

# The Great Rebalancing

*As Adam Smith noted, freedom of exchange and transaction is itself part and parcel of the basic liberties that people have reason to value. To be generically against markets would be almost as odd as being generically against conversations between people.*

**Amartya Sen, *Development as Freedom* 1999**

---

So far we have looked at what we value and why, and how these things should be distributed through society so as to ensure that all people have the assets needed to live a good life where their well-being can flourish.

Another way of looking at these parts of the Great Transition is that we have laid out the boundaries of the playing field, ensured that the ‘players’ are equally well equipped and taken care that the field itself is level. This says nothing about what happens when the whistle blows to start the game. In particular, how are the players to interact, and what are the rules of the game?

Classically, the divide in terms of economics is between central planning at one extreme and free markets, or *laissez faire*, at the other. To continue our analogy, does the referee assign roles and stipulate who does what and when (central planning), or does each player follow their own interests and play their own game? As a spectacle, neither would be particularly appealing: predetermined stasis or uncoordinated anarchy.

In reality, of course, you want a bit of both, which is why most economies have been mixed economies to varying degrees. Control in terms of a guiding strategy for the players, which sets overall objectives and the style of play. Freedom in that players can innovate within this framework, respond to changing events and do the unexpected, and cooperate with each other in pursuit of their shared goals.

Returning from this rather tortured analogy to our Transition, the parallels are clear. How should an economic system balance control and freedom, and what role should cooperation play in both the processes of economic and social life, and in setting the framework – or the rules of the game – in which this takes place?

## The role of markets

Let's start with the question of freedom, specifically its relationship to markets. We have already argued that a key part of the Great Transition will be for the market prices of goods and services to reflect the social and environmental costs (and benefits) associated with them – they should incorporate both negative and positive externalities. The fact that this has not been the case makes it clear that our so-called free markets have been far from free. Rather, many people's freedoms are severely curtailed. Whether this is the freedom to breathe unpolluted air or to drink clean water, or the freedom that comes from getting a living wage for your work or a fair price for your produce, the outcome is the same: our freedom to choose is restricted by the fact that 'bads' such as pollution and poverty-level wages are not reflected in market prices and so are far more prevalent than they should be.

In the same way, the freedom to buy 'goods' such as locally produced organic food or ethically sourced clothes is restricted by the fact that these are generally more expensive than alternatives without these positive attributes. Our economic system encourages the overproduction of 'bads' and the underproduction of 'goods'. At society level, this restricts the freedom of us all. By incorporating these factors into market prices we reverse the incentives: buying 'good' things becomes cheaper and easier than buying 'bad' things, and if things are *really* 'bad' we should not be able to buy them at all.

But this raises the question of why we should not just ban markets altogether. Historically, many people have drawn just this conclusion. Taking inspiration from Marx, and particularly the influence of Lenin and the founding of the Bolshevik Party, central planning in the Soviet Union was designed to ensure the fair outcomes that markets, it was thought, could not.

At least until the 1960s many thought that the centrally planned model was also inherently more efficient than its capitalist counterpart.<sup>47</sup> By designing out wasteful innovation and coordinating economic inputs and outputs intelligently and strategically, needs could be met more easily and living standards increased more rapidly. As it turned out, of course, this was far from being the case. Innovation was not a wasteful irrelevance but a central strength of capitalism. Why is this?

Friedrich von Hayek was an early critic of the central planning model, a fact that endeared him greatly to later free market 'revolutionaries', not least Margaret Thatcher. Hayek was actively involved in the 'socialist calculation debate' in the 1920s and 1930s, which sought to determine how best to allocate resources in a society.

Socialists argued that a central planner with sufficient information about the needs and wants in a society and the resources available to achieve these, was best placed to do this optimally. Hayek, in something of a minority, argued that this was effectively impossible, and attempting to do it would lead inevitably to totalitarianism.

Hayek focused on the constraints imposed by the 'knowledge problem'. Simply, this stated that the amount of information needed to coordinate activities across an entire economy was practically impossible to gather, even if it could, in principle, be computed. Economists, quite naturally, have tended to look at this in terms of allocating and coordinating the 'factors of production' (land, labour and capital), but Theodore Burczak emphasises a quite different aspect of Hayek's thought.<sup>48</sup>

Far from being one of the fathers of neoclassical economics with its rational, computer-like 'utility maximisers', Hayek stressed the importance of subjectivity and the fact that our knowledge is inevitably partial and 'bounded'. We create and live in our own worlds. While we might be able to get a sense of what others need, it is not possible to know what others *want* at any point in time in any meaningful sense.

