

Springer Studies in Alternative Economics

Johannes Wolf

# Economic Transformation

Designing a Contemporary Economy

 Springer

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# Preface and Acknowledgments

This book deals with the topic of Economic Transformation in an expanded edition of the German language version from 2023.

The discussion about the goals and design of the economy is not new. It can be traced back to the thoughts of Aristotle in antiquity and to the writings of Adam Smith at the dawn of industrialization. Economic activity has contributed to our planet being able to support around eight billion people today. On the other hand, the economy has also contributed to a threatening ecological situation and outlook, as well as a worrying concentration of income and wealth. In view of today's prevailing conditions, economic theories and economic practice require a fundamental rethink and adjustment. It becomes clear that some familiar thoughts also need to be questioned. This includes, among other things, the ever-continuing pursuit of economic growth.

The considerations must be globally oriented; all regions of the world are affected and must be included in the reflections. This is evident, for example, from the impacts of global warming, which can be felt everywhere. Economic Transformation is to be understood as a design task that requires, on the one hand, international cooperation and, on the other hand, adjustments down to the municipal level as well as from all economic actors and every single member of society.

Economics is part of the social sciences. Dealing with economic issues must therefore, among other things, be based on the fact that human actions and expectations, psychological and social aspects must be taken into account. The use of quantitative methods and mathematical models is of course to be welcomed. However, no pseudo-precision should be included in determined solutions. The abstraction from reality and the robustness of the models should not be overstretched, especially with regard to the "human factor".

Economic Transformation should be goal-oriented. In principle, a multitude of economic goals can be used for guidance. These include, for example, economic growth. However, other criteria play a decisive role in the adaptation considerations: The focus is on striving for ecological compatibility of the economy and reducing excessive divergences in income and wealth.

Existing economic models or economic schools, e.g. classical liberalism and neoliberalism, the Keynesian approach, or the thought structure of the social market economy, differ significantly in their orientations. A major point of contention lies in the intensity of state intervention in the organization of the economy. In this treatise, the state is assigned a significant role in the contemporary design of the economy. In addition to the other economic actors, i.e. businesses, private households, the commons, and the relevant supranational institutions, the state must take decisive action to bring about a successful Economic Transformation.

In order to provide impetus in the desired direction, this book presents fields of action that are suitable for the actors of the economy, but also for (civil) society. These options are based, among other things, on various concepts for Economic Transformation. As already mentioned, the ecological compatibility of the economy and the reduction of excessive income and wealth discrepancies play a central role as guiding principles. In addition, the extent to which the concerns of Economic Transformation are reflected in the government programs of the USA, the UK, South Africa, and Germany is examined.

Many people deserve acknowledgment in connection with the preparation of this treatise. These include colleagues from the Department of Business and Law at the HFH · Hamburger Fern-Hochschule, who were available to discuss thematic questions. I would like to explicitly name a few people from the entire environment: Mr. Holger Kloft, who, in his role as managing director of HFH non-profit GmbH, gave the impulse to deal with Economic Transformation at our University of Applied Sciences and to expand the curriculum accordingly. Ms. Kathrin Brüggmann, managing director and chancellor of our university, for her continued support of the investigation. My wife Evelyn and my daughter Julia for family cohesion. My brother Ulrich, who like me also has a degree in economics from the University of Cologne, for carefully reviewing the manuscript and his various suggestions. Stephan Peters and Andrea Schön from the HFH media studio for their help with the layout, especially the illustrations. Katrin Bergmann for her valuable contribution to the creation of the English language version of the book. supervisor at the FernUniversität in Hagen, Prof. Dr. Dr. h. c. Günter Fandel, for the instructions on “orderly” scientific work.

Hamburg, Germany

Johannes Wolf

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## About the Author



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# Abbreviations

AI	Artificial Intelligence
COP	UN (Climate Change) Conference of the Parties
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DAC	Direct Air Capture
ECG	Economy for the Common Good
(EU) ETS	(European Union) Emissions Trading Scheme
G20	Group of the 19 most important Industrial and Emerging Countries as well as the European Union and the African Union
G7	Group of the 7 leading Industrialized Countries in the Western World
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
JETP	Just Energy Transition Partnership
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-Operation and Development
OPEC	Organization of the Petroleum Exporting Countries
Oxfam	Oxford Committee for Famine Relief
SDGs	UN Sustainable Development Goals
UNCTAD	United Nations Conference on Trade and Development
WHO	World Health Organization
WTO	World Trade Organization
WWF	World Wide Fund For Nature/World Wildlife Fund

# Chapter 1

## Basic Considerations



**Abstract** Economic Transformation is to be understood as a design task on a global scale. Economic activity should be guided in the sense of defined goals. Economics is assigned to the social sciences: Human behavior plays a crucial role in economic contexts. Among other reasons, this is why there are limits to explaining or predicting economic phenomena with mathematical models—as can be seen, for example, in connection with economic crises. Nevertheless, mathematics and statistics should of course be used to analyze the economy as far as they are beneficial and do not abstract too far from reality.

