel industry lobbying against greening the economy, the big banks preventing us from reforming the financial sector, or the pharmaceutical industry and private hospitals pushing to further privatize and marketize healthcare. Besides embracing new ideas, we thus need to empower citizens, so that special interests are no longer able to overrule public interests.

More specifically, firstly, we need to re-appreciate the public sector by renewing the welfare state, properly paying public sector workers and giving them more independence and trust. Secondly, we need to draft environmental policy which embraces democracy and equity. And thirdly, we need to shift from a negative dominant financial sector towards a positive facilitating financial sector in relationship with the real economy.

Links between policy fields

In this report we have examined how the different sectors of public, environmental and financial policy can be re-thought to positively contribute to this paradigm shift. In such a task, we have embraced the creation of value, as well as power redistribution, in order to redesign our economic framework into one which advances the value of wellbeing at its core.

In Figure 7 below we have illustrated combinations of proposals across different policy realms, which can strengthen each other and be conducive to the wellbeing framework.

To begin with, in order to create and preserve real economic and human value, the public sector workers need to be re-appreciated, more properly rewarded, and given more independence. Furthermore, such proposals can be strengthened by an ecological tax-and-dividend which protects the value of nature and natural capital, as well as by an active industrial guidance by the state/EU institutions, which may embrace mission-oriented policy-making. Additionally, creating policies which embrace the prosumer economy can enable citizens to actively create economic value, while also protecting the ecological processes which enable value creation. Finally, credit guidance by the state can stimulate banks to lend money for sustainable and inclusive production and innovation and move away from money creation to buy financial assets. Furthermore, a shared responsibility between creditor and debtor creates a healthier relationship whereby a coordinated and structural debt relief program enables people to lose their burden of unsustainable debt levels.

Secondly, in order to tackle power structures and achieve true democracy, the public sector needs to be strengthened and citizens' should determine what fair income limits at the bottom and the top are. In combination with this, environmental policy, by promoting citizens' involvement in energy, circular goods' production and decision making, can contribute to challenging current power regimes as well as strengthening citizens' position within society. Additionally, through the introduction of an ecological tax-and-dividend, environmental policy can contribute to reducing income inequalities, while allowing for nature to regenerate and for emissions to be reduced.