Central planners cannot get this information from inside people's heads. The result of a centrally orchestrated allocation process will thus be the interpretation of a small group of people of what an entire population *might* want. At best this might cover basic needs, but even this is not guaranteed, and it cannot but be strongly influenced by the whims of the planner.

If it is impossible to do this at any one point in time, it is even more impossible to do so over time. As societies change, what they value changes. As technology changes, what is possible changes. For Hayek, allowing resources to be allocated through the price mechanism operating in free markets was the only means of resolving these problems.

In principle, at least, the price of a thing should reflect its scarcity, the demand for it (i.e., how much people value it and can afford it) and its attractiveness relative to other goods. Through the interaction of countless separate transactions, markets should allow the 'discovery' of a price that balances all of these components. The way that prices change over time then reflects changes in the balance of these aggregated individual decisions, reflected in price levels.

What does this mean in practice? Well, 40 years ago a computer was the size of a car and more expensive than a house. Today, personal computers are hundreds of times more powerful, are seen as essential by most people in developed countries and cost

less than the average industrial weekly wage in these economies. What was once seen as a technical tool for specialists turned out to be a thing of very high value for a large proportion of the population. It is very difficult to imagine how a centrally planned economy could have arrived at this outcome.

Similarly, today, everyone in developed countries – and increasingly in developing countries – has a mobile phone. Mobile phone companies emerged to challenge the established fixed-line providers, based on the belief that there would be a market for their products. Would a central planner have tried this? Would even the fixed-line providers have done so? Innovation and the ability of entrepreneurs to test hypotheses about what people might want have clear benefits for society. The alternative is to just produce the things that have been produced in the past, or for some central agency to try and predict what people might want and then to impose it upon them. Neither seems particularly attractive.

## **Problems with markets**

There are clear problems with markets, which have long been recognised. Managed or ‘social’ markets have sought to regulate, temper and steer the market so as to reduce negative social impacts and prevent market economies becoming ‘market societies’. In the UK, the ‘third way’ attempted to combine the logic of free markets with the public service ethos and the energy of civil society. None of these often laudable attempts have really succeeded, and we would argue that they could never do so until we ‘get the prices right’.

This is simply unsustainable, and no amount of tinkering with regulation or appeals to business leaders to take a triple bottom line<sup>49</sup> approach has been sufficient to offset the logic of the market expressed through the single bottom line of profitability. In the Great Transition this would be decisively resolved. By using the tax system so that ‘goods’ become cheap and so plentiful, and ‘bads’ become very expensive and so very rare indeed, the strength of the market is harnessed towards positive goals, rather than constantly undermining them.

This is not the only problem, however. The argument set out above might suggest that the things people want is a sort of natural phenomenon just waiting to be uncovered by the market. If this was the case, why would companies bother spending billions on advertising products? Clearly, ‘wants’ can be and are manufactured and manipulated. Consumption has been stoked to unsustainable levels, becoming an end in itself for many. The Great Transition would inevitably see overall

consumption reduced, and strict restrictions placed on advertising, particularly to children. At the very least, advertisers would be required to prominently feature the social and environmental costs and benefits of their products, but the fact that these would also be incorporated into market prices would limit the extent to which the advertising of 'bads' could succeed anyway.

In the Great Transition prices would still be used to allocate resources, but by making them reflect real value, we would create a race to the top where resources are used to maximise long-term social and environmental value, not short-term profits made at the expense of our society and our natural environment. Prices would operate within the parameters set to meet explicit social and environmental goals.

## **The role of the state**

The state is 'us' not 'them' – or at least it should be. It is not a malign force or an alien entity, but the product of collective decision-making and an expression of shared interests. It is the means whereby we meet needs that we can't meet individually and the source of defence for relatively powerless individuals and groups who would otherwise be overridden by more powerful interests. It is, or could be, what we make it.

