

There is more than one economy

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Abstract

Human economies can be understood in more than one way.

- The **private business economy** is what economics textbooks are generally about.
- The **public purpose economy** consists of governments and their agencies as well as non-profits and international institutions like the World Bank or the United Nations. The public purpose economy is a collection of institutions that are justified by their stated intention to act for some broader good than their own profit or enrichment – though they may differ widely in their definitions of what is "good".
- The **core economy** is where households and communities carry on their internal activities of production, distribution and consumption. The core economy's justification and purpose is the survival and well-being of its members. It is located in home, family, and neighborhood; places that function as markets for emotional, social, and civic transactions. This paper will consider some distinguishing characteristics of these three economies – in particular: their goals or justifications; what currency they use; what kind of demand they respond to; and how they define and reward work.

The second half of the paper will offer reflections on the harms caused by an excessive dominance of the private business economy over the other two, with thoughts on some of what will be required to redress this balance. It will conclude with an image of a healthier relationship between humanity and our natural environment – a relationship that will inevitably come about, whether we choose to move into it positively, or are forced into it by breakdowns in all of our economies resulting from natural and social disasters.

Part I. Several economies

Economics textbooks imply that there is only one economy worth talking about: A private business economy, which is described as being pushed, by its own logic and internal forces, toward a competitive outcome that is ideal, in the sense of efficient use of resources to satisfy the needs and wants that are expressed through purchasing power. However, in the twenty-first century a more pluralistic view has gained ground, partially propelled by ecologists who insist that our economic behavior is embedded within, and completely dependent on, another economy – what Darwin called the economy of nature. That is a system in which production, distribution, and use of materials and energy is carried out with such seamless efficiency that there is virtually never any waste: the output of each part of the total, ecological process is the input to another part.

Ecological economists are probing the market's inability to value adequately the common gifts of nature whose importance is not reflected in their price. At the same time, comparable to Adam Smith's famous paradox of costly diamonds and free water is the market paradox of high-paid stock-brokers and low-paid nurses. Both of these are paradoxes in the sense that they make us think about the difference between market value and some other set of values: "Can I do without diamonds? Without water? How is my life affected by stockbrokers, in comparison to the person who helps care for my ailing parent, or who will be there for me when I am ailing?"

Difficult though it is to imagine operating in a world where the per-ounce price of water rises higher than that of diamonds, it is equally difficult to imagine rearranging our private business system to pay nurses what stock-brokers earn. The prices set in the market can be explained in the private business context, especially when we bring in issues of history, class, gender, ethnicity, and political power (issues that have normally been omitted from 20th-century economic theory). It is considerably more difficult to make sense of private business values (i.e., prices) when we think of them in relation to our human values. In today's world wherever the two value systems come into conflict, the market almost always seems to prevail. And yet, there are already several other economies that are operating in important and vigorous ways – though they all show signs of deterioration as they rub up against the power of private business.

In addition to nature's economy (which will not be my focus), I will describe three major spheres of human economic activity.³

1) The **core economy** is where households and communities carry on their internal economic activities of production, distribution, consumption and resource management. Often economists have depicted people in the core sphere solely in the roles of consumers and workers, and even then only paying attention when this sphere interacts with businesses. Outside of textbooks, however, it is hard to avoid recognizing the critically important economic activities of the core sphere, which include raising children, securing food, maintaining homes, caring for ill individuals, and organizing leisure time and other resources.

When the core economy is working effectively to support human well-being, important goods and services are provided to many, many people, even if the scale of production in each specific case is quite small. Because most core sphere activities involve face-to-face interaction, the core economy is also the primary location in which good social relations are developed. But it is under tremendous pressure – in some ways more today than ever before, as the private business economy drains it of people and resources. Moreover, the requirements of caring for children or for elderly and ill people can sometimes overwhelm the personal resources of families and communities. One extreme example is the situation of families and communities in sub-Saharan Africa trying to care for the large number of children orphaned by HIV/AIDS or by war, without adequate resources to feed and clothe the children, let alone provide for education and physical safety. There are limits to what can be accomplished within small-scale, largely informal networks of personal relations. For many economic and social goals, more formal and larger-scale organizations are also needed. These are often found in the public purpose economy.

2) The **public purpose economy** consists of governments and their agencies; non-profits such as charitable foundations and social service organizations; and international institutions like the World Bank or the United Nations, along with their agencies. Some of the larger public

³ Economist James Blignaut, reviewing this paper, wrote:
There are at least four more economies actively at work:

- The informal economy (big in Africa, not part of either the market or the core economy)
 - The shady (or illicit) economy (poaching, human trafficking, money laundering, fraud – it has become big business)
 - The externality economy (that which is part of economics, but not part of finance, such as pollution, degradation, etc. – obviously there is a link to the shady economy i.e. poaching and ploughing in a wetland without authorization)
 - The invisible e-economy (global financial e-trade).
- (Email correspondence, 2/25/18.)

purpose organizations, often associated with some level of government, are charged with purposes such as defending a country's borders, relieving poverty, protecting the natural environment, and stabilizing global financial markets. Religious organizations are normally treated in law as public purpose organizations. Small and large nonprofits exist to promote various causes, ranging from protecting natural resources, to providing shelter for homeless people, to lobbying for equality based on race and sexual orientation.

The public-purpose sphere has its weaknesses, of course. Institutions in the public-purpose sphere are sometimes accused of being rigid, slow to adapt, and inefficient because of excessive regulation and a bloated bureaucracy. Organizations can lose sight of the intrinsic, common-good goal of providing "public service" and become more focused on increasing their own organizational budget. Because public-purpose organizations are commonly supported by taxes or donations that are often not tightly linked to the quality of their services, they may not have financial incentives to improve the quality of what they provide. Many current debates about reforms in governments and nonprofits concern how incentives for efficiency can be improved without eroding these organizations' orientation toward providing goods and services of high intrinsic value.

