



Well-being Economy

A Scenario for a Post-growth Horizontal Governance System

By Lorenzo Fioramonti¹

Introduction: a well-being economy?

For the past half century, western societies have used a narrow definition of economic growth as the route to development. Growth has become an end in itself. As a result, the true meaning of development has been lost. Rather than an end goal, development should be viewed as a process towards an improved state of existence for humanity and the ecosystem.

The concept of well-being, with its multidimensional character, is far better suited to describe this improved state. Good, enjoyable, and fulfilling lives cannot be achieved through industrial output alone. Indeed, such output can easily endanger human well-being, leading to the deterioration of the social relationships and environmental balance upon which well-being depends.



The question is: How do we build economies designed to achieve holistic well-being? Can we find better channels for our pursuit of well-being than the destructive model of growth-driven development on which we are hooked? To do so we must redesign our social organization, starting with a restructuring of the economy that will trigger profound changes in both political institutions and society at large.

From a governance perspective, the economy is a decision-making system. The economic “rules of the game” shape behaviors, define incentives, and guide collective action. They ensure predictability, acceptability, and compliance. As such, the economic and political systems are closely enmeshed. And, since the economic rules frequently dictate political decision-making, one can think of the economy as the ultimate rules-making system for the creation and maintenance of social order. For instance, by dividing responsibilities between producers and consumers, organizing the distribution of goods and services, and designing a monetary system for exchange, the economy becomes the arbiter of social organization. Its rules and roles are so ingrained that order is easily maintained, even in the absence of an overarching political authority. Therefore, if we can successfully alter those economic governance rules, we stand a real chance of reorganizing society, both politically and socially.

From the old to the new: what changes and what scope

Our current model of social organization, of which the economy is such a fundamental component, can be described as a vertical structure in which wealth created by growth at the top of the pyramid is “expected” to trickle down to the lower layers. The separation of production and consumption roles leaves “consumers” on the receiving end of the growth process. The model is reinforced by the predominant economic growth measurement, which is gross domestic product (GDP). Through its statistical design, GDP adopts a narrow definition of production and assets that unduly restricts the range of flows and stocks that can be considered of economic value. For instance, the vertical economy only recognizes the contribution of formal economic activities to the national income, while ignoring the important contribution of the so-called informal and non-money economies.



Because GDP measures only “priceable” output, the vertical economy overemphasizes the performance of large corporations at the expense of small businesses, for whom production levels are relatively lower in terms of market prices. In rewarding economies of scale by portraying them as cost effective, it disregards negative externalities such as overproduction and environmental destruction, which are not deducted from the GDP measurement of economic growth.

In the vertical economy, natural wealth has no value unless owned and exploited. To contribute to development, nature requires top-down control (ideally via a large company, which can maximize output) and must be commercialized through market channels. Neither the preservation of natural beauty to enhance the welfare of ecosystems, nor the management of natural resources for the common good, allows the vertical economy to grow. The reverse is equally true. As the World Resources Institute observes: “A country could exhaust its mineral resources, cut down its forests, erode its soil, pollute its aquifers, and hunt its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared.”²

Policies designed to support the vertical economy replace informal systems (such as street vendors, small-scale farming, local markets, family businesses, and the unpaid productive work that people carry out for themselves, their families, and their communities) with formal structures such as shopping malls, industrial-scale farming, and large infrastructure projects. Natural resources are commercialized and sold off: the higher the volume, the better for the economy, regardless of the social and environmental costs, which GDP does not deduct from a society’s overall economic performance. Growing trees does not add to economic growth, but cutting and selling them off does. While some can take advantage of this “creation” of monetary wealth, many are left behind.

There are two main reasons for this. First, top-down management is by definition limited to a few gatekeepers. Second, as open resources are brought under proprietary control, the communities that used to access them freely can no longer do so. The Organization for Economic Co-operation and Development (OECD) has confirmed the close link between rising inequality and the growth of the



vertical economy across the world, an effect amplified across much of Africa and Asia, where the informal economy provides a fundamental safety net to many poor households.³ The economist Thomas Piketty has provided time-series data over two centuries to show how income inequality rises in the absence of corrective policies, progressive taxation, and redistribution mechanisms.⁴ The reality of the so-called “trickle-down effect,” a key characteristic of the vertical economy often used to make the social case for the economic policies of the twentieth century, does not pass the litmus test of hard data in the twenty-first century. The old adage that “a rising tide lifts all boats” no longer applies (if it ever did!).