In terms of the state's role in the economy, however, it could be argued that getting the prices right would greatly reduce if not eliminate it. Much of the justification for state intervention in the economy comes from the fact that the market does not take account of externalities.<sup>50</sup> Because of this, the state has long been seen as having a duty to prevent public 'bads' – like pollution – and to produce public 'goods.' But if market prices reflect social and environmental costs and benefits accurately, 'bads' become expensive and are produced less while 'goods' become cheap and are produced more. Would we still need the state at all then?

In the Great Transition the unequivocal answer is 'yes'. There are four reasons for this.

First we should distinguish between public 'goods' as described above, and 'public goods' as understood in the strict economic sense. The way the term has been used thus far relates to things that create positive social and/or environmental value in a broad way; essentially anything that most people would agree was positive for society or good for the environment. In economics, the concept of public goods means something much more specific than this.

Paul Samuelson is generally credited with developing the public good concept in economics.<sup>51</sup> Samuelson identified two characteristics of any such good. The first is that it is 'non-rival', which means that my consumption has no bearing on the ability of others to consume. For example, no matter how much air I breathe this does not reduce the amount available to others. Second, it is 'non-excludable' in that it is practically impossible to prevent people from consuming the good. Again, air is a good example of this. Samuelson pointed out that, because of these characteristics, individuals or private companies have little or no incentive to produce public goods, as they are not able to capture the benefits of doing so.

An example often cited is street lighting. If we live in a street without lights, no individual has sufficient incentive to pay for their installation, as everyone else in the street would reap the benefits (and could not be prevented from doing so) despite the fact that they had not contributed. From an economics perspective, they are 'free riders'. This concept can be applied to much more than street lighting.

We can think of the rule of law as a public good, for example. Similarly, maintaining broad economic and financial stability is a public good that is essential to underpin local, regional and national economies. Everyone benefits from this, but no single individual or group of individuals could or would maintain the rule of law or macroeconomic stability across a society or an economy. In a related way, maintaining reasonable levels of individual and regional equality can be seen as a public good – the negative effects of high levels of inequality extend beyond individuals affected to society as a whole.

Because of these factors public goods in a market economy will be undersupplied. A classic argument for the role of the state is thus to fill this gap and produce the public goods that we would otherwise lack, and which in many ways are the hallmark of a real society that is more than the sum of its cities, towns, villages and neighbourhoods.

So, if we have addressed the issues of externalities and public goods in the Great Transition, should we then leave it at that? The answer must be 'no'. There are further issues to consider, which turn on the relationship between the state and individuals, and more broadly between the state and society as a whole – at national, regional and local levels.

## **The state and individuals**

Earlier we examined the reality of freedom and choice in the context of economic externalities and argued that for most people, real freedoms are restricted and many choices are illusory. But even if we can address these issues, there remain serious tensions with regard to choice. There are two parts to this: the individual and the social.

From the perspective of the individual, people don't always make choices that are in their long-term interests. The choices we make are often influenced by circumstances over which we have little or no control – and the less knowledge and power we have the more heavily edited our choices are likely to be. We also have a tendency to overweight short-term gratification at the expense of long-term well-being. The decisions we make, however constrained, set us upon paths, and paths taken at a relatively early stage in life can have major influence upon later well-being. It can also be fiendishly hard to change direction once a path has been established, though this is not impossible. Coaching relationships, if conducted well, can provide a space where options can be explicitly explored and long-term choices made on a different basis.<sup>52</sup> For most people in most circumstances, however, choices are not made in contexts like this.

Of course, people need to be genuinely informed about the determinants of well-being, but that's not enough. Decisions that are 'right', according to the best available evidence, can still be hard to make.<sup>53</sup> People discount the future heavily, even when they have full information about costs and benefits. We are very bad at imagining how we will feel in the future and estimating how likely future events actually are. Carefully designed regulations and institutions have a key role to play here. While the state cannot make people happy, it can create frameworks and help to shape the circumstances that make it easier for people to take decisions that are positive for their long-term well-being.<sup>54</sup> To make the 'right choice' the 'easy choice'.

That said, the right choice for one person may not be so for another. While there is evidence on what sort of choices are positive for our long-term well-being, we cannot be too prescriptive about this – we can perhaps 'nudge', but not 'shove' people in any particular direction, and need to be very careful not to close down the options that people face.