Some of the goods and services provided by the public purpose economy are what economists call **public goods**. These are goods (or services) that are freely available to anyone (or some people could be excluded from using them, but only with difficulty), while use of a public good by one person does not diminish the ability of another person to benefit from it. Public health is a public good, as is national defense. A system of laws and courts provides the basic legal infrastructure on which all business contracting depends. Preservation or restoration of natural amenities, as in the case of parks or roadside beautification, is most often undertaken in the public purpose sphere, by either nonprofit groups or by governments.

There are two basic function of public-purpose organizations. One is to **regulate** economic activities – that is, to set the standards and "rules of the game" by which other economic actors "play" – so as to create the legal, informational, and social infrastructure for economic activity. Many people think of "regulation" entirely in terms of "government regulation," and it is true that the governments set many of the rules and standards with which other economic actors are legally obligated to comply. However, many nonprofit groups participate in regulating economic activity, particularly in the area of standard setting.

The other basic function is **direct public provision**, often used to supply goods or services that cannot be supplied equitably or efficiently either by private individuals or through the market. Some things are provided by the public-purpose economy because, as a society, we believe that everyone should have access to them, regardless of the kind of family or community in which they were born, and regardless of their ability to pay. In the US public schooling from kindergarten through high school is a prime example of a public good that is provided through direct public provision by government, while alternative options, with varying price tags, are also supplied by nonprofit organizations, by the core sphere (as in home schooling) and through the private business sector. Examples of direct public provision by government in other countries include health services for all, or various kinds of support for families. Hospitals in the United States are variously operated by nonprofit, government, and for-profit entities, and thus may be in either private business or the public purpose economy. Support centers for battered women, playgrounds, small or large museums, or the Little League, may not immediately come to mind when we think of direct public provision, but they

are also examples of what is provided by this economic sphere. Some of these could arguably be located in the community sector of the core sphere – for example, when a neighborhood parent volunteers to coach a youth baseball team in conjunction with the more formally organized Little League activities.

3) The **private business economies** are what most economics textbooks focus on, virtually excluding the first two. The private business sphere of economic activity consists of firms that are normally expected to look for opportunities to buy and manage resources and production processes in such a way that, after the product is sold, the owners of the firm will earn profits. Standard, twentieth century economics pays some attention to different kinds of institution that actually exist within the recognized market sphere. Three of these types of distinction will be mentioned here, but given little attention hereafter.

- There are the markets in which goods and services are bought and sold; vs the financial markets in which money flows, often without playing a direct role in the production or exchange of goods and services.
- There is the portion of the market that to some degree fits within the assumption of competition found in economics textbooks; this includes many of the small businesses whose generation of jobs is far larger than their relative economic power, as a group. A large non-competitive counterpart to competitive markets is the “corporate command economy”, consisting of huge islands of coordinated activity within multinational corporations wherein transactions are protected from the stormy seas of competition outside their bounds.⁴ There are also monopolies and oligopolies, both large and small, which use power or location or other means to escape the forces of competition which are supposed to force markets to behave in ways that maximize consumer satisfaction.
- There are also black market economies, sometimes operating with huge power and profits, other times being viewed as “black” simply because they are so small they manage to operate under the radar of governments, often avoiding taxes and regulations.

Goals, currency, demand and work

I will consider some distinguishing characteristics of these three economic spheres just summarized – in particular:

- a) their goals or justifications;
- b) what currency they use, and how it relates to human values;
- c) what kind of demand they respond to; and
- d) how they define and reward work.

Goals

It is worth noting, here, some widely accepted assumptions that hinge on the distinction between “ultimate” (or “final”) and “intermediate” goals. The activities of the core economy directly address the ultimate human goals of survival and well-being. The private business economy produces goods and services that are sold as though they would promote these goals; but there is a significant indirection here. Theorists of the private business economy have offered “economic growth”, “growth in GDP”, and the profits that feed such growth, as

⁴ It has been estimated that trade within MNCs, called intra-firm trade, accounts for about one-third of total world trade. See Multinational Corporations in the Global Economy, <http://www.unc.edu/~toatley/mncs.pdf>; downloaded on 6/25/17.

though these things were ends in themselves. They are not. They are only means to humanity's final goals.

Actors in the **private business economy** are expected to adopt profits as their primary – often (for example, in the writings of Milton Friedman) – their only goal. In fact, firms may not always aim for the highest profit, for two main reasons. One is that some business managers cite being a good “corporate citizen”, with regard to their workers, communities, or the environment, as a motivation for some of their actions. Also, businesses organized on a cooperative model (including large food-marketing organizations such as Land O’Lakes for dairy products and Ocean Spray for cranberries) explicitly state their purpose in terms of providing services to their members, rather than in terms of profit. Still, it is ordinarily necessary for each business to make enough profit to stay afloat.

Second, within a modern corporation, the activities of the firm represent the interests of many people, including its stockholders, board of directors, CEO, mid- and top-level managers, and employees. The interests of these various individuals and suborganizations may be in conflict. Sometimes top officers and managers may act, for example, not in the profit-making interest of the owners but according to their personal self-interest. That is, they may seek to maximize their own prestige and incomes, even when this goes against the interests of everyone else involved in the firm, including those who have invested in it. Profits, and even the long-term survival of the company itself, may be sacrificed in a race for individual high salaries and lucrative bonuses.

When firms act to enhance social well-being – for example, by making decisions that consider the full needs of their customers and their workers, as well as taking into account externalities – they may be guided in these directions by the goodwill of their owners and managers, by pressure from their customers or workers, or by government regulation. However the logic of private business production has no *built-in* correction for externalities that are generated when the actions of a firm harm some other actor, but do not affect the firm causing the harm. Symmetrically, benefits generated by a firm that are not entirely captured by that firm will not be given much consideration in the firm’s plans. An example of such positive externalities is the increase in knowledge and skills that results from a good training program. The firm will put fewer resources into the program if they expect that many of those who are trained go off to use their skills elsewhere. Indeed, a way to remember the meaning of the term “externalities” is to understand that it refers to things that are external to the market⁵. Government regulation against pollution, and training programs created by government or by non-profits, are ways that the public purpose sphere works to offset the existence of positive or negative externalities in society – to get more of the good things the private business can provide, and less of the bad.

