**New Economic Theory (NET) Course Outline**

**by**

**The World University Consortium**

**- in cooperation with the World Academy of Arts and Science and the Club of Rome -**

# Rationale for a Course on a

# New Paradigm in Economic Theory

The development of knowledge in the natural and social sciences has been a major factor responsible for the 12-fold rise in per capita global living standards and human welfare over the past two centuries. But in recent times rising levels of financial instability, high unemployment, persistent poverty, growing inequality, increased pollution, depletion of natural resources and climate instability threaten to undermine the remarkable political, economic and social gains of the past half century and usher in a period of increasing uncertainty, insecurity and serious threats to present and future generations. New knowledge is needed to address these challenges more effectively.

A new paradigm is needed in economics and the other social sciences which builds on scientific achievements of the past, but extends them in several directions to more effectively address the pressing needs of humanity today, in the same way that radical advances in Relativity Theory and Quantum Theory early in the last century build upon the principles of Newtonian Physics, placing them into a wider context suitable to application the astronomical and subatomic levels.

There are several compelling justifications for such an effort in Economics today:

1. **Goal & Value Based Science:** The notion of value-free science applicable to the natural sciences is increasingly inappropriate in a world where democratic governments accept the responsibility to promote the optimum welfare and well-being of their citizens. The laws of economics are the outcome of human choices and social policies, not immutable laws of Nature. Values implicit in existing theories and policies need to be made explicit and aligned with the wider objectives of human welfare.
2. **Over-specialization:** Reductionism has generated in-depth knowledge of the individual components of economy and society at the expense of the greater whole of which they are parts. This has led to the divorce of different functions and activities from one another – financial markets have become divorced from the real economy, technological development from employment, economic growth from human welfare, economy from ecology and sustainable conditions for the development of life on earth.
3. **Complexity & Integration:** Modern society has become so complex and highly integrated that it is no longer sufficient to examine different fields of social science separately from one another. Modern economy is ever more inextricably interlinked with politics, governance, law, ecology, education, management, social attitudes, cultural values and psychological attitudes. Instead of regarding these factors as externalities, a more inclusive approach to economics is needed that makes explicit these linkages, is fully cognizant of their impact and leverages them for maximum benefit.
4. **Globalization:** Economic theory and policy developed at a time when national economies were far more insulated from one another than they are today. As a result they are increasingly inadequate for the purpose of understanding, modeling and managing an ever more tightly integrated global economy. Even issues such as employment, which was traditionally regarded as manageable by domestic policies, are increasingly subject to a variety of impacts at the global level. This partly accounts for the fact that levels of unemployment and inequality are rising in many regions of the world simultaneously.
5. **Evolution of Society:** Basic concepts ofcontemporary economic theory formulated during the Industrial Revolution which were effective in promoting growth in early periods are less and less adequate to address the realities of the knowledge-based service economy which has recently emerged. The concept and measurement of value at a specific point of sale in time are inadequate for application to huge service delivery systems such education, healthcare, transportation and communication with very high fixed costs that extend over long periods of utilization.
6. **The need to adapt theory and practice of economy to the needs of our global** society is becoming more evident day by day as current economics acts as the main driver behind the systemic crisis humanity is facing. Resource depletion, lack of meaning and direction for the global society, unemployment, climate change, poverty, inequality are the ramifications of today’s economic concepts and activities. A wide and diverse debate ranges about how to arrive at a human-centered economy, which provides maximum wellbeing for all of us while protecting the resource base and the integrity of a living earth. This debate takes place largely amongst a small and advanced group of economists and thought leaders from all sectors of society, but has not yet reached mainstream teaching on economics in universities.

These and other factors provide ample rationale for a course which seeks to promote new thinking and explore new perspectives in Economics by examining the underlying premises of contemporary economic theory, challenging long established concepts and assumptions, exploring areas traditionally defined as external to the subject of Economics, and considering philosophical, ethical and cultural issues that the quest for impartial, objective social science have too long ignored.

Many economist and other social scientists are questioning the sufficiency of current economic theory and exploring new and alternative approaches in one direction or another, such as the need for new measures of economic welfare that more accurately reflect environmental impact and sustainability. The approach of this our endeavor is still broader and deeper. It will seek to learn from and incorporate many of these new developments.