But let's be clear: this is about much more than encouraging individuals to change the way they think and behave. If we are all to have a fair chance of choosing things that will bring us long-term benefits, then it is only through the collective mechanisms of the state that steps can be taken to ensure that everyone has access to the knowledge they

will need to make the right decisions, and has sufficient power (in economic, social and political terms) to apply that knowledge, and is able to participate fully in the processes that make and implement decisions. Making the right choice the easy choice for everyone requires systemic change to redistribute power and resources across the population – the very process we have described in the Great Redistribution.

## **The state and society**

For the Great Transition, we shall need the state not only to enable individuals to make choices that serve their own long-term interests, but also to promote and protect the long-term interests that we share. For example, we share an interest in having access to healthcare when we are ill and to education for our children, in feeling safe on our streets at night, in safeguarding the natural environment. We need these things for tomorrow as well as today. It would be well nigh impossible to meet these needs on an individual basis. So we must be able to meet them collectively through the state and at the same time to safeguard the capacity of the state to do so for the future. This will require a fundamental shift in how it sets priorities and deploys resources.

For a start it must give priority to preventing harm, rather than dealing with the consequences. Today's state is buckling under the strain of dealing with problems once they have arisen. Yet failure to prevent avoidable needs arising is unsustainable, unethical and unjust. Unsustainable because in a low-growth or no-growth economy, there will be a lot less money to pay for public services: funds for meeting needs that cannot be avoided should not be wasted on meeting those that could have been prevented. Unethical because avoidable risks – including obesity, mental illness, homelessness, incarceration and educational underachievement – undermine people's well-being. Unjust because the burden of risk falls most heavily on the poor.

A state that gives priority to prevention will have a different framework for decision-making – one that recognises the value of investing in upstream measures, where benefits accrue across sectors and over the longer term. It will seek to prevent 'ill-being' by addressing the underlying causes of unequal opportunity and tackling avoidable risks to physical and mental health. It will invest to prevent the waste of human potential by fighting inequality and entrenched patterns of unemployment. It will act to prevent wealth escaping from poor neighbourhoods by keeping resources circulating locally, through support for local businesses and trading within communities. And of course it must prevent damage to the environment – most urgently, climate change. There's a double prize for getting it right – more well-being for all, while public services are safeguarded for the future.<sup>55</sup>

## **The state and core economy**

Today's state is based on the premise that the economy will continue to grow to yield more and more taxes to pay for more and more services. By and large, these services are designed to do things to and for people, and to fix things once they have gone wrong. The implicit assumption is that needs will multiply and services will expand. But that assumption no longer holds. We cannot rely on continuing economic growth. Where, then, will the resources come from to prevent harm and to deal with the consequences when harm cannot be prevented?

For the Great Transition, the state must combine a refocused tax system (see the Great Economic Irrigation) with ways of releasing those resources that exist in abundance in what we have called the 'core economy' – the wealth of human and social assets that are largely neglected by today's public services. These are embedded in the everyday lives of every individual – time, wisdom, experience, energy, knowledge and skills – and in the relationships between them – love, empathy, watchfulness, care, reciprocity, teaching and learning. They make the world go round. They are mainly unpriced and unvalued. In large part, they have been deployed by women – not because they belong naturally to women, but as a result of long-standing gendered divisions between paid and unpaid labour. What the state must do now is to nurture these resources by valuing them and supporting their development. By redesigning employment policies, childcare, and family support, as proposed in different parts of this report for example, it can help them to flourish and grow.

The core economy is plentiful, dynamic and sustainable. Growing it shifts the focus of state activity from doing things to people, to acting with them; it shifts the emphasis from taxing and spending to human agency and social exchange.

Co-production is central to this approach.<sup>56</sup> It goes well beyond the ideas of citizen engagement or service user involvement to foster the principle of equal partnership. It offers to transform the dynamic between the public and public service workers, putting an end to 'them and us'. Participants are no longer either providers or users. Instead, people pool different kinds of knowledge and skills, based on lived experience and professional learning, to co-produce well-being for all.