The profit motive is often lauded because, by focusing the attention of a firm on a single bottom line, it is thought to create greater efficiencies, as well as strong motivation to innovate. However, just as the desire to make profits can lead a firm to externalize costs onto the rest of society, the pressure to innovate can also take a perverse form. Leading up to the global financial crisis in 2007, financial firms created “innovative” investment products by

⁵ Non-economists often criticize economists for using this term, on the assumption that if these harms or benefits are called “externalities” that means they are considered unimportant. On the contrary, economists recognize that the presence of significant externalities invalidates a large part of the framework for believing that market solutions are socially optimal. They may wish to downplay the presence of externalities, but the concept is taken very seriously.

bundling risky mortgages and selling them as safe investments. When the crisis hit, many of these investments were finally revealed as being nearly worthless.

The theoretic ability of markets to produce optimal results rests on a number of assumptions. In addition to the assumptions of perfect competition and the absence of externalities, perfect knowledge is assumed on both sides of a transaction. Power is not considered as a possible cause of information asymmetries. In fact, however, in fields such as for-profit health care and education, the “buyers” may be unaware of the quality of the services. For example, a 2016 analysis of students who attended for-profit universities found that they would have been better off attending lower-cost community colleges, in terms of both their salaries and student debt.⁶ The potential for social harm grows when firms gain excessive market power – that is, when they come to dominate the market in their area. They may be able to charge socially inefficient prices or to squelch innovations by competing firms. Large firms also have considerable power to harm the natural environment on which they ultimately depend. Thus market economies today face a major conundrum: how can societies continue to benefit from the strengths of the market economy while ensuring that this sphere supports the well-being of current and future generations? This question forces us to think about what goods and services should be provided by the business sphere, and which ones should instead be provided by either the core or public purpose sphere.

Perhaps the most striking difference between the private business economy and the **public purpose economy** comes out in the term by which some of the latter’s members are often described: “non-profit”. The distinguishing characteristics of these institutions is that they exist for an explicit purpose related to the public good – that is, the common good of some group larger than a household or informal community – and they do not aim at making a profit. Like institutions in the core sphere, those in the public-purpose sphere can provide goods and services of high intrinsic value, but (unlike core institutions) they are big enough, or sufficiently well-organized, to take on jobs that require broader social coordination. Unlike in the business sphere, the provision of goods and services itself, and not the financial results of these activities, remains the primary intended focus of public-purpose organizations.

Because definitions of “the public good” vary, some people may reject the mission of certain organizations. For example, it is possible to find nonprofit organizations that are thinly disguised hate groups. Trade organizations and labor unions promote the interests of their own members, while other members of society may disagree with their agendas. A continuing issue with government institutions is the question of *whose* interests are represented – the majority, minority groups, or special interests who donate money to campaigns? Yet, because of many important functions of the public purpose sphere, the question isn’t whether to have a public purpose sphere but how to make it operate as efficiently as possible, while serving human well-being as inclusively as possible.

The **core economy**’s justification and purpose is the survival and well-being of its members. It is located in home, family, and neighborhood; places that function as markets for emotional, social, and civic transactions. It is here that children are raised, food is secured, homes are maintained and lived in, and the first line of defense is maintained against sickness, sadness and anti-social behavior. With this said, it is also worth noting that a particular entity in the core sphere – one household, or extended family, or a particular community – may act with concern only for the members within its boundaries, however it defines them. As an example,

⁶ Cellini and Turner, 2016.

not all families can be counted on to keep the flu to themselves; their own needs may result in sending sick children to school. The public purpose sphere is needed in such cases, to provide inoculations against communicable diseases, and, where possible, ways of caring for sick family members when the adults of the family have to be off at work. Similarly, communities have often banded together to prevent people from other races or religions from purchasing homes there. In such cases, if such unfairness is to be blocked, then the public purpose economy needs to confront the core economy.

Currency and value

Money (and the ever increasing number of forms it can take – electronic, etc.) is the currency that is taken for granted in the **private business economy**.

The **public purpose economy** also usually uses money as its medium of exchange, so that it is often reasonable to refer to this and private business as “monetized” economies. In some instances public purpose organizations offer goods and services for sale as businesses do, but they usually raise most of their support by soliciting monetary contributions or, in the case of governments, requiring such contributions in the form of taxes or fees.

An exception to the monetization of the public purpose economy is its use of volunteers. Here, in theory, there is no exchange, and hence no need for a medium of exchange: the volunteers give, they don't get. However, the public purpose economy is suffering from an ambiguity. Its goals are closely allied to those of the core economy, and its principles of volunteerism look like the principles on which the core economy operates – but, as I will note under the topic of work, there are significant differences. In fact, copying the currency of money from private business, and trying to copy volunteering from the core, the public purpose economy is often misled and confused by both.

One example of the encroachment of the private business economy mentality is a growing demand that the public purpose economy should compare – and therefore quantify – costs and benefits before taking action. This mind-set is found in the kind of “accountability” that charitable foundations are increasingly demanding from their non-profit beneficiaries. It is also expected that governments should, for example, show that efforts to curb greenhouse gasses will produce quantifiable benefits greater than the costs. There is an unfortunate asymmetry in the fact that, in anticipation, it is usually relatively easy to quantify costs, and relatively difficult to quantify benefits; and there is a temptation to assign a zero value to that which cannot be quantified. Imagine that we are looking, from the year 1900, at the investments the government might propose to make in public parks or public education. How could anyone have known in advance the money value of our systems of these systems? If such proof had been required, would ARPA have invented the internet? How much government R&D would get funded?

The **core economy** hardly uses money at all in its internal transactions (exceptions tend to be small, as when kids' allowances are tied to doing chores). Core transactions are embedded in networks of intimacy, identification, and reciprocity, so that – when the core is operating in its healthiest form (which is by no means all the time) – “suppliers” of goods and services in the core do not feel depleted. This suggests some kind of exchange.

Some parts of this exchange can be understood as barter: “I'll cook if you do the dishes”. In many cases, however, what is “supplied” by one person, at one time, feels more like an

exchange because this person knows that she will get her “demands” met, though likely at a different time, and not necessarily from the same person. An example is the care we give to old people (who may or not be our parents), in the hopeful expectation that we will receive similar care when we are old, from others in our circle of neighborhood and family (who may or may not be our children). It is not easy to define the currency that operates to permit these non-barter exchanges. It might be love; sometimes it is guilt; or it could go by names such as obligation, responsibility, or neighborliness.

