[Herman Daly's Ten Policies for a Steady State Economy](http://groups.google.com/group/the-american-monetary-institute/t/132478e125b9da93)

**Stephen Zarlenga <ameri**[**canmonetaryinstitute@gmail.com**](mailto:canmonetaryinstitute@gmail.com)**>** Oct 29 08:15AM -0700    
  
Prof. Herman Daly is at the University of Maryland, just outside Washington   
DC. He was formerly a Senior Economist at the World Bank. Be sure to read   
item 7 below.  
   
Top 10 Policies for a Steady-State Economy<[http://feedproxy.google.com/~r/DalyNews/~3/3uijWOIhML0/?utm\_source=feedburner&utm\_medium=email](http://feedproxy.google.com/%7Er/DalyNews/%7E3/3uijWOIhML0/?utm_source=feedburner&utm_medium=email)>   
   
Posted: 28 Oct 2013 09:00 PM PDT  
by Herman Daly   
   
[image: Herman Daly]Let’s get specific. Here are ten policies for ending uneconomic   
growth <<http://steadystate.org/two-meanings/>> and moving to a steady-state   
economy. A steady-state economy is one that develops qualitatively (by   
improvement in science, technology, and ethics) without growing   
quantitatively in physical dimensions; it lives on a diet — a constant   
metabolic flow of resources from depletion to pollution (the entropic   
throughput) maintained at a level that is both sufficient for a good life   
and within the assimilative and regenerative capacities of the containing   
ecosystem.  
   
Ten is an arbitrary number — just a way to get specific and challenge   
others to suggest improvements. Although the whole package here discussed   
fits together in the sense that some policies supplement and balance   
others, most of them could be adopted singly and gradually.  
   
\*1. Cap-auction-trade systems for basic resources.\* Caps limit biophysical   
scale by quotas on depletion or pollution, whichever is more limiting.   
Auctioning the quotas captures scarcity rents for equitable redistribution.   
Trade allows efficient allocation to highest uses. This policy has the   
advantage of transparency. There is a limit to the amount and rate of   
depletion and pollution that the economy can be allowed to impose on the   
ecosystem. Caps are physical quotas, limits to the throughput of basic   
resources, especially fossil fuels. The quota usually should be applied at   
the input end because depletion is more spatially concentrated than   
pollution and hence easier to monitor. Also the higher price of basic   
resources will induce their more economical use at each upstream stage of   
production, as well as at the final stages of consumption and recycling.   
Ownership of the quotas is initially public — the government periodically   
auctions them to individuals and firms. There should be no “grandfathering”   
of quota rights to previous users, nor “offshoring” of quotas for new   
fossil fuel power plants in one by place by credits from planting trees   
somewhere else. Reforestation is a good policy on its own. It is too late   
for self-canceling half measures — increased carbon sequestration and   
decreased emissions are both needed. The auction revenues go to the   
treasury and are used to replace regressive taxes, such as the payroll tax,   
and to reduce income tax on the lowest incomes. Once purchased at auction   
the quotas can be freely bought and sold by third parties, just as can the   
resources whose rate of depletion they limit. The cap serves the goal of   
sustainable scale; the auction serves the goal of fair distribution; and   
trading allows efficient allocation — three goals, three policy   
instruments. Although mainly applied to nonrenewable resources, the same   
logic works for limiting the off-take from renewable resources, such as   
fisheries and forests, with the quota level set to approximate a   
sustainable yield.  
   
\*2. Ecological tax reform.\* Shift the tax base from value added (labor and   
capital) to “that to which value is added,” namely the entropic throughput   
of resources extracted from nature (depletion), and returned to nature   
(pollution). Such a tax shift prices the scarce but previously un-priced   
contribution of nature. Value added to natural resources by labor and   
capital is something we want to encourage, so stop taxing it. Depletion and   
pollution are things we want to discourage, so tax them. Payment above   
necessary supply price is rent, unearned income, and most economists have   
long advocated taxing it, both for efficiency and equity reasons.   
Ecological tax reform can be an alternative or a supplement to   
cap-auction-trade systems.  
   