Co-production puts people in touch with each other: it strengthens social networks and helps to prevent ill health and improve services. Becoming equal partners or co-producers instead of users can transform people's relationship with their own well-being, as well as their experience of public services, because it enables them to feel

valued and to have more control over what happens. At the same time, by working in equal partnership with those they are supposed to serve, public services can dramatically increase their resource base, radically transform the way they operate, and achieve better results for the people they serve.<sup>57</sup>

## **The state, neighbourhoods and society**

While it is basic for human beings to trade and exchange, it is just as fundamental to cooperate. We are social beings who are at our best as active participants of thriving and vibrant groups and networks. Not everything can and should be traded. Carving out and maintaining a non-market, social sphere is thus an essential part of the Great Transition. This involves valuing and nurturing the core economy. But there is more to it than that. Places matter: the character of neighbourhoods, the employment they offer, the quality of local services and amenities, how people interact with each other in streets, parks, shops, pubs and other meeting places. And above all what matters is how much power people feel they have to shape the places where they live and to alter or conserve them to suit themselves and each other.

There is a key role for the state in distributing resources between localities and regions so that every neighbourhood has a fair share of employment, services and amenities. It must devolve power so that people can exercise as much control as possible over decisions that affect them locally. It must also promote equity between localities and regions – not uniformity, but common standards in meeting shared expectations and needs. The move must be towards greater devolution and local empowerment, within a framework of universal rights protected by law. This is not an easy balance to strike. Two strategies should help.

The first is to build an increasingly strong culture of shared interest. Political leaders can tell stories to the electorate that over time shape people's sense of themselves and each other. If governments could spend the last 30 years promoting competitive individualism and a wild enthusiasm for market solutions to social problems, why not spend the next few decades promoting the benefits of cooperation and interdependence? Children in Scandinavian countries tend to be seen as a 'public good' for which everyone bears some responsibility.<sup>58</sup> In the Great Transition we would attach a similar meaning to childcare, education and health.

The second – and most important – strategy is to open up a vibrant, inclusive, informed, creative, democratic debate at national as well as regional and local levels. Its purpose would be to negotiate the tricky questions that arise when local empowerment comes

## **Case Study 1.**

### **Blaengarw – co-producing a vibrant community in the Welsh Valleys**

The community of Blaengarw is a small and isolated former mining village near Bridgend in South Wales. The Blaengarw Workmen's Hall was built in 1894 and was at the heart of the mining community in the Valley and the centre of educational and social activity. 2,500 miners and their families working in the Garw Valley used the Hall on a regular basis. Since the closure of the last six mines in 1984, the Valley has seen a decline in the number of residents, a large increase in unemployment and a slow disappearance of the strong traditions of mutualism and collective community identity centred on the hall.

In recent times, however, the Blaengarw Workmen's Hall has been revitalised. The 'Time Network', which officially began in April 2005, enables members of the community to earn credits by giving their time to help with running the community groups in the area (e.g., youth clubs, the rugby club, the hall, festival groups, churches, residential homes, the community café). Members of the Time Network use their credits to access social events and activities at the hall or in the other venues in the community (social club or rugby club).

The Blaengarw Workman's Hall Time Centre now issues actual paper currency in denominations of one or two time credits. To attend the events in Blaengarw individuals can either pay in cash or with time credits. The time credits are always strictly hour-to-hour; whether it is bingo or opera, a three-hour event is always three time credits. The cash amount is always the market value of the event, so attending the bingo would be cheaper in cash than attending the opera.

The Creation café is also an important part of the Time Network. Members earn credits by giving their time to support the paid staff running the café. Credits can be used at the café; for example, an hour on the internet can only be accessed with a time credit.

In this way, Blaengarw has effectively established its own complementary community currency which serves to increase local spend within the community, benefiting the local economy as well as building social capital.

Over the last few years, membership of the Time Network has grown to 500 people who all give their time to the community and access the events and activities. New groups have developed as individual members with similar interests have connected through the time network. The community has also come together for larger projects; for example, in summer 2007 Blaengarw held its first festival for 21 years.

up against universal needs and expectations, at a time of shrinking public resources. We expect the state to play a significant part in the Great Transition, but for that to work we shall need a radical overhaul of the democratic structures and mechanisms that underpin the state. Taking the co-production approach, where everyone is valued and everyone participates, we will ensure that the state really is an expression of our shared interests and goals.