How significant, economically, is the core sphere? The 1995 *Human Development Report* of the United Nations Development Program compared quantifications of economic activity around the world with estimates of unpaid productive activities of women and men – activities whose results were intended for household use, for the benefit of the community, or for non-monetized exchange. The report found that, globally, only slightly more than half of the total time spent on “economically productive activities” was going through formal markets and reported in standard income measures such as Gross Domestic Product (GDP). A wide range of other estimates – from those of the conservative Chicago economist, Gary Becker, to feminist economist Nancy Folbre – similarly find that in the U.S. at least 40% of the productive work (measured in hours) goes on outside of the money economies.

Looking just at elder care, a 2014 Rand study using the opportunity cost method said the cost for informal caregiving of elderly people by friends and relatives in the United States comes to \$522 billion a year. That is larger than all of Medicare spending in 2014 (\$449 billion) and more than twice the \$211 billion now spent in the private business and public purpose economies together for commercial homemakers – who are paid at an average rate of \$11 per hour. But the work described here was not paid for with money.⁷

Demand

When economists talk about “demand” they mean people’s desire to have things; but the **private business economy** can only perceive, and respond to, a special kind of demand. “Effective demand” is the desire *and ability* to purchase something at the going price. If your wants aren’t backed up by enough money, they aren’t effective – in an economy that is dominated by private business.

The demands that can be heard or seen by the other two economies are not so restricted. Both the **public purpose** and the **core economies** are sensitive to *needs*. They are also, of course, sensitive to wants that might not be defined as needs (a murky distinction to make, in any case), and there are various kinds of pressures that can make these demands (both wants and needs) more “effective”; some people are better at making their needs heard than others.

In the case of governments responding to their constituents, again some voices are more effective than others; this differential may be defined as power. Charitable organizations are often designed to respond to specific kinds of needs – but, again, there are differences

⁷ A summary of the paper adds: “Replacing that care with unskilled paid care at minimum wage would cost \$221 billion, while replacing it with skilled nursing care would cost \$642 billion annually.” “The Opportunity Costs of Informal Elder-Care in the United States: New Estimates from the American Time Use Survey” by [Amalavoyal V. Chari](#), [John Engberg](#), [Kristin Ray](#), [Ateev Mehrotra](#). Published in: *HSR, Health Services Research*, v. 50, no. 3, June 2015, pp. 871-882. Posted on RAND.org on January 01, 2014.

among the “needy” in how well they can make themselves heard. And the confusion in the public purpose economy, deriving from the large role that money plays, often places a significant requirement for private business-type “effectiveness” on the demands to which it attends, when it mimics private business in selling its services. Examples include non-profit hospitals that require payment before service, or (more subtly) garbage collection that is more frequent in the high-tax areas of town.

Work and compensation

In the **private business** economy there is a theory of wages which says that every worker should be paid exactly the amount that his or her work adds to the employer’s revenue (the “marginal revenue product”). The reality is, indeed, rather different from the theory; but anyone who has taken an introductory economics class knows that this is how the system is *supposed* to work.

In the **public purpose** economy, revenue (or profits) is not the defining issue, so the workers’ contribution to revenue cannot be used to justify what they are paid. However, the public purpose economy is currently in a state of great insecurity about its identity. It is criticized for inefficiencies (some of which are real, while others are invented or greatly inflated by those whose self-interest is served by diminishing government), and told that it needs to more exactly imitate the private business economy. In attempting to obey these injunctions, institutions in the public purpose economy feel pressure to define their workers’ productivity and to set compensation accordingly. But the value of the things they are producing – from environmental quality to day care, from prisons to trade agreements – usually isn’t defined by a price tag, and is normally hard to quantify. Given the contemporary mood, which holds up market pricing as the best gauge of all value, this puts the public purpose economy at a disadvantage, not only in its employment policies, but in many other ways.

Nor is volunteering the solution to this dilemma. That approach copies what appears to work in the core economy, by replacing a money exchange with rewards that may be thought of as a sense of purpose, or meaning, or human value. Indeed, there is much satisfaction in being needed, in doing for others the things that make human life possible and worth living. However, there are several problems in the relationship between the volunteer and the recipient of volunteer help. One problem is that the volunteer earns (and may even depend on) a kind of moral superiority, precisely because the relationship is set up on the assumption that nothing is given in return. The recipient, at the other end of this one-way relationship, loses dignity and self-respect when the role is understood as *only* that of recipient. And even the most morally superior volunteers can burn out if they feel they are only giving, never getting.

The more obvious problem with volunteering is that not everyone can afford to give their time for free. Relatedly, public purpose organizations often pay lower than the going market rates precisely because they recognize that people are attracted by the psychic rewards. Since wages are, in fact, not only set by “marginal revenue product”, but are also strongly affected by norms, the tradition of paying government and non-profit workers below what they might expect in the market can set up a vicious cycle, in which low pay attracts not only idealists but also people with low skills or motivation, thus providing examples of poor performance that can be pointed to, to justify the low wages. Anti-government sentiment in the United States is promoted in a variety of ways, essentially with the goal of moving ever more government functions into the private business sector where firms can profit from taking them on. This

anti-government sentiment is reinforced when people can point to the poor response they have received from underpaid, demoralized public servants.

How are workers in the **core** economy compensated? Partially, their work contributes to their own well-being and comfort. However, much of this work benefits people other than the worker (the sick friend or relative, the young child, the family members who eat meals they did not prepare, etc.). There is a growing literature on the “caring labor” that may be unpaid, as in the core, or else is usually underpaid, when it flows through one of the other economies. While markets value what is rare and specialized, human survival and human values derive from the basic, generalized skills that are built into our human nature. This – along with issues of relative power – explains the terrible paradox of economics: That the most critical activities of humankind are those that receive the lowest wage – or none at all. Thus, a money-skewed value system gives rise to a skewed definition of work. Raising children, strengthening families, creating safe neighborhoods, taking care of senior parents, and the various works of citizenship are defined, in money terms, as the lowest level of work – or not seen as work at all.