\*3. Limit the range of inequality in income distribution with a minimum   
income and a maximum income.\* Without aggregate growth poverty reduction   
requires redistribution. Unlimited inequality is unfair; complete equality   
is also unfair. Seek fair limits to the range of inequality. The civil   
service, the military, and the university manage with a range of inequality   
of a factor of 15 or 20. Corporate America has a range of 500 or more. Many   
industrial nations are below 25. Could we not limit the range to, say, 100,   
and see how it works? This might mean a minimum of 20 thousand dollars and   
a maximum of two million. Is that not more than enough to give incentive   
for hard work and compensate real differences? People who have reached the   
limit could either work for nothing at the margin if they enjoy their work,   
or devote their extra time to hobbies or public service. The demand left   
unmet by those at the top will be filled by those who are below the   
maximum. A sense of community, necessary for democracy, is hard to maintain   
across the vast income differences current in the United States. Rich and   
poor separated by a factor of 500 have few experiences or interests in   
common, and are increasingly likely to engage in violent conflict.  
   
\*4. Free up the length of the working day, week, and year — allow greater   
option for part-time or personal work.\* Full-time external employment for   
all is hard to provide without growth. Other industrial countries have much   
longer vacations and maternity leaves than the United States. For the   
classical economists the length of the working day was a key variable by   
which the worker (self-employed yeoman or artisan) balanced the marginal   
disutility of labor with the marginal utility of income and of leisure so   
as to maximize enjoyment of life. Under industrialism the length of the   
working day became a parameter rather than a variable (and for Karl Marx   
was the key determinant of the rate of exploitation). We need to make it   
more of a variable subject to choice by the worker. Milton Friedman wanted   
“freedom to choose” — OK, here is an important choice most of us are not   
allowed to make! And we should stop biasing the labor-leisure choice by   
advertising to stimulate more consumption and more labor to pay for it. At   
a minimum advertising should no longer be treated as a tax-deductible   
expense of production.  
   
\*5. Re-regulate international commerce — move away from free trade, free   
capital mobility, and globalization.\* Cap-auction-trade, ecological tax   
reform, and other national measures that internalize environmental costs   
will raise prices and put us at a competitive disadvantage in international   
trade with countries that do not internalize costs. We should adopt   
compensating tariffs to protect, not inefficient firms, but efficient   
national policies of cost internalization from standards-lowering   
competition with foreign firms that are not required to pay the social and   
environmental costs they inflict. This “new protectionism” is very   
different from the “old protectionism” that was designed to protect a truly   
inefficient domestic firm from a more efficient foreign firm. The first   
rule of efficiency is “count all the costs” — not “free trade,” which   
coupled with free capital mobility leads to a standards-lowering   
competition to count as few costs as possible. Tariffs are also a good   
source of public revenue. This will run afoul of the World Trade   
Organization/World Bank/International Monetary Fund, so….  
[image: Ten pieces of the policy puzzle for an earth-centric economy]  
   
Ten pieces of the policy puzzle for an earth-centric economy  
   
\*6. Downgrade the WTO/WB/IMF.\* Reform these organizations based on   
something like Keynes’s original plan for a multilateral payments clearing   
union, charging penalty rates on surplus as well as deficit balances with   
the union — seek balance on current account, and thereby avoid large   
foreign debts and capital account transfers. For example, under Keynes’s   
plan the U.S. would pay a penalty charge to the clearing union for its   
large deficit with the rest of the world, and China would also pay a   
similar penalty for its surplus. Both sides of the imbalance would be   
pressured to balance their current accounts by financial penalties, and if   
need be by exchange rate adjustments relative to the clearing account unit,   
called the “bancor” by Keynes. The bancor would also serve as the world   
reserve currency, a privilege that should not be enjoyed by any national   
currency, including the U.S. dollar. Reserve currency status for the dollar   
is a benefit to the U.S. — rather like a truckload of free heroin is a   
benefit to an addict. The bancor would be like gold under the gold   
standard, only you would not have to tear up the earth to dig it out.   
Alternatively a regime of freely fluctuating exchange rates is a viable   
possibility requiring less international cooperation.  
   
\*7. Move away from fractional reserve banking toward a system of 100%   
reserve requirements.\* This would put control of the money supply and   
seigniorage (profit made by the issuer of fiat money) in the hands of the   
government rather than private banks, which would no longer be able to live   
the alchemist’s dream by creating money out of nothing and lending it at   
interest. All quasi-bank financial institutions should be brought under   
this rule, regulated as commercial banks subject to 100% reserve   
requirements. Banks would earn their profit by financial intermediation   
only, lending savers’ money for them (charging a loan rate higher than the   
rate paid to savings or “time-account” depositors) and charging for   
checking, safekeeping, and other services. With 100% reserves every dollar   
loaned to a borrower would be a dollar previously saved by a depositor (and   
not available to him during the period of the loan), thereby   
re-establishing the classical balance between abstinence and investment.   
With credit limited by prior saving (abstinence from consumption) there   
will be less lending and borrowing and it will be done more carefully — no   
more easy credit to finance the massive purchase of “assets” that are   
nothing but bets on dodgy debts. To make up for the decline in   
bank-created, interest-bearing money the government can pay some of its   
expenses by issuing more non-interest-bearing fiat money. However, it can   
only do this up to a strict limit imposed by inflation. If the government   
issues more money than the public voluntarily wants to hold, the public   
will trade it for goods, driving the price level up. As soon as the price   
index begins to rise the government must print less and tax more. Thus a   
policy of maintaining a constant price index would govern the internal   
value of the dollar. The Treasury would replace the Fed, and the target   
policy variables would be the money supply and the price index, not the   
interest rate. The external value of the dollar could be left to freely   
fluctuating exchange rates (or preferably to the rate against the bancor in   
Keynes’s clearing union).  
   
