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

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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>>

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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