At the same time it proposes to consciously adopt a human-centered approach that recognizes human welfare as the fundamental standard by which all theory and practice should be measured, that recognizes human and social capital rather than money and technology as the fundamental driving forces for all social progress, and that regards economic achievement as one expression of a more fundamental social process by which human beings harness, direct, organize and channel human energies and capabilities to accomplish their goals. Viewed from this perspective, we find that the resources available for social progress are far vaster, the policy instruments more varied and powerful, and the potential for improving overall economic welfare far greater than those contemplated by current economic theory and practice.

The purpose of this course is to present an integrated new theory of economics, thereby challenging the current models and thinking behind them. It should become available on “brick and mortar” universities through the partner network of the WUC and as online course and become a major tool to disseminate new thinking on economics.

**Structuring the course**

**Process**

This paper represents an outline for an initial informed debate on how to bring new thinking on economic theory and practice to larger audiences. We will in a first phase assemble and properly order the themes, which will be part of the course program. A more refined draft will be prepared ed of September after discussions have taken place in Dubrovnik. This refined draft will then be mailed to a number of individuals, involving competent members from the Club of Rome and WAAS.

In a next step we will then need to decide which product we intend to produce for each of the chapters and who the persons could be who can provide the neceesray inputs.

**Course Chapters**

**Chapter I What’s wrong with Economics?**

**Chapter II What should be the premises for a Human-centered Economy?**

**Chapter III Historical Perspective on Economy & Economic Theory**

**Chapter IV Theory of Value**

**Chapter V Resources**

# Chapter VI Wealth & Wealth Creation

# Chapter VII Social and Economic Power

# Chapter VIII Process of Value Generation & Wealth Creation

# Chapter IX Employment

# Chapter X Money & Finance

# Chapter XI Measuring Economic Performance

# Chapter XII Public Policy

# Chapter XIII Linkages & Interdependencies between Sectors

# Chapter XIV Role of the Individual in Social Science

# Chapter XV Economic Future of Humanity

**Chapter I What’s wrong with Economics?**

## **Effectiveness of current economic theory and policy for promoting social welfare – impact on**

### Poverty

### Unemployment

### Inequality

### Insecurity

### Ecology

### Political and social stability

## **Conceptual problems in economic theory**

## **Problems of measurement**

# Chapter II What should be the premises for a Human-centered Economy?

# A. Objective for Economic Theory

### The objective of NET is to formulate the theoretical and practical knowledge required to maximize economic security, human welfare and individual well-being of all humanity in a manner consistent with universal human rights, cultural diversity and civilizational values.

### Economic security ensures the minimum material needs.

### Human welfare encompasses a wider range of material and social needs related to safety, health, education, social security.

### Individual well-being encompasses higher level social, cultural, psychological and spiritual aspirations for freedom of choice, respect, free association, enjoyment, creative self-expression, individual development and self-realization.

### The objective is not economic growth for growth sake.

### The focus is not merely on monetarized economic activity alone, but all activities that can promote the primary objective, including those in the non-monetarized sector.

### The goal is not to discover immutable, universal, natural laws of economy based on any existing precedent, model or theory, but to identify the laws and first principles of a social system suitable to achieve the primary objective stated above.

### While the primary objective is economic, NET must necessarily be inclusive of all human activities (e.g. educational, political, legal etc.) that impact on this objective, rather than arbitrarily confine its scope to purely economic activities.

### **B. Value-based Science**

### 1. Science is based on values which often remain implicit in the guise of impartial, scientific objectivity, but in reality impose serious biases in favour of vested interests and the status quo. Social science can never be value-neutral. It seeks to obtain certain desirable social objectives. KarlPopper acknowledged that social science can learn scientific method from the natural sciences but cautioned against *misguided naturalism.* He argued that practical success, not just theoretical understanding, must be primary in the social sciences. He emphasized the ethical dimension of social sciences – called for moral responsibility for outcomes. It is noteworthy that Adam Smith regarded himself as a morale philosopher, not an economist. Smith was looking for ways to enhance human welfare, not seeking to formulate universal laws of economy true for all nations, all times or all people.

### 2. The values on which NET is based must be universally recognized human values.

#### Human value – recognizing the inestimable value and unlimited developmental potential of the human being. Human welfare is the central objective. Human capital is the most precious indispensable resource for achieving it.