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An economy designed to promote well-being will be adaptable, integrative, and empowering. Adaptable because the new economy will operate like a network, abandoning the conventional vertical structure to expand horizontally and build resilience against external shocks through a system of nodes. Integrative because it locates systems of production and consumption within the broader biosphere. And, empowering because its users will take control, rather than performing the passive role of “consumers.”

The convergence of crises, including environmental degradation, rising inequality, mass migration, and resource depletion, is making self-evident the unsustainability and gross inefficiency of the current model. And it is also triggering corresponding innovation. Pockets of experimentation are mushrooming around the globe, where a technological revolution in peer-to-peer software and hardware, 3D printing, decentralized renewable energy systems (microgrids), and agroecology is advancing a new economic model based on collaboration rather than reductive competition. These possibilities for scale and impact of innovation at the global level are unprecedented.



In geopolitical terms, we are likely to see a slowdown and ultimately a reversal in the current rush to globalization. The first reason for this is the need to avoid catastrophic climate change. Following the Paris climate deal at the United Nations Conference of the Parties (COP21) in 2015, the world will need to introduce regulations to curb carbon emissions, which will certainly have an impact on global markets and long-distance transportation systems. Energy projections also seem to point in this direction. The International Energy Agency (IEA) believes that conventional crude output from existing fields will fall “by more than 40 million barrels per day by 2035.”⁵ As a consequence, out of the 790 billion barrels of total production required to meet projected demand, “more than half is needed just to offset declining production.”⁶ As for natural gas, a nonrenewable resource often touted as the magic bullet to deal with shrinking oil reserves, the IEA forecasts some growth in the next decade (mostly in North America), with uncertainty about “whether gas can be made available at prices that are attractive to consumers while still offering incentives for the necessary large capital-intensive investments in gas supply.”⁷ Even if we dispute such projections and firmly believe fossil fuel energy will grow in the foreseeable future, the climate change imperative will still make it unlikely for these polluting resources to continue powering globalization (NB: natural gas generates methane, a greenhouse gas much more polluting than CO₂). At the same time, renewable energy systems like solar, wind, hydro, and geothermal (which are expected to grow exponentially in the coming years) can hardly come to the rescue of globalization, as they are not easily amenable to long-distance transportation. Against this backdrop, the IEA believes the world economy requires an immediate reduction in energy-related emissions if the world is to stand even the smallest chance of remaining within the 2° Celsius margin, given that the climate compatible carbon budget will be exhausted by 2040.⁸ This prospect is likely to be challenged by oil-producing states and companies, which have already integrated the sale of proven reserves in their financial balance sheets. Should they succeed at derailing any meaningful efforts to curb climate change, ultimately, weather conditions will stay economic globalization. If not carbon taxes, polluters-pay-schemes, natural capital accounting, environmental profit and loss provisions, and soaring insurance costs for worldwide freight and transportation due to climate variability, will



make transport-intensive produce prohibitively expensive, as compared to today and to local production.

While the current form of globalization will not be able to continue in this scenario, a network economy that scales horizontally will thrive in a climate-compatible economic system. The localization and blending of production and consumption will result in a better circular system, with less waste and negative externalities. Moreover, adaptability to local conditions will ensure a better connection between supply and demand, minimizing environmental and social impacts. Instead of striving for ever-growing scale, businesses will seek “the right size,” just like cells in an organism. Environmental and social considerations will become an integral part of their business strategy, as customers will no longer be on the receiving end of the production process, but, rather, will play an active role in it.