The values that are represented and nurtured in the core economy are often ones that are subscribed to by the public purpose economy; but the latter hasn’t been able to break out of the wage-equals-value mentality. As the public purpose economy allows itself to be judged by the standards of the private business economy it accepts a production mode in which workers are treated like factory workers, producing “public goods” that are supposed to be measured.

Part II. Dangerous imbalance among the three human economies

There are many ways of describing what’s wrong with our society today. One view is that the private business economy is dominating the other two economies to excess, and in unhealthy ways. The simplest, single way to describe why this is bad is to note the effects of corporate management pursuing short-term profit regardless of the cost to society, now and in the future.

Problems for society exist not only in the relations among the three economies, but also within the private business economy itself. These include concentration of power and resources, and destructive and demoralizing relations between owners of capital on the one hand, and workers and communities on the other. More broadly, there are powerful business actors that, significantly more than actors in either of the other economies, are creating massive, global externalities that seem likely to be destructive of human civilizations, human wellbeing, and ecological stability.

Concentration of market power in firms is a problem that has a well-known textbook solution: Governments should regulate industries to preserve the competitive character of markets, in order to maximize efficient use of resources and minimize costs to consumers. In cases where economies of scale make it inefficient to have more than one or a few firms in a given industry, then the monopolistic or oligopolistic firms must either be owned and managed by government, as representative of the people and their welfare, or strictly regulated so that they serve the public good without extracting excessive profits.

Comparing the textbook solution to today’s reality is laughable; over recent decades government bodies designed to regulate industry have been defunded, stripped of power by

changes in policies, and increasingly peopled by individuals who openly represent the interests of the industries they are supposed to regulate.

There is not, by contrast, a standard textbook solution to destructive relations between corporations and their employees or neighbors. These malign relations include norms of compensation such as the grotesque differential between compensation paid to workers and that received by CEOs. They also include norms of decision-making about layoffs as well as plant locations and closings that are entirely based on calculations of profit, without consideration for human impact. These issues are not covered in standard economic discourse (as exemplified by mainstream “neoclassical” textbooks), since they are outside of the assumptions of competition, which is supposed to result in “fair” compensation (i.e., wage = marginal revenue product). More broadly, neoclassical economics has depicted the market economy as a free-standing entity, neither affecting nor affected by its social or its physical environments.

Some types of corporate malfeasance occur where the major harms are created in the course of the production process. Examples include manufacturing systems where competitive pressure in the absence of offsetting norms or regulations result in terrible abuses of workers; or various extractive industries (e.g., mining, and other competing uses for land) where an industry (often with the backing of foreign money and power) takes control of land and resources through violent means. There are other cases where the main harm is caused by the product itself; for example, the financial industry, which created complex financial products that were a major cause of the crash of 2008. This example is of special interest, because such a large proportion of global financial capital is tied up in the financial system, where it is most often not producing any real goods or services, but is simply enriching a small group of individuals, contributing to growing wealth inequality around the world.

These bare descriptors – unproductive uses of capital, and growing inequality – point to a host of deep social ills related to incentives and value systems in the private business economy that promote anti-social, anti-future behavior.

The global externalities created by the private business economy may be called meta-externalities, insofar as they emanate from – and ultimately affect – the whole system as well as individual actors in it. **Meta-externalities are unwanted side-effects of the whole economic system on its physical and social contexts** – side-effects in which the economic culture fouls its own nest, if the “nest” is understood broadly as all the contexts in which we humans live. They include the social ills of inequality and anti-social behavior, as well as the environmental disasters of global climate change; depletion of stocks of fish, forests and other biota; depletion and/or degradation of fertile soil and clean water; and the toxins and nonbiocompatible wastes that are building up in huge quantities throughout all the Earth’s ecosystems.

The totality of the contexts in which we humans live are also the contexts that, for better or worse, create the conditions for future economic endeavors. A business woman commented to me, “when you talk environment, I think supply chain”. She could also think “customers”, since global conditions affect global economies, hence people’s wealth and their ability to make purchases.

Consider the incentive structure for a producer of oil or gas. Their short-term interest is obvious: at any time, they will maximize profits by putting off the transition to a time when less

of their products are used, overall, due to increased efficiency and conservation – that is, by putting off the transition to the post-carbon world of solar, wind, tidal, hydro and geothermal energy. In the meta-context, the longer the world relies on carbon fuels, the worse will be the effects of climate change. We no longer need to stretch our imaginations very far to look ahead to environmental refugees, hunger, poverty, sickness, and war. These things are seriously bad for business. (Almost all business, that is; there's always someone who can make a killing from disaster.)

Considerations of this sort are the crux of the shareholder engagement activities I have been involved in, with many others, over recent decades: trying to persuade the directors of oil companies, in particular, that they are so seriously fouling their own nest – the world – that they will suffer not only losses but serious retribution. The requirement that is emerging from macro disasters, like global recession or climate change, is the need for investors to think systemically about how business in general is affecting the world of the future. Unfortunately, such shareholder activism has had minimal impact on most of the targeted companies. While public opinion in general is beginning to connect the dots between corporate selfishness and social/ecological problems, still, in the short term, while the music is playing the CEOs continue to dance, arrayed in their huge profits.

Of course, not only the private business economy and private actors are implicated in the terrifying meta-externalities of the 21st century. While the private business economy is the basic source of these meta-externalities, consumer behavior in the core economy has carried out much of the private business agenda, while corruption in government has failed to block it.

It is normally in the core economy that human values, such as concern for others, and for the future, as well as biophilia (as described by E. O. Wilson), are developed. Unfortunately there is a feedback loop between private business and the core, wherein the formation of values is strongly affected by the omnipresence of commercial images of what to admire (the richest person, the most extravagant life-style) and what to strive for (material possessions, and status that is closely tied to ownership of things). The replacement of thrift with conspicuous consumption, and of concern for integrity with concern for winning, are examples, in the cultural context, of meta-externalities that emanate from the economic system we now have.