#### Economic rights – recognizing the inherent right of every human being to economic security, welfare and well-being

#### Inclusiveness – economic security and welfare for all human beings

#### Sustainability – protection of the environment and ensuring the equal rights of future generations

#### Freedom of Choice – maximum individual freedom for initiative and choice compatible with the welfare of the entire collective

#### Equity & Fairness – system which protects the rights and provides opportunities to all

#### Peace and social stability – an economy that promotes peace, stability and social harmony

#### Rights of the human collective – the resources of earth belong to humanity as a whole and should be utilized for the benefit of all

## **C. The Nature of Society**

### 1. Society is an infinitely vast and complex macrocosm which attains its greatest power for accomplishment by nurturing and supporting the fullest development and self-expression of every one of its individual members.

### 2. Each individual is an infinitely complex and qualitatively unique microcosm with the potential to beneficially relate and support the entire society.

### 3. The objectives of NET can best be met by a social system that enables each individual human being to fully develop and express his individual capacities and endowments in a social system that promotes maximum synergy, cooperation and harmony between individuals, communities, nations, humanity as a whole

### 4. Economy is a subset of society. Therefore the optimum performance of the economy depends on the fullest development and optimal operation of all other sectors and aspects of society, e.g. education, healthcare, law, governance, etc.

## **Definitions**

### Value – refers to that which something contributes to enhancing the welfare and well-being of human beings.

### Resources – are factors that contribute to the creation of value and enhancement of wealth, including natural capital (resources), financial capital, man-made capital (cities, factories, infrastructure), social capital (energy, attitudes, organizations, institutions, systems, customs), mental or intellectual capital (knowledge, skill and technology), cultural capital (values) and psychological capital (creative potential of individual members)

### Wealth – is store of value and the capacity to generate value in all forms

### Social power – is the sum total of the political, legal, economic, financial technological, organizational, educational, scientific, cultural and other powers of the society which enable it to achieve the objectives that it sets for itself, as reflected in its capacity for self-defense, transport, communication, production, exchange, education, health, discovery, invention, entertainment, etc.

# Chapter III Historical Perspective on Economy & Economic Theory

Implications of human evolution from the agrarian age to the Industrial Revolution and the emergence of the knowledge-based service economy, the origin of the concepts and principles on which contemporary economic theory is based and its relevance to the 21st century.

# Chapter IV Theory of Value

New economic theory must be based on the value of economic activity to human beings in society not on some abstract arbitrary notional of value based on production, exchange or equilibrium.

The notion of a natural or objective value for economic activity needs to be re-examined.

Value must also take into account the influence of social and political power on what is termed economic power. The value of economic activity depends very much on the political power exercised to support and protect it, e.g. fracking, financial speculation.

Value must also reflect the net contribution of economic activity to wealth creation broadly defined to include its impact on quality of life and the environment.

# Chapter V Resources

## 1. Resources are those things, which human beings recognize as having the potential to contribute to value and wealth creation. Human mental awareness of that potential is the essential determinate of a resource. Changes in that awareness alter the productive potential of a resource.

## 2. Physical resources may be subject to inherent limits, but there is no inherent limit to the capacity of society to enhance the productivity with which those resources are utilized by the fuller development of human and social capital, which encompass factors such as knowledge, technology, social organization and skill.

## 3. Society is a resource of unlimited productive potential derived from the interactions, exchange, association and cooperation among its members through informal and organized activities, rules, laws, procedures, systems and institutions.

## 4. There are no inherent limits to the mental and psychological capacity for development, knowledge, creativity and innovation of the individual or the collective.

# Chapter VI Wealth & Wealth Creation

*This section will identify the primary sources and instruments for all types of real wealth creation which are obscured by the complexity of modern society and the inordinate emphasis on macro level public policies and value-implicit controversy between contending theoretical models. The objective is to highlight the full range of fundamental social powers available for enhancing the prosperity of a nation and the world.*

## **A. Types of Wealth**

## **B. Sources of Wealth Creation**

## **C. Powers for Wealth Creation**

### 1. Nature’s processes generate a physical bounty which forms the natural basis for wealth creation

### 2. Imitation of Nature by human beings

### 3. Production and transformation of resources by individually initiative

### 4. Improvement of Nature’s processes by the application of human energy, skill, organization and intelligence

### Development and application of tools, technology and know-how

### Collaboration among individuals and groups with others for the production

### Specialization of function within a wider system of cooperation

### Exchange among individuals and groups, which enables each to produce in excess of their personal need that on which they have a comparative advantage and exchange it for other goods and services provided by others.