**Economy** or business is **oriented towards the supply of goods** and thus affects a significant part of our lives. The circumstances of life are determined in their entirety by a number of other conditions or constructs that can be of natural or man-made origin and to which the economy often has a connection. In addition to the economy, two other man-made areas will now be briefly mentioned: With the intention of forming a kind of protective device, *human rights* were formulated. At first glance, the relationship of the economy to human rights may not be obvious. However, if we think about the rights to an adequate standard of living<sup>1</sup> or to a clean environment,<sup>2</sup> the connection becomes clear. The development and use of *technology* has a particularly close connection to the economy, as economic action is strongly influenced by technology. It is essential to note at this point that **economy greatly shapes and permeates our living conditions**.

**Economic activity**, especially its increasing intensity and continued economic growth, has made it possible in the past centuries to **reduce poverty** in large parts of the world and in many places also to significantly increase **prosperity** (Patel & Meaning, 2022, pp. 98 f.). Despite the severe setbacks that have occurred in recent years, for example in terms of poverty and food supply which must be countered, this can be observed in a very long-term perspective. **On the other hand**, economic development has also led to **worrying effects**. Here, in particular, the **threatening**

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<sup>1</sup> UN Universal Declaration of Human Rights from the year 1948, Article 25.

<sup>2</sup> UN Human Rights Council, Resolution 48/13 from the year 2021.

**ecological situation and outlook** as well as **large discrepancies in income and wealth distribution** and the frictions caused by this in terms of equal opportunities are to be mentioned.

The assessment must also be ambivalent in the field of *human rights*: The supranational regulation of human rights must be seen as an achievement, but the handling shows multiple violations. Also, the *technology sector* does not always work for the benefit of people and the planet.

The economic upward tendency in the long-term trend may also be a temptation to overestimate the stability of what has been achieved or to underestimate its fragility. Many disruptive factors can be identified, ranging from the consequences of a pandemic to military conflicts to the scarcity of raw materials. These factors can lead to economic downturns or loss of achievements, sometimes with lasting effects.

Economic theory and economic concepts have, among other things, a significant influence on politics and its framework setting and therefore on economic stimuli. Political actions can have far-reaching negative effects when following economic schools which do not sufficiently take into account the currently pressing problems, e.g. the natural boundaries. **The economic models taught and economic practice require**, in view of the prevailing conditions today, **a fundamental rethinking and adjustment**, to contribute to successfully shaping the future.

How should the transformation take place and where will it lead? No one can answer this in detail by way of a manual for successful action. The considerations presented here are intended to help systematizing the field outlined by the term **“Economic Transformation”** in today’s context. Essential cornerstones of the transformation are to be brought into a coherent context. These aspects address the currently appropriate objectives, key influencing factors and options for the future path. First, some further basic considerations are to be made.

## 1.1 Economic Transformation as a Targeted and Ongoing Design Task

When one refers to the term “transformation” in connection with economic activity, this can mean two things: The economy undergoes a change on its own or it is deliberately guided in the sense of a desired change. Both transformation processes are included in this treatise, with an emphasis on conscious control.

It is essential that a transformation in the sense of steering towards achieving a desired course or state, i.e. with regard to formulated goals is made. These can, for example, be aimed at improvements in the area of environmental impact or social justice. The transformation that the economy undergoes from within itself can serve these goals or not. The steering of such “autonomous” developments in the sense of the goals, if necessary, is then also the subject of the Economic Transformation. A significant example of a development that the economy drives forward from within itself can be the digitalization. As far as digitalization does not support

the transformation goals in a desirable way, it can also be the object of steering considerations.

In German usage, the somewhat cumbersome term “Wirtschaftstransformation” or “Transformation der Wirtschaft” is now quite frequently used.<sup>3</sup> In the English-language literature, terms such as “upgrading”, “rebooting”, “management”, “steering”, “rebalancing”, “transformation”, or “design” are used with regard to the guiding of the economy (e.g. Dixon-Declève et al., 2022, p. 165; Gallagher & Kozul-Wright, 2022, pp. 26, 65, 121 and 138; Raworth, 2017, pp. 206 and 287).<sup>4</sup> “Designing a contemporary economy” in this sense denotes the **task to shape the economy** as a constantly self-changing structure **in the sense of defined**—but not yet achieved or endangered—**goals**.