From a sales point of view, the short-term self-interest of business is served by a consumer-oriented culture of instant gratification and simplified thinking that urges material purchase as the answer to any discomfort. Sales are increased through advertising that promotes selfishness, short-term thinking, cynicism, and impatience with complexity. Responsibility is not high among the values that look cool and appealing in modern advertisements; but productive enterprises need a workforce that can defer gratification, think creatively, and be honest and responsible. This is the cultural nest that is being fouled by businesses that ignores the fact that consumers and workers are mostly the same people.

The public purpose economy has also been corroded by private business dominance. I have mentioned, and other papers in this collection will give more attention to, the unfortunate results of governments and non-profit organizations striving to look more like players in the private business economy – for example trying to base all decisions on monetary cost/benefit calculations, requiring an attempt to quantify unquantifiable inputs and outcomes. At the same time, the ability of governments, in particular, to fight back against corporate overreach has been severely reduced by the defunding, policy changes, and personnel issues mentioned earlier.

For much of history, humans lacked the power to overstep nature's limits; in those instances where, for example, destruction of soil fertility doomed farming systems, those civilizations simply disappeared, leaving no obvious record of what had gone wrong. Over recent decades, however, as even establishment groups have joined a virtually unanimous scientific community in warning that global climate change is likely to be the worst environmental crisis ever faced by humanity (e.g., the 2006 *Stern Review* on the Economics of Climate Change), ignorance can no longer explain the failure to take appropriate action. Just as the tobacco companies successfully fought for 30 years to hide the health effect of their products, the fossil fuel companies have known since the 1970s about the disastrous climate consequences of continued use of their products; yet over several decades they mounted a successful campaign to confuse the public about this subject. Other examples abound, of corporations continuing to market products whose overall effects are far harmful than beneficial. Many sugary food additives, agricultural chemicals, and chemicals designed for other uses, fall into this category.⁸

Reasons for and against hope in the core and public purpose economies

There was a time when labor unions were seen as the “countervailing force” that could hold up the social good against corporations. The size and power of unions has dwindled throughout the world, to where they no longer seem capable of providing an adequate balance. The obvious alternative is governments. It is often difficult, especially today in the United States, to be optimistic about this. The perversity of U.S. government priorities can be seen in the fact that, as U.S. infrastructure continues to deteriorate, and unemployment continues to plague the very workers needed to bring it back to a reasonable state of repair, public investment in infrastructure is flagging. As a share of GDP, U.S. public expenditures on infrastructure had a brief spike due to investment funded by the American Recovery and Reinvestment Act of 2009. Since then, however, infrastructure investment has fallen to its lowest levels since peaking in the late 1970s. At the same time – another example of perversity – fossil-fuel subsidies by governments around the world total about \$500 billion per year, while subsidies for renewable energy are significantly less – about \$120 billion.

In spite of huge vested interests in the economy that have brought humanity to the brink of ecological and social disaster, and that continue to motivate such distortionary policies as just mentioned, the energy transition is gathering steam. The capture of governments by private business is not yet complete, and must be reversed if the necessary changes toward more sustainable production and consumption are to take place. Because so much of the capital stock and infrastructure of modern economic systems are based on fossil-fuel energy use, a speedy transition from fossil fuel dependence will require massive restructuring and new investment. While private businesses are already playing a role in this process, as the price of sustainable energy sources drops relative to fossil fuels, at the same time appropriate government policies will also be essential to foster the transition.

A look at history provides some useful comparisons. In the early fossil fuel age government policies were necessary to motivate and organize the massive infrastructure changes required to move to a new energy system. Pipelines were laid and roads for automobiles were

⁸ According to *Drawdown*, edited by Paul Hawkin, the replacement of atmosphere-harming refrigerants with available alternatives is the most important single step that can be taken to reverse our march towards a dangerously warmed climate. However until recently the chemical lobby in the U.S has stopped the EPA from approving natural refrigerants for sale.

constructed, with gas stations at convenient intervals. A massive electrical grid was built. Private investments played some important roles, but they would have been too risky without government standards setting – for example, deciding what kind of electrical current would be the norm, so that the manufacturers of lamps, fans, and other appliances could know that their products could be plugged in anywhere.

Similarly, today there are critical roles for government, well beyond the re-allocation of subsidies. Because of the increasingly short time-horizon of private business investment, governments will also often have to take the lead the way on innovation (see Mazzucato) to come up with critical solutions. More prosaically, utility companies must be restructured so that they can deal with receiving energy from a wide array of producers, some as small as rooftop solar from a single home. Electric transmission systems need to be upgraded or built to accommodate new power plants including wind and solar farms, and to reduce losses in transmission. Smart grid technologies are needed to manage electricity supply, demand, and usage in real time.

Just as early 20th century governments needed to set standards for a variety of aspects of the new age of electricity, they now need to help in defining, for example, what can be considered a renewable energy source. Powerful interests have urged governments to mandate the use of corn ethanol as a “renewable” source of energy. So it is, in principle, but the energy required to produce corn ethanol is about equal to the energy obtained, while the expanded acreage put under corn monocrops draws down on the resource of soil fertility and competes with other uses for that land. Other profit-driven interests, in Europe even more than in the US, have lobbied to have the burning of wood pellets and other forest products labeled “carbon neutral,” because over time trees can be regrown. However, electricity produced by burning wood releases 50% more carbon dioxide than coal, and there is no assurance that forests will be regrown. Environmentally-oriented economists stress the importance of “getting the prices right” as a way to internalize negative externalities: It is equally important to get the regulations and the definitions right.

If the federal government, at least in the United States, seems to have lost much of the battle to uphold the public good against corporate interests, we can see pockets of resistance in some lower level, especially municipal, governments, where, sometimes with the help of the non-profits such as CELDF (Community Environmental Legal Defense Fund), ordinances are being written prohibiting fracking, injection wells, factory farms, pipelines, GMOs, water extraction, and dumping of toxic wastes (dumping is a surprisingly profitable business⁹); while towns are making their own plans to reduce pollution and the release of greenhouse gasses.