### Exchange between individuals, organizations and groups over a wider geographic area

### Creation of specialized social institutions such as markets, wholesale and retail outlets, warehouses, etc. to support specialization of function and distribution

### Promulgation and enforcement of laws, regulations, procedures and standards to protect the rights of individuals and groups engaged in production and exchange

### Introduction of various forms of money to facilitate exchange of products, movement of capital, storage of value and transformation of economic power into other forms of social power.

## **D. Physical Factors of Value and Wealth Creation**

### 1. Natural resources

### 2. Energy generation

### 3. Infrastructure for transportation, communication, storage, exchange, etc.

## **E. Social Determinates of Value and Wealth Creation**

### 1. Economic accomplishment is a function of the whole society and depends on every other major and minor aspect of society

### 2. Social attitudes and behaviors

### 3. Cultural values and attitudes

### 4. Education and training

## **E. Organizational and Institutional**

## **F. Technological**

## **G. Political stability, freedom, rule of law, justice, transparency**

## **H. Ecological**

# Chapter VII Social and Economic Power

## **A. Sources of power in society**

## **B. Economics as a form of social power**

## **C. Inter-convertibility of social power**

## **D. Supremacy of economic power over other forms**

**Chapter VIII Process of Value Generation & Wealth Creation**

## **A. All social accomplishment is based on a common process with four essential components:**

### 1. Human energy – individual and collective generates the fuel for all accomplishment, including all value and wealth generation – entrepreneurial energy, mental quest for knowledge, energy of social interchange, physical energy of the producer

### 2. Direction – energy directed toward a specific objective acquires force for accomplishment

### 3. Organization – transforms force into power for accomplishment

### 4. Skill – determines the measure in which power is converted into accomplished results

# Chapter IX Employment

## **A. Paradox of unmet needs and unemployed people**

## **B. Role of employment in economy, society, human welfare and well-being**

## **C. Economic factors impacting employment generation**

## **D. Political & legal factors impacting employment generation**

## **Social factors impacting employment generation**

## **Globalization of factors impacting employment**

## **Towards a social theory of employment**

# Chapter X Money & Finance

Modern monetary affairs and financial markets have become so complex that most social scientists have relinquished any claims to understanding them or any responsibility for the way they are management. Like language and the Internet, money is a social institution evolved to promote networking among people and groups for the purpose of production and exchange. Financial markets developed as a mechanism for aggregating financial resources to support the real economy. Both institutions have now become divorced from their original function and from the wider economy and society which they are intended to serve, leading to immense problems of financial instability, the unnecessary persistence of poverty, rising levels of inequality and lower levels of economic development. Beyond its utilitarian economic function, money plays a central role as an instrument of social and political power which involves fundamental issues regarding democracy and social equality.

## **A. What is money?**

## **B. Banking**

## **C. Financial Markets**

## **D. National Currencies**

## **E. International Currencies**

## **F. Future of Money**

# Chapter XI Measuring Economic Performance

## **A. Problems with existing measures**

## **B. Measuring wealth**

### Orio’s ideas on flow vs stock

## **C. Measuring economic performance**

### 1. Per capital GDP does not reflect the increasing concentration of income growth at the top

### Need to incorporate measures of inequality

### Neglecting unemployment

### Investment in education, health and sustainability

### Expenditures on war and remediation

## **D. Measuring human welfare**

## **E. Valuation of resources**

# Chapter XII Public Policy

## **A. Private vs Public Goods**

# Chapter XIII Linkages & Interdependencies between Sectors

Most economic theory regards economy as if it were a separate compartment of society whose objectives are purely economic and whose power for wealth creation is modeled mainly on economic factors. In fact no such arbitrary division of social life is valid. Society is an integrated whole and the performance of every sphere of society impacts on and is influenced by the performance of every other. Effective theory of wealth creation needs to consciously recognize the contribution of all major factors to wealth creation. Equally important it needs to explicitly recognize the consequences of economic performance on all other dimensions of society, such as the impact of high youth unemployment on social unrest and psychological health.