Targeted guiding or shaping effects are not only triggered by the economic actor state, for example through legislation, they can also be initiated or brought about by other actors, such as changes in the consumption behavior of private households or by changed perception of social responsibility in the business sector. So, this treatise will primarily be about how the economy can be steered in the sense of defined claims. It is important, among other things, to cleverly combine this steering with “autonomous” development tendencies.

Economic Transformation is a **continuous or always recurring task**, which must be directed at the respective circumstances in a specific period of time. In 10 or 50 years probably other aspects will be more important than the ones in the past, although essential aspects such as planetary boundaries will continue to need tremendous attention. Guiding and shaping requirements can occur at different times with different urgency. A contemporary design of the economy according to defined claims in constantly changing conditions is therefore to be seen as a task that needs to be revised again and again.

In principle, an overall situation is also conceivable in which the market forces could be given free rein and everything moves in the right direction. Such a situation is currently not foreseeable, as will be shown below.

## 1.2 Global Character of Economic Transformation

The considerations must not be limited to transformation processes in individual countries or in certain world regions. Rather, because of global scope and responsibility, both the **industrialized countries as well as the developing and emerging countries** must be included. Economic Transformation is therefore to be thought of

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<sup>3</sup> The German coalition agreement 2021–2025 between SPD, BÜNDNIS 90/DIE GRÜNEN, and the FDP also speaks of “Wirtschaftstransformation/transformation of the economy”: See SPD/Grüne/FDP 2021, e.g. pp. 64 and 160.

<sup>4</sup> Raworth uses the term “by design” in the context of transformation: Raworth (2017), e.g. on page 287: “Once we accept the economy’s inherent complexity, we can shape its ever-evolving dynamics through smart stewardship. That opens up the possibility of turning today’s ... economies into ones that are distributive and regenerative **by design**” (Emphasis added).

as a global task. For individual areas of the economy, steps towards deglobalization have been initiated, e.g. limiting direct investments from other nations in strategically important sectors or reducing dependence on foreign energy products. However, the fundamentally global nature of Economic Transformation is not affected by such measures.

Individual nations or regions can act independently within their scope of action. Overall, however, the global context is decisive, and economic considerations should aim to take into account the planetary dimension and the resulting interdependence. Insights should be gained into the overall structure of richer and poorer countries. With regard to ecological aspects, and here using the example of climate development, this becomes immediately clear: Climate change is global from the perspective of our planet and must be addressed through **international cooperation**. The global character of this problem should be a driving factor of concerted international efforts, as no area of the planet is excluded and all nations are affected.

Are the current international efforts to cope with crises encouraging? Unresolved ongoing conflicts such as those in Syria, Yemen, and Ukraine give little reason for great optimism. A positive aspect, on the other hand, lies precisely in the global character of specific tasks, such as the climate problem. **Collective action by states** to limit global warming should—after decades of hesitation—gain momentum because every region of the world is affected and no one is exempt from the noticeable effects. In addition, societal awareness of this ecological aspect is becoming stronger and is acting as a driving force.

**Supranational organizations** such as the United Nations, the OECD, the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO) or other institutions can contribute to guidance, framework setting and coordination. However, it must be kept in mind that multilateral institutions do not “automatically” pursue meaningful goals conjointly, but rather their respective orientation is shaped by various factors: These range from their statutes to their management level to external influence caused by other interests. The aspect of supranational order and coordination of the economy, particularly supported by international institutions, will be revisited later in the fields of action of Economic Transformation. There is also a need for action in this sub-area.

The global approach to dealing with the Covid-19 crisis is seen as an indication of the possibilities for tackling the climate crisis (Banerjee & Duflo, 2021, pp. 48 f.). The solidarity of the rich with the poorer countries was put to the test here. The role of supranational institutions in this context is pointed out in more detail using a concrete example.

**On the Role of Supranational Institutions in Combating Pandemics** Based on a discussion paper (Agarwal & Gopinath, 2021), the IMF Communications Department published a joint statement by the IMF, WHO, World Bank and WTO in 2021 with a *proposal for the global overcoming of the Covid-19 crisis*. Essentially, this was about providing poorer countries with a budget of \$50