At the same time, there are broad social movements which provide some reasons for hope – movements that, in the “three economy” terminology may be seen as a rising up of the core economy to take a much larger than usual place on the public stage. Examples include recent protests by women and their allies against sexual and related power abuses. These core sector activities are increasingly hard to distinguish from the not-for-profit world, which continues to fight back against corporate power, especially where it attacks society’s ability or willingness to resist such looming dangers as climate change. Other non-profits protest health-harming products such as over-sweetened beverages and a wide variety of chemicals, as well as methods of production that are harmful to human and ecological health. To give just a few examples:

⁹ This is part of the externality economy, mentioned in footnote 1.

- Corporate Accountability began by instigating consumer boycotts against Nestle's aggressive promotion of breast-milk substitutes in developing countries, which was causing infant malnutrition and deaths, and has gone on to campaign against the privatization of water, among a number of other corporate encroachments on human well being.
- Ceres had its start in developing the Valdez principles, after the Exxon Valdez oil spill, and continues to work with investors to motivate companies to sign on to good environmental standards.
- The Center for Responsive Politics reports on lobbying activities by industries, with the top spenders being pharmaceuticals and health products, followed by the insurance industry, electronics manufacturing and equipment, and oil and gas.
- A newer, smaller organization, Mothers Out Front, has mobilized parents and others who care about the future to locate methane leaks (there are over 3,500 in greater Boston), and to hold the relevant companies accountable for stopping them.

Many more examples could be cited, around the world as well as in the United States (which is among the countries with the highest concentration of non-profit organizations). Nevertheless, clearly throughout most of the world money and power are strongly tilted towards people and corporations that have been enriched by the private business economy. What, then, can we hope to do against the excessive dominance of the values of private business mentality, and the spread of that model of behavior?

The value question is the most fundamental; that means we need to think about culture – how it is shaped, and where. I have suggested that the essential locus for this is the core economy; however, insofar as most schooling is still controlled by the public purpose economy, formal education is a critical component. One aspect of education, to which I have devoted twenty-five years of work, is the matter of what is taught to the large proportion of college students who take one or two economics courses (substantially larger than the number who go on to major in the subject). Educational materials created at the Global Development And Environment Institute at Tufts University¹⁰ seek to give students a more realistic understanding of how the private business economy actually operates, and how it interacts with the other two economies. In addition to the need for better – more realistic, less ideological – education in economics, there is a wide variety of other areas where values are learned. Just to mention one, good materials have been written about the need for educating young children about the blandishments of the market, to help them to critically evaluate messages that overtly or subtly say that happiness is to be achieved through purchases.

In addition to coming at these issues through cultural and value change, structural change is also needed. The most obvious problem here is the political structure that allows those in possession of large concentrations of money to use it to influence who gets elected to government positions, and what policies are put in place by those in office. The Citizens United judgement in the United States is the most clearly pernicious part of this malformed structure, but there are many other features, such as the revolving door through which government officials can look forward to becoming highly paid lobbyists, or the features of the electoral system that make it so expensive to run for office.

¹⁰ *Environmental and Natural Resource Economics, Microeconomics in Context, Macroeconomics in Context, and Principles of Economics in Context* are textbooks published, in the most recent editions, by Routledge Press. Additional educational materials for students of economics, or those in related fields who seek an economic perspective, are to be found on the website <http://ase.tufts.edu/gdae/>.

The need for change in the private business economy

History suggests a variety of paths that the private business economy might have taken to find a more benign place in its social environment. Cooperatives, unions, and even a more-or-less observed code of *noblesse oblige* among the owners of capital, have offered alternatives or push-back to corporate management pursuing short-term profit regardless of the cost to society. There have been times when businesses and the rest of society have had some awareness of a compact in which firms are allowed to make profits so long as they actually produce for the public good. Long ago this was formalized in terms of charters, originally given to companies by royalty, then conferred by states in the U.S.. Corporations are still required to have a charter to operate, but it has been a long time since anyone took this seriously, or proposed revoking charters for businesses that do more harm than good. A small “rechartering” movement has emerged from time to time, suggesting that all corporations should have a periodic (perhaps every 5 or 10 years) review of whether their charter should be renewed – or not. A model for such a review might be found in the periodic recertification required for colleges and universities.

Imagining movement toward basic structural change, we can recognize a variety of alternatives to the current corporate model, which is dedicated to profit as the single goal. Such imagining would see cooperatives as a growing option, along with other forms that are designed, from the start, to recognize externalities and to serve public well-being, while also earning enough income to survive. Paven Sukhdev, in his book *Corporation 2020*, cites as examples the Tata Corporation in India, Banco Santander in Brazil, and the early Ford Motor Company in the U.S. A number of non-profits are coming from the other direction towards such a possibility, as they find ways to support their essential mission through earned income, while keeping income-generation secondary to the mission. (Not all have succeeded in maintaining these priorities.) Given the existing pressures on corporations to respond to their shareholders’ desire for profits, Sukhdev emphasizes the need for governments to promulgate new rules, which “could be in the form of regulations on disclosing externalities, new taxation structures, revised standards on advertising practices, laws to register new corporate forms such as B corps, and checks on lobbying, to name a few” (p. 203).

No single corporation has the major responsibility for the global bioload of toxic wastes or the changing climate; they come out of the whole system. How can each company be persuaded to pay its share? An important legal case is being tried in Germany, regarding a Peruvian farmer’s claims against the German energy (mainly coal) giant RWE, regarding climate change damage in the Andes.

“[Farmer Saul Luciano Lliuya] argues that RWE, as one of the world’s top emitters of climate-altering carbon dioxide, must share in the cost of protecting his hometown Huaraz from a swollen glacier lake at risk of overflowing from melting snow and ice. RWE’s power plants emitted carbon dioxide that contributed to global warming, increasing local temperatures in the Andes and putting property at risk from flooding or landslides, Lliuya argues.”¹¹

The case rests on evidence that RWE is responsible for 5% of the climate-affecting gases in the atmosphere; therefore it should pay 5% (approximately \$20,000) of the cost of shoring up

¹¹ Reported in *The Guardian* from Agence France-Presse, Thu 30 Nov 2017.

the dam to protect the town now at risk. A somewhat similar case is being proposed in Massachusetts, where a town asks ExxonMobil to pay for the cost of protection against the harm that will ensue if rising sea level damages the plant that the company installed there several decades ago.