## **A. Society is a whole of which economy is a part**. Economic activity takes place with a wider political, social, cultural and ecological context. Economic performance is influenced by each of these other spheres and influences it in turn.

## **B. The characteristics and capabilities of any economic system depend on** the development of these other spheres and the relationship of economy to other forms of social activity.

## **C. The following linkages are of particular importance to the functioning of economy**

### 1. Peace and security from external threats and interference

### 2. A representative system of governance that maximizing the welfare of the entire social collective rather than restricting privileges and powers to an élite or moneyed class

### A legal system that maximizes freedom to individuals while balancing it with equity and fairness to all others.

### 3. An educational system that supports fullest development of the knowledge, skills and capacities of all its citizens.

### 4. A health care system that promotes the physical and mental health of all citizens.

### 5. A social system that encourages fullest development and self-expression of the individual and accords the freedom, recognition and rewards to outstanding achievers.

### 6. A cultural milieu that promotes values of cooperation, responsibility, integrity and selflessness in relations between its members.

## **D. Legal factors that influence economic outcomes**

### 1. Laws and tax rates relating to accumulation of wealth and its inheritance

### 2. Laws governing ownership of resources beneath the surface of the earth

### 3. Laws relating to intellectual property claims and the length of copyright protection

### 4. Tax rates on income, payroll, and capital gains

### 5. Minimum wage laws

### 6. Rights of workers

### Rights of consumers

### Social safety nets and welfare policies

### Speed and transparency of government administration

### Taxation on mining or consumption of natural resources

### Regulation of short term, speculative financial transactions

### Regulation of insider trading on exchanges

### Control over monopolies, cartels and

### Bankruptcy laws

## **E. Political factors that influence economic outcomes**

### 1. Influence of money and corporations over election outcomes and public policy

### 2. Independence of the media both from political restrictions and corporate influence

## **F. Social & Cultural**

### 1. Accessibility, quality and relevance of education at all levels

### 2. Social attitudes regarding risk taking, entrepreneurship, self-employment

# Chapter XIV Role of the Individual in Social Science

The eminent philosopher of science Karl Popper stressed the centrality of the individual in the social sciences which has been largely ignored by scientific formulations of economics (and most other social science today). Yet in practice we frequently observe the remarkable power of individuals – a Henry Ford, Fred Smith, Bill Marriott, Steve Jobs, Larry Paige, Mark Zuckerberg – to change the world to generate enormous wealth and social benefit not only for himself but for the society at large. While history is replete with tales of remarkable individual accomplishment, social science has not yet fully recognized and come to terms with the central and transformative role of the individual as the catalyst for all social advancement. In practice, economics deals with the potential of individuals primarily by creating advocating a policy environment that encourages entrepreneurship. But this represents only a fringe of the potential for stimulating wealth generation.

## **A. Human energy, effort, initiative**

## **B. Human interest which focuses and intensifies the energy**

## **C. Aspiration which creates and releases fresh energies and expresses it as will for accomplishment**

## **D. Awareness of opportunities and challenges which releases aspiration**

## **E. Knowledge at the level of mental understanding, social comprehension and physical know-how**

## **F. Individual Skills – physical, social, mental and psychological**

## **G. Personal Organization – at the level of physical movements, social interactions and mental knowledge**

## **Attitudes of the individual – that foster cooperation and eliminate social and psychological barriers**

## **Mental capacities – observation, discrimination, judgment, imagination, memory, independent thinking**

## **Values of the individual**

### Physical values -- punctuality, orderliness, cleanliness

### Organizational values -- teamwork, communication, standardization, systemization

### Mental and psychological values -- honesty, integrity, trust, courage, harmony.

### Spiritual values – truthfulness, faith, self-giving, selflessness

# Chapter XV Economic Future of Humanity

Exploring the options for the future economic history of humanity. Must humanity resign itself to the persistence of poverty and inequality and the a halt to the rapid pace of economic progress that has characterized the last two centuries?

## **A. Need for a Change of Course**

## **B. Alternatives paths to human welfare**

## **C. Values**