This type of economy is also likely to continue operating transnationally, challenging the potential inward-looking nationalistic trends that may be triggered by the global economic contraction. For, while production and consumption will be increasingly localized, exchange will happen across the nodes of the network with scant regard for political borders. This effect will be particularly strong in regions like South America, Europe, Africa, the Middle East, and East Asia, where common languages and culture, as well as similar ecological conditions, favor cross-border interaction.⁹

How to get there? A theory of change

The key to change lies in shifting institutional frameworks, which will free up space for bottom-up business models to challenge the status quo. Since the economy is a rules-making system, the best chance to effect change comes through altering some of the key policies, thus deflecting the economy onto a new course. The starting point is also the most fundamental: the rules that dictate how we understand and measure economic success.

Gross domestic product (GDP) is not simply an economic metric, but a performance assessment tool for society that goes well beyond its superficial objective



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of summarizing attainments. I have discussed the political and policy implications of GDP at length in two of my previous books.¹⁰ From the perspective of institutional economics, GDP is an institution in its own right, controlling behaviors and decisions to ensure compliance by establishing the overarching framework for policymaking. It follows that to go “beyond GDP,” redirecting its institutional leverage through the introduction of new performance assessment tools, is likely to trigger a cascade effect throughout society.

For instance, an institutionalized system of accounting that emphasized the costs associated with highly centralized, polluting, and wasteful production would reveal that many large corporations are taking wealth away from society rather than adding value, thus reducing their acceptability and political influence. Such a system would also highlight the economic contributions and external benefits of forms of production that GDP either downplays or ignores. If the unpaid activity of households and the social benefits to be derived from small, distributed businesses are fully accounted for, nonconventional economic actors will gain a much stronger voice in society. Civil society will also benefit: its activities will no longer be perceived as marginal (implicit in definitions such as “nonprofit” and “third sector”), but rather as key drivers of well-being.

In the same way, looking beyond GDP in economic performance has the capacity to disrupt the balance of opposing forces in a number of key sociopolitical disputes. Opponents of fossil fuel industries and others fighting climate change will find their moral and ethical arguments underpinned by solid economic indicators, as will groups mobilized against austerity policies or international trade



agreements such as the Transatlantic Trade and Investment Partnership (TTIP) and Trans Pacific Partnership (TPP). Current arguments for unfettered free trade rest almost entirely on GDP measurements that promote volume over quality in economic activity and do not account for international trade's negative environmental and social externalities. Further, austerity policies currently dividing Europe and other regions of the world enforce punitive debt-to-GDP ratios that prevent social investment.

The list of beneficiaries of a shift beyond GDP includes families, communities, cooperatives, informal and small businesses, organic farmers, fair trade networks, and many similar groups. Even high-tech companies, and especially those providing online services, from Google to Facebook, have much to gain. From a GDP perspective these companies' only value is through selling advertising space, while their overall societal impact in terms of connectivity, social networking, and information sharing has no economic value in GDP terms because it is provided free of charge or at a marginal cost close to zero. This means that the contribution to economic dynamism and well-being of information-sharing technologies, some of which provide public goods from free phone calls to global maps to library services, is grossly underestimated by the vertical GDP model.

The "beyond GDP" debate is now high on the agenda. Many international agencies, including the United Nations (UN), the OECD, the World Bank, and the European Union, are actively engaged, as are a number of national governments. Moreover, the UN 2015 Sustainable Development Goals, although at times contradictory in their objectives, provide at least an entry point for institutional change at a global level. As more social actors become aware of how a move beyond GDP can assist their causes, it is to be expected that grassroots social pressure will also grow, connecting bottom-up movements for change with top-down political reform. The pace is quickening, and radical change within the next decade can be anticipated, provided pressure is maintained.

Ideally, GDP should be replaced by a "dashboard" of indicators capable of integrating the key dimensions of human and ecological well-being. This integration would need to be done carefully, so as to combine both monetary measurements



with non-monetary ones. For starters, the economy should be measured in terms of genuine progress, which will require introducing monetary units for dimensions that do not involve formal transactions, such as natural and social capital. This would make both ecosystems and household contributions valuable for economic success. At the same time, the operating boundaries of the economy should be determined by non-monetary measurements of social and environmental well-being, indicating the upper and lower limits (that is, the ecological ceiling and the social floor) that cannot be exceeded without endangering well-being. This would make sure that sustainability is fully respected in its “strong” version, not allowing econometric calculations to simply offset losses in one field with gains in another (what economists call the “perfect substitutability” of different types of capital). In this accounting system, continuous improvements in well-being need not be achieved at the expense of social and ecological conditions.