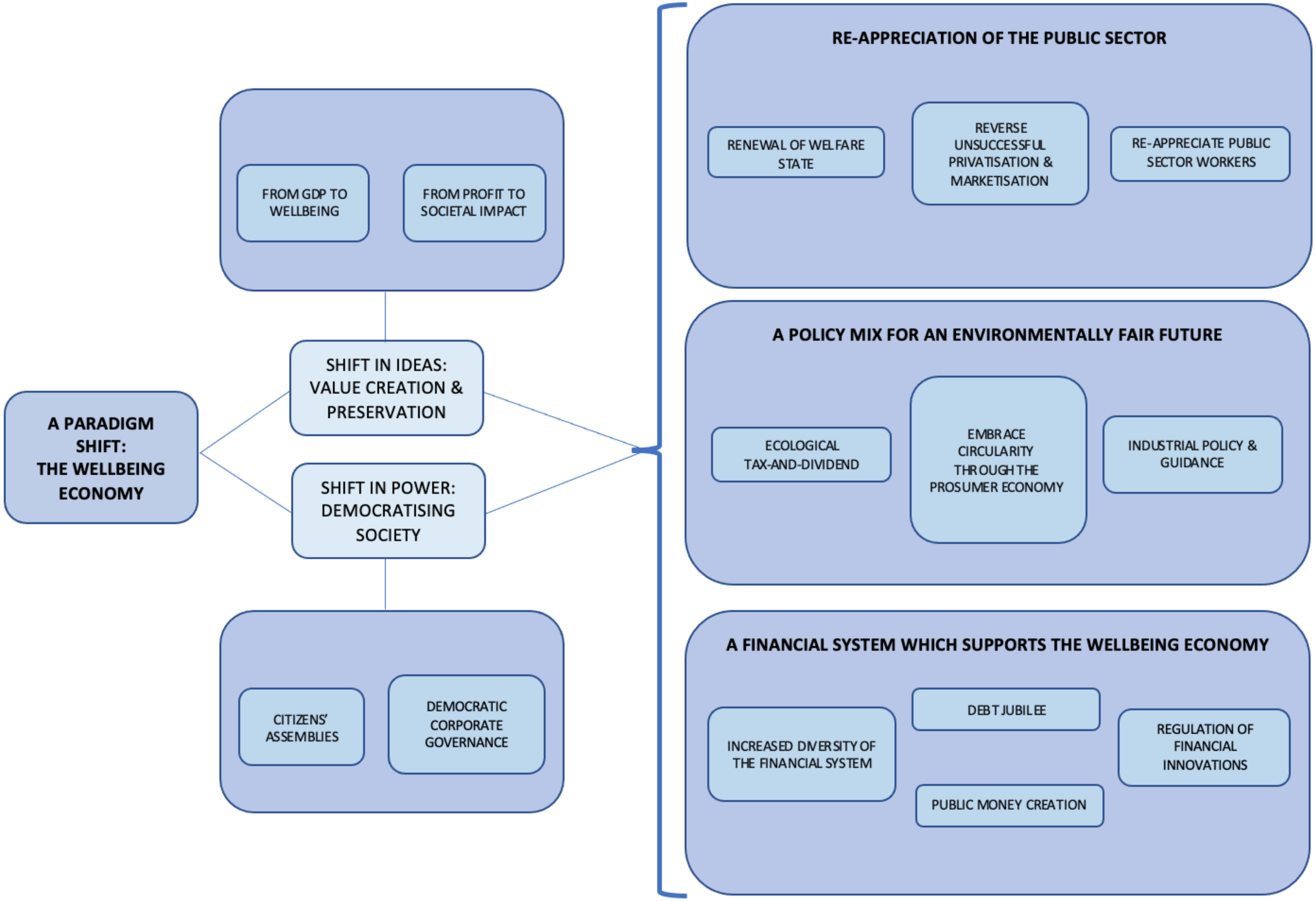

Figure 6: Policy proposals within the context of the wellbeing economy

Finally, power dynamics within the financial sector can be tackled by public money creation, where money can be brought into circulation on a debt and interest free basis. Also so we need better regulation of (new) complex financial products in order to prevent undesirable outcomes. A public payment and saving infrastructure will serve as a safe and reliable alternative to the current banking system. And limits on market share per bank can prevent a too-big-too-fail status whereas limits on the total financial system as a percentage of GDP leads to a decline of power between the financial system and real economy.

Call to action

In conclusion, we have selected different groups of stakeholders who are, in one way or another, actively involved in shaping the economy of the future. For each group, we have drawn specific recommendations, and we hope that this list serves as a call to action, so we can all together row towards the wellbeing economy.

Citizens: should see yourselves as active members of society, that can contribute with meaningful deliberation - you are not simply consumers, but social citizens. You should become informed on the political issues that concern us, and come together to organise countervailing power. Finally, you should also learn new creative skills, so that you are able to contribute to new forms of economic paradigms, ones which are based on our innovative capacity and a circular model.

Media: should no longer refer to GDP as the key aspect of the economy - as this is merely a narrow statistical number - but rather speak about an economy of wellbeing. You should also dedicate more attention to other aspects of the economy, beyond just its financial aspects - in the end, the economy is of social nature. Finally, you should thoroughly investigate special interests, and distance themselves from the perpetuating cycle of lobby-via-funding which you constantly face - see yourselves as society's key messenger.

Private sector: should actively develop public-private partnerships to co-finance the sustainability transitions, as well as transitioning more broadly to societally relevant business models. We do not ask you to stop being what they are - profit-makers - but do so while helping society to increase the wellbeing of all.

Local governments: should incentivise and lead the shift towards increased democratisation through the establishment and execution of citizens' assemblies. You should also actively engage as an enabler in the energy transition and prosumer economy, by creating technical guidelines to use smart-grids, allowing citizens to generate and distribute energy; as well as promote the creation of locally-based recycling and repairing centres ("circular hubs"). Finally, you should also create local projects where citizens can collaboratively invest their ecological dividend - such as green roofs and other greening solutions.

Researchers/academia: should actively challenge the GDP-hegemony, as well as research more into (i) societal business models, (ii) pathways towards an economy of wellbeing, and (iii) better ways to integrate circular economic models into society.

Think tanks/NGOs: should continue to expose and dismantle special interest lobby groups. You should also continue to provide alternative and user-friendly information, as well as actively share it with the public. Finally, instead of continuing to support and fill in the gaps wherever the state or the private sector fall short, you should build bridges and work together so that these other actors improve in their activities.

National governments: should have the courage to step up to lobby groups and listen to citizens, as well as help democratize institutions to make special interest groups structurally weaker and citizens stronger. You should be more cautious with privatization and marketization - as it often does not deliver more efficiency and causes problems in terms of equity and resilience - and should reverse past failed attempts. You should get rid of your inferiority complex with respect to the private sector and ensure that the government also reaps some of the benefits it creates through its investment in research and innovation. You also should work internally on the basis of trust, give professionals more independence, and enable them to be able to properly fulfil their crucial societal roles. Be cautious with introducing (financial) incentives, as they can lead to undesirable outcomes. Nevertheless, you should also increase the wages of essential but undervalued public sector workers. You should stop weakening the welfare state and renew it by seriously considering innovative ideas, such as a job guarantee, extending the basic services to which citizens have assured access, and less punitive and restrictive income support through benefits as a right.

Additionally, you should provide subsidies for the construction/addition of energy-generating and distributing technology at the citizens' end, and fund publica works for developing smart-grids. Finally, you should stimulate productive lending via credit guidance and develop a public payment and saving infrastructure, giving people a safe alternative and decreasing the dependency on banks.

European Union Institutions: you should seriously consider a fiscal union which would facilitate the redistribution of revenues from ecological and emissions taxation. You should also expand and redesign the current ETS to include all types of ecological degradation, or introduce an ecological tax instead. You should provide active industrial guidance in the context of the energy transition, as well as in the context of investing the public share of the ecological dividend. You should also advance substantial financing for the development of smart-grids. Additionally, you should continue with public money creation through the ECB; make visionary guidelines and let private banks distribute credit according to them and use central bank digital currency. Make sure that there is 100% transparency from the money creating entity and install feedback loops to the government in order to make sure the money creating entity is doing a good democratically legitimized job. You should also effectively regulate complex financial products, in order to prevent undesirable speculation and negative economic effects. You should organize a coordinated debt jubilee to solve unsustainable debt levels, which can be done via bad banks or regional credit banks. Finally, you should prevent unsustainable debt levels to rise again by stopping stimulating finance via debt through taxation, help debtors in general, lowering interest rates on credit consumption and redefine the relationship between creditors and debtors in general; as well as diversify the financial system by setting a maximum limit of market share per bank, and a limit to the financial sector as a whole as a percentage of national or international GDP.

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