

## CHAPTER 10

### COMMENTS ON CHAPTERS 1-7 AND 9

#### 10.1 INTRODUCTION

In chapters 1-7 and 9, I discuss only how the conditions in the Industrial Society are affected by how the economic system is in this society. These chapters are therefore so closely related that we may say that they form a unit. In this chapter, I point out and comment on what I consider to be most important in this unit.

##### **This chapter is written for two groups of readers**

Two groups of readers may find that it is useful to read chapter 10.

*The first group* are people who have read chapters 1-7 and 9. I hope they will find that chapter 10 is useful as a repetition of these chapters.

*The second group* are the new visitors to this webpage. In the presentation of the book, I suggested that they should do this to find out if they would like to read it: read the introduction and skim through chapter 10.

I also wrote that they probably would understand most of chapter 10. An exception to this is section 10.3. To understand that section you probably need to be an economist or to have read sections 4.3 and 4.4.

##### **What kinds of conclusions are drawn in the book?**

The conclusions drawn in this book are mainly conclusions of the following type:

If the Industrial Society goes over to “the alternative system”, then this will create opportunities to improve the conditions in that society.

Whether going over to “the alternative system” will lead to better conditions depends on what policies are conducted in the Industrial Society after the transition. (More on this in section 7.6).

#### 10.2 THE MOST IMPORTANT CONTRIBUTION IN THIS BOOK

One of the conclusion in this book is:

“A country must use means that solve *its own* economic problems without creating economic problems for *other* countries.”

I consider this conclusion to be my most important contribution in this book. Without having had the idea that led to this conclusion, I would not have been able to have come up with the alternative system that satisfies these requirements:

The system should make it possible to get rid of the five problems.

They should not use either the North Korean or Soviet Union’s way to achieve this.

The fundamental reason that it is not possible to get rid of the five problems, as long as we keep the current economic system, is that the following economic mechanisms exist in the current system:

The individual country is forced to try to solve its problems by winning an international competition for being an attractive location for trade and industry and to have a good ability to compete. It is this competition that makes it necessary to satisfy the six requirements for equally good framework conditions and it is the necessity of satisfying these requirements that makes it impossible to get rid of the five problems.

This economic mechanism that is described here is the reason why it is impossible to get rid of the five problems. Hence I concluded the following:

The mechanism has to be removed if we are going to be able to get rid of these problems. It can be removed if the individual country switches over to using means that **do not** lead to competition between countries over being an attractive location for trade and industry and having a good ability to compete.

In order for the conclusion to not just be a contribution to economic theory, but rather to also be of practical interest, it must be possible to find means that fulfil the requirements that are mentioned in this conclusion. In chapter 3, I have explained that this is possible. “Control over capital transfers” and “devaluation packages” are important key points in this regard.

## 10.3 DEVALUATION PACKAGES

A devaluation package is the combination of:

*a devaluation* that does not make Norwegian prices rise faster than foreign prices and

*one or more measures* that weaken Norway’s ability to compete by as much as the devaluation improves it.

The British economist, John Maynard Keynes, wanted to prevent devaluation being used as a means of improving competitiveness. I follow him on this, but not in the way in which he wanted to do it. In his plan from the early 1940s, he proposed that countries should not be allowed to devalue (c.f. section 7.4). I will allow countries to devalue. But I will require that if a country devalues, it also has to do something that worsens the country’s ability to compete.

The devaluation packages are based on the principle that “a country must use measures that solve *its* economic problems without creating problems for *other* countries”.

## 10.4 THE IDEA THAT TAXES SHOULD BE INCREASED SIGNIFICANTLY

The most important difference between “the ideas that are the basis of market liberalism” and “the ideas that ought to be the basis for an alternative to market liberalism” is sometimes described in the following way:

“The ideas which are the basis of market liberalism” are that an individual is mainly concerned with what benefits him and that there is nothing wrong with that.

This ought to be the ideas which are the basis for an alternative to market liberalism: people have an ability to show solidarity and the alternative should be based on this ability.

What follows is an important part of how the ability to show solidarity should become apparent in the alternative to market liberalism:

People have to be willing to pay higher taxes. Higher taxes are necessary if the incomes of the authorities are to become so large that they can make sure that the most vulnerable groups of society live under acceptable conditions.

## 10.5 THE SUBSIDIARITY PRINCIPLE

The *subsidiarity principle* says that a political decision should be made at the lowest level it can be made on without setting aside important considerations. (Some readers may find the expression “at the lowest level” unclear. I hope that the three examples which follow will clarify what is meant by this expression in this book).

### The first example

Let us imagine that a road is to be built in a Norwegian municipality called Dalen. Mainly the people living in Dalen will use this road. To illustrate the subsidiarity principle, I assume that the road’s route is to be decided either by the municipal council in Dalen or by the Ministry of Transport. There are in that case good arguments for letting the municipal council make that decision.

Firstly, there are strong reasons to believe that the members of the municipal council have a better knowledge of the conditions in Dalen than the Ministry of Transport’s employees. This makes it likely that a better route will be chosen by the members of the municipal council.