Economics, politics & society in the well-being economy

In a well-being economy, production and asset boundaries differ greatly from those imposed by the GDP framework. While the latter recognizes only assets and productive capacity that are under the institutional control of a proprietor, the well-being economy takes a holistic approach, taking account of the external impacts (both positive and negative) of economic activity. It also values “goods” (such as those related to the biosphere) which, while not owned by anyone in particular, make a significant contribution to human and environmental well-being.

While proprietorship will continue to have its place, the role of public, collective, and shared ownership will increase significantly in recognition of the centrality of the nurturing of common resources to human well-being. By introducing genuine progress indicators, as well as their corporate applications, both in terms of natural capital accounting and environmental profit and loss metrics (which report the ecological impacts of corporate activities in monetary terms), certain economic activities that enjoy respect and support in the GDP economy will be actually revealed as not profitable. This is certainly the case of fossil fuel companies, whose negative impact on society and the environment largely exceeds the profits shown in their balance sheets, as recently revealed by a series of studies



conducted by the environmental consultancy company, Trucost. Against this backdrop, it is not surprising that polluting industries have traditionally opposed any reform in economic accounting methods, opposing the deduction of environmental losses from GDP back as early as the 1990s, when the US government attempted a reform.¹¹

As new measurements are followed by their relative rewards and sanctions, some business models will have to change to stay profitable and socially acceptable, while those most impactful in terms of negative effects will need to be phased out. Limited liability—a foundation of the GDP economy and a powerful instrument in the creation of giant, unaccountable corporations that seek economies of scale without reference to social or environmental consequences—will have to be reconsidered in light of the new parameters of well-being. In the future, limited liability status may only be granted to companies supporting improvements in well-being while complying fully with social and environmental responsibilities. Patterns of ownership will change accordingly, with social enterprises and hybrid organizations that connect for-profit with nonprofit activities becoming increasingly common, as well-being is incorporated into economic accounting, and social capital becomes a clear driver of economic prosperity. This will build on existing regulatory innovations, such as the introduction of L3Cs (low-profit limited liability companies), which have become more and more common in the US, allowing organizations to draw on foundation and nonprofit funding to operate as socially-oriented businesses.

With the blurring of the distinction between entrepreneurial profit and well-being, the parallel difference between producer and consumer (and the transactional, profit-driven activities that seek to separate them) will begin to fade. The emergence of this new phenomenon of “prosumer” will change the very meaning of work, as well-being accounting shows how human beings can be productive in ways that transcend the traditional framework of paid employment. According to the Inclusive Wealth Index—a “beyond GDP” tool developed by the United Nations—the real wealth driving development across the world is not produced capital (which is what GDP measures), but human and natural capital (which



GDP ignores).¹² To reflect this reality, the new economy will embrace and value the whole range of an individual's activities: as teacher, caregiver, parent, maker, community leader, and in many other roles carrying both monetary and social rewards (well beyond the reductive category of "jobs"). The importance of socially-useful leisure activities, particularly in relation to maintaining physical and mental health, will be fully acknowledged, while women, upon whose unpaid and undervalued contribution to personal and social well-being the GDP economy has been free riding for so long, will emerge as the true champions of well-being-based development.

With households integrated in economic performance accounting (as traditionally has been the case with firms), families will play a central role in the new economy and the time spent therein will be perceived as adding not only to society's public good, but also to its economic dynamism. Moreover, the blurring of professional and leisure activities holds the potential of liberating both women and men from their traditional social roles. The household will become a locus of collaboration rather than segregation. It will also become a focus for activity within local economic communities for whom the arbitrary divisions between state, market, and civil society will be increasingly irrelevant. While state institutions will continue to have a role in terms of planning and legislation, families, communities, and small businesses will become the real drivers of development. Their political power will grow accordingly.