\*8. Stop treating the scarce as if it were free, and the free as if it were   
scarce.\* Enclose the remaining open-access commons of rival natural capital   
(e.g., the atmosphere, the electromagnetic spectrum, and public lands) in   
public trusts, and price them by cap-auction-trade systems, or by taxes.   
At the same time, free from private enclosure and prices the non-rival   
commonwealth of knowledge and information. Knowledge, unlike the resource   
throughput, is not divided in the sharing, but multiplied. Once knowledge   
exists, the opportunity cost of sharing it is zero, and its allocative   
price should be zero. International development aid should more and more   
take the form of freely and actively shared knowledge, along with small   
grants, and less and less the form of large interest-bearing loans. Sharing   
knowledge costs little, does not create un-repayable debts, and increases   
the productivity of the truly rival and scarce factors of production.   
Patent monopolies (aka “intellectual property rights”) should be given for   
fewer “inventions,” and for fewer years. Costs of production of new   
knowledge should, more and more, be publicly financed and then the   
knowledge freely shared. Knowledge is a cumulative social product, and we   
have the discovery of the laws of thermodynamics, the double helix, polio   
vaccine, etc. without patent monopolies and royalties.  
   
\*9. Stabilize population.\* Work toward a balance in which births plus   
in-migrants equals deaths plus out-migrants. This is controversial and   
difficult, but as a start contraception should be made available for   
voluntary use everywhere. And while each nation can debate whether it   
should accept many or few immigrants, and who should get priority, such a   
debate is rendered moot if immigration laws are not enforced. We should   
support voluntary family planning and enforcement of reasonable immigration   
laws, democratically enacted.  
   
\*10. Reform national accounts — separate GDP into a cost account and a   
benefits account.\* Natural capital consumption and “regrettably necessary   
defensive expenditures” belong in the cost account. Compare costs and   
benefits of a growing throughput at the margin, and stop throughput growth   
when marginal costs equal marginal benefits. In addition to this objective   
approach, recognize the importance of the subjective studies that show   
that, beyond a threshold, further GDP growth does not increase   
self-evaluated happiness. Beyond a level already reached in many countries,   
GDP growth delivers no more happiness, but continues to generate depletion   
and pollution. At a minimum we must not just assume that GDP growth is   
economic growth, but prove that it is not uneconomic growth.  
   
Currently these policies are beyond the pale politically. To the reader who   
has persevered this far, I thank you for your willing suspension of   
political disbelief. Only after a significant crash, a painful empirical   
demonstration of the failure of the growth economy, would this ten-fold   
program, or anything like it, stand a chance of being enacted.  
   
To be sure, the conceptual change in vision from the norm of a growth   
economy to that of a steady-state economy is radical. Some of these   
proposals are rather technical and require more explanation and study.   
There is no escape from studying economics, even if, as Joan Robinson said,   
the main reason for it is to avoid being deceived by economists.   
Nevertheless, the policies required are far from revolutionary, and are   
subject to gradual application. For example, 100% reserve banking was   
advocated in the 1930s by the conservative Chicago School and can be   
approached gradually, the range of distributive inequality can be   
restricted gradually, caps can be adjusted gradually, etc. More   
importantly, these measures are based on the impeccably conservative   
institutions of private property and decentralized market allocation. The   
policies here advocated simply reaffirm forgotten pillars of those   
institutions, namely that: (1) private property loses its legitimacy if too   
unequally distributed; (2) markets lose their legitimacy if prices do not   
tell the truth about opportunity costs; and as we have more recently   
learned (3) the macro-economy becomes an absurdity if its scale is required   
to grow beyond the biophysical limits of the Earth.  
   
Well before reaching that radical biophysical limit, we are encountering   
the classical economic limit in which extra costs of growth become greater   
than the extra