Secondly, the shorter the distance is between “those who are governing” and “those who are governed”, the better the chances that the decision to be made will be a democratic one. In this case, it is the people who are going to use the road that are “the governed”. The distance between them and “those who govern” will be shortest if the members of the municipal council choose the route<sup>14</sup>.

### The second example

Apart from very primitive societies that cannot be a model for most of the world’s population, each society of the size of a Norwegian municipality needs products that are not produced in that municipality.

It will not be advantageous for the people living in Dalen if that need is satisfied by letting all businesses in the world sell their products there. That will make the development in Dalen very

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<sup>14</sup> In The Brazilian town of Porto Alegre, the use of something called *participatory budgeting* has been initiated. This involves the following:

Public meetings are arranged in various parts of the town. At these meetings, topics where priorities have to be made are discussed in the municipal budget. Those present can help decide which areas should be given priority. This is decided either by voting at the meeting itself or by delegates being elected who will at a later stage participate in making the priorities.

A number of other towns, especially in Brazil, but also in other countries, have started using participatory budgeting.

Transitioning to the alternative system that is outlined in chapters 3-6 will make it possible to improve the financial situation of the municipalities. Such an improvement will increase the advantages associated with participatory budgeting.

(Source: Einar Braathen: “Deltakerdemokrati: hvorfor, hvordan? (Participatory democracy: how and why?)”, *Utveier nr. 5 2004*.)

dependent on decisions taken by people who are not interested in how their decisions affect the people living in Dalen.

This problem cannot be solved in the following way: the people in Dalen establish “a border between Dalen and the rest of the world” and control the trade over that border.

It will be very unrealistic to assume that this can be done. But as far as I can judge, the problem can be solved in an acceptable way if there is a border between Norway and the rest of the world and Norway control the trade over that border. Norway’s population is so large that Norway can do this without having to use a considerable share of all Norwegians to do it.

Because Norwegian authorities are able to solve the problem discussed above, they should be the ones who do the solving. The advantages of having the shortest possible distance between those governing and the governed, is an argument against letting the problem be solved by international bodies.

### **The third example**

Some problems are of a nature which means that they cannot be solved nationally, but only through international co-operation. The most important examples are the global environmental problems.

## **10.6 ARGUMENTS FOR KEEPING THE NATION STATE**

In recent years, the freer flow over national borders of goods, services, capital and labour has made the nation state less important than before. Many think that this development both should continue and will continue.

In the following, I describe three arguments against this view. These arguments are more thoroughly explained in other parts of this book.

### **The three arguments**

#### *An argument based on organisation theory*

The municipalities are economical units that are too small to make it possible for a municipal council to get rid of “the five problems in its municipality”. Most of this job must be left to authorities at a higher level.

Suppose that all decision-making power that the nation states have today is transferred to a government for the Industrial Society. Several conditions suggest that this government will not be able to ensure that the industrial countries get rid of “the five problems”. “A heterogeneous society”, “a complicated society” and “a society in which business life is changing constantly” are keywords for some of these conditions. (More on this in section 7.6).

This indicates that at least one level of decision-making will be needed between the municipalities and the government for the Industrial Society. This level does not have to be the nation states, but they are probably a sensible choice because they already have institutions for governance.

This is a possible argument against giving the nation states an important role in the governance of the Industrial Society’s economy: if the nation states govern, there will then be competition between countries to be the most attractive one for the localisation of businesses. Competition like this will make it impossible to get rid of “the five problems”. (c.f. chapter 1).

This problem can be avoided by requiring that “a country must use measures that solve *its* economic problems without creating problems for *other* countries”.

#### *The democracy argument for keeping the nation states*

There are probably many people who want the organisation of the Industrial Society to be democratic at least to more or less the same degree as the countries of Western Europe are democratic now. It can be argued that this goal can be reached only if the nation states are kept. (See appendix E which is an excerpt from the article “Global Capitalism and National Democracy” by Professor Øyvind Østerud.)

*The identity argument for keeping the nation states*

Many French people feel that being French is a part of their identity. Many Dutch people feel that being Dutch is a part of their identity, and so on. This is an argument for keeping the nation states.

## 10.7 “THE MAIN PRINCIPLE FOR THE IMPORT OF SERVICES IS THAT NORWAY SHALL NOT IMPORT SERVICES”

I reason as follows:

The less Norway imports from the other industrial countries, the less Norway is dependent on the other industrial countries.

The less Norway depends on other industrial countries, the faster Norway can get rid of “the five problems”.

Therefore I conclude:

the less Norway imports from the other industrial countries, the faster Norway can get rid of “the five problems”.

In section 4.3, I give more thorough argumentation for the conclusion.

The above conclusion is the basis for the following rule in “the alternative system” for Norway:

the main principle for import of services is that Norway shall not import services.

(More about this rule and the exceptions from it in section 2.4).

## 10.8 GUARANTEED JOBS

Guaranteed jobs are a measure, which according to the discussions in sections 5.2 – 5.7 will lead to this: unemployment becomes much lower and more work that is useful for a society is accomplished.

After guaranteed jobs are established, this will be the situation for most of the people who are unemployed: a guaranteed job that they can