With the emergence of a new economy based on the prosperity generated by collaborative, "horizontal" entrepreneurial initiatives, a new well-being politics will develop to promote sharing and cooperation in political processes. Breaking with the production and consumption cycle, individuals will have more time to devote to well-being enhancing (and therefore economically valuable) activities. Representative forms of participation, such as traditional party politics, may change profoundly, giving way to local governance structures based on direct participation, which integrate seamlessly with the new, socially responsible economic frameworks. Over time, the primacy of the nation-state will be eroded. As powers are increasingly devolved to the local level, cities may emerge as pioneers in the



transition to well-being economics. More broadly, the established economic and political distinctions between “capitalists” and “working class,” “proprietary” and “public,” as well as “market,” and “public sphere” will become redundant, as the activities of the new economy increasingly straddle these traditional fault lines.

This new approach may ultimately lead to a profound reorganization of our money system. Although monetary theory generally describes money as a unit of account, a currency, and a store of value, money is primarily a tool of social organization. Money coordinates economic activity, making transactional outcomes predictable while lowering their cost, especially in societies where there is limited interpersonal trust and reciprocity. Money systems, however, are not neutral, and invariably favor some forms of production and consumption over others. The currently dominant system, like the economy it serves, is highly centralized and narrowly controlled. It gives enormous power to private banks (both commercial and investment), devolving to them control over the supply of money through the issuance of debt, leaving citizens with the short end of the stick.

In a well-being economy, the money system will need to follow the same distributed model of governance as the economy itself, in order to provide appropriate levels of economic stimulus and control at local, national, and international levels. Local currencies would underpin prosperity and economic resilience at a regional level, straddling arbitrary national borders to reflect economic and social networks. A national network of currencies could replace the national currency to allow communities to trade with each other. In Germany, for instance, a network of local currencies called *Regiogeld* (regional money) connects over seventy nonprofit local currency projects, emitting the equivalent of 800 thousand euros in value. Alternatively, a national currency could continue side by side with local currencies. At a global level, a complementary system of cryptocurrencies would facilitate the worldwide interchange of ideas and knowledge (the so-called “light economy”).

In theory, the GDP economy can only operate within the boundaries of social acceptance and planetary resource capacity. As an extractive system, affording no value to unexploited resources, and making no judgment as to the qualitative value of production and consumption, its growth must ultimately conflict



with natural and social equilibria. In practice, these boundaries have not been respected, creating the conditions for the rampant inequality, social dislocation, and environmental destruction with which the world at present is beset.

In contrast to this destructive path, the well-being economy model is designed specifically to strengthen social and natural capital while generating human development. A “virtuous circle” is created whereby value, measured in terms of well-being, feeds the improvements in the human and natural capital upon which the creation of value depends. The negative impact on the environment will be greatly reduced as the “circular economy” model of resource recycling and systems for upcycling are integrated into mainstream business models. The services that the GDP model considers to be provided free of charge by nature (so-called “ecosystem services,” which include, for example, a myriad of fundamental “economic” functions ranging from rainfall to pollination, carbon sequestration, irradiation, which are essential to any form of production) will become fully valued components of society’s infrastructure, supported by new, horizontal structures of governance that connect people more closely to the natural ecosystems in which they live and work. Economic “growth” in this model lies not in the exploitation of natural and human resources, but in improving the quality and effectiveness of human-to-human and human-to-ecosystem interactions, supported by appropriate enabling technologies.

Conclusion: can this really happen?

The convergence of transformative technological innovation with a systemic crisis—as evidenced by global warming, mass migrations, and rising inequality—demands and creates the conditions for a profound restructuring of the economic system at the global, national, and local level. The key to unlock this process lies in the framework of measurement by which the economy is controlled. The existing framework, based on GDP, is increasingly questioned by experts and citizens, by international institutions, and by national political leaders. The currents of change are beginning to flow and, as the social, political, and economic pressures build, the opportunity is emerging for convergence upon a new economic paradigm: the well-being economy.



Pockets of this future system are already well embedded. Local currencies have been growing across the globe since the 2008 financial crisis, connecting through networks and involving hundreds of thousands of users. Technologies are breaking down industrial monopolies at an accelerating rate, especially across the Internet, where nonprofit initiatives such as Wikipedia and Mozilla have out-competed traditional centralized forms of production. For-profit and nonprofit “sharing economy” ventures, pioneered by providers such as Uber and Airbnb, are entering the mainstream, as are business models inspired by the concepts of the circular economy and upcycling. As noted by technology commentators such as Jeremy Rifkin and Chris Anderson, this technological revolution is moving from software to hardware, with production value chains being shortened and localized while maintaining high efficiency levels and low costs.¹³

“ *As the social, political, and economic pressures build, the opportunity is emerging for convergence upon a new economic paradigm: the well-being economy.* ”

Natural capital accounting, environmental profit and loss, and ecosystem services valuations are being promoted by the UN (through projects like The Economics of Ecosystems and Biodiversity, TEEB), the World Bank (through initiatives such as Wealth Accounting and Valuation of Ecosystem Services, WAVES), the OECD (through its Better Life Index), and many third sector institutions. Well-being indicators are being integrated in the statistical systems of both regional institutions and national governments, particularly after the proceedings of a 2009 commission chaired by Nobel laureates Joseph Stiglitz and Amartya Sen, as well as French economist Jean-Paul Fitoussi. Centralized forms of business are increasingly under attack, not only because of their high social and environmental costs, but also because their business model pits productivity against employment, leading inevitably to joblessness. Decentralized systems



for the production and consumption of renewable energy through solar, wind, and geothermal technology are available to millions of users, often also through grassroots action plans like the so-called “transition initiatives” in Europe and North America and the “smart villages” in the developing world. The very notion of a corporation may be soon altered by the convergence of regulatory systems, accounting methods, and new technologies, which will open up the possibility for the massive diffusion of a model that University of Michigan’s Gerald Davis calls “locavorism.”¹⁴ In Davis’ words

Locavorism has taken hold in many places, as an indigenous-but-networked movement...Technologies for “locavore power production” from solar, wind, and other sources are also likely to prompt the creation of community-based power grids...Legal forms that serve as alternatives to the corporation have experienced a swell of innovations and global competition. Several states have adopted Benefit Corporation enabling legislation that allows corporations to be chartered with explicit social benefit goals, giving safe harbor to skirt the perceived requirement to serve primarily shareholder interests, while increasing the standards for providing other social goods.¹⁵

The well-being economy is a vision that unites all these and many other streams of governance innovation into a coherent narrative, placing fundamental change within our reach.

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Notes:

- 1 I would like to thank my colleague Martin Whitlock for his comments and precious editorial assistance.
- 2 Robert Repetto et al., *Wasting Assets: Natural Resources in the National Income Accounts* (Washington, DC: World Resources Institute, 1989), V.
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Measuring tape icon by Cristiano Zoucas from the Noun Project—Layout & Design by Owl Grammar Press



New Systems: Possibilities and Proposals

Truly addressing the problems of the twenty-first century requires going beyond business as usual—it requires “changing the system.” But what does this mean? And what would it entail?

The inability of traditional politics and policies to address fundamental U.S. challenges has generated an increasing number of thoughtful proposals that suggest new possibilities. Individual thinkers have begun to set out—sometimes in considerable detail—alternatives that emphasize fundamental change in our system of politics and economics.

We at the Next System Project want to help dispel the wrongheaded idea that “there is no alternative.” To that end, we have been gathering some of the most interesting and important proposals for political-economic alternatives—in effect, descriptions of new systems. Some are more detailed than others, but each seeks to envision something very different from today’s political economy.

We have been working with their authors on the basis of a comparative framework—available on our website—aimed at encouraging them to elaborate their visions to include not only core economic institutions but also—as far as is possible—political structure, cultural dimensions, transition pathways, and so forth. The result is two-dozen papers, to be released in small groups over the coming months.

Individually and collectively, these papers challenge the deadly notion that nothing can be done—disputing that capitalism as we know it is the best and, in any case, the only possible option. They offer a basis upon which we might greatly expand the boundaries of political debate in the United States and beyond. We hope this work will help catalyze a substantive dialogue about the need for a radically different system and how we might go about building it.

James Gustave Speth, Co-Chair, Next System Project

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