Conclusion – a possible future

The need for reform is huge – seemingly overwhelming. Yet the motives for reform are springing up all over the place. Maybe this is a moment to be a Pollyanna, rather than a Cassandra: Yes, we face disasters on every front – political, environmental, social – but, as was long ago remarked, nothing so concentrates the mind as the prospect of hanging. The public purpose economy is staggering under the need for reform in education and politics, while the core economy is suffering from the lack of decent, secure jobs in a market economy whose inequalities belittle all but the very few who can think of themselves as the winners. No one believed Cassandra, but today there are many who know we face multiple disasters; probably most readers of this article are already suffering from *Pre* Traumatic Stress Disorder.¹²

Well, you're not alone; there's a gathering tide of despair morphing into activism. The time may have come to be, if not exactly cheerful, at least grimly determined, knowing that you are in good company. If we, individually and together – economists, as well as parents, women in general, and all people who care about the future – recognize the deformation of the private business economy as a central piece of dangers facing us, we will be better able to know where to direct our actions.

And, of course, if the three human economies can't reorganize themselves to respect limits, then the outcome will be decided by the economy of nature. One way or another – by design or by disaster – there will be dramatic shifts in the coming decades in the relationship between the human economies – especially that of private business – and the natural world. Changes in patterns of production, consumption, and the use of energy and natural resources will either be adopted by plan or be forced upon us. It is also to be hoped that these shifts will entail some potential for changing the allocation of what society produces – “who gets what.” If this opportunity to move toward a less unequal distribution is wasted, the life-style changes that are necessitated because there is less available to consume will largely be in terms of reduced well-being among the poorest members of society.

Millions of participants in the creation of all the human economies – from international organizations to households, from national to municipal governments – are seeking the roles and outcomes that suit them or that they believe in. During the period of enormous transition that we face, sizeable segments of the U.S. workforce are in a state of anxiety or despair over job uncertainty or unavailability, and the country's democratic traditions are under severe stress from the capture of government by private business. All of this is the backdrop to responses that will be required to meet the costs of climate change that we are not managing to avert. Rising prices of energy and materials, but not of human labor, are likely to mean a continuing trend toward more service-sector work. To me as an economist, all of this spells lower wages, which means less purchasing power for workers. Some people believe that

¹² This term seems to have been coined simultaneously by Carolyn Raffensburger and Thomas Homer-Dixon.

smarter technologies will keep the relation between production and wages at least stable, but it is clear that there are environmental reasons why the high-consumption lifestyle of the United States is unsustainable anyway. For this country all indications seem to point in the same direction: to a future with less stuff per household. If this is inevitable, we might as well make the best of it: reducing our consumption – by choice or necessity – as we reduce work hours and take-home pay, while increasing leisure and well-being.

Let us, then, imagine ourselves at a time where the major elements of the transition to a post-carbon economy have taken place, along with significant institutional experimentation and reform, and we have settled into a less turbulent period. What might it be like?

If corporations have not managed to redesign themselves to be oriented toward the promotion of human well-being, then the corporate form will have been replaced with other modes of production: co-operatives, local trusts, various not-for-profit organizations, and perhaps other forms not yet discovered. A strong revulsion over the degenerate form of a now decaying civilization could result in the creation of clean governments that have not been captured by corporate interests but are devoted to the good of the people. A renewed and reinvigorated public purpose sector could seriously address inequality and global as well as local poverty.

The throw-away society that developed in the twentieth century has externalized huge costs onto the environment and the people of the future. Long into the future humanity will still be picking up these costs; less figuratively, they will probably still be picking up our trash. They will not be using plastics because these end up in the oceans, where they are ground into non-biodegradable fragments; they will be using wood sparingly in order to allow forests to regenerate; and will replace most chemical fertilizer with intelligent farming systems that rebuild the soil. All of these choices will come with a sizeable shift in prices, with some important materials relatively more expensive than now. The era of expensive energy may, in the most optimistic scenario, give way to one in which solar and other clean sources have become easily abundant, and cheap; but the lessons of frugality and of how to live a better life with less work, less income, and less stuff will have been learned.

The great realization, which could in the present time become a groundswell of hope and cooperative activity, is that, badly as we humans have treated the planet, all is not lost. Efforts at ecological restoration working effectively here and there – in forests in Brazil and Finland, in farms in the U.S. and South Africa, in botanical gardens and parks in Hong Kong and Canada – are showing that nature responds positively to intelligent efforts at restoring ecological quality. Many such efforts include in their positive effects the ability to store atmospheric carbon in soils, plants and water – providing a significant boost for efforts to keep the warming of the planet within less-than-cataclysmic bounds. Ecological repair activities are sometimes based, at whatever remove, on modern science, and sometimes on older knowledge, often that held by indigenous peoples. There is a growing move towards global expansion and sharing of all knowledge about what works to rebuild the health of soils, waters, forests, and even the ecosystems coincident with cities. Not all that has been lost can be regained, but almost everywhere it is possible to recover some degree of ecosystem functionality and resilience.

This is a hope for the future that will necessarily engage all three economies working together. Governments will need to create supportive regulatory environments. As it becomes increasingly clear how much money can be saved, and earned, by restoring the natural capital on which humans and other species depend, actors in the private business as well as

the public purpose economies will be motivated to invest in ecological repair. As the evidence grows for the strong positive linkages between human health and well-being on the one hand, and healthy ecosystems on the other, individuals, families and communities in the core sector will take pleasure in participating in local restoration activities.

As new and rediscovered knowledge makes ecological remediation, regeneration and restoration increasingly possible, such work is arising as the most positive opportunity for reversing some of the negative trends of the modern era. It seems not unreasonable to hope that, as all of the human economies move together to work on recovering the balance of human and natural economies, the three human economies will also find opportunities and means to redress the balance among them, reducing the now-overwhelming pull of the profit motive, and better aligning them all toward human well-being and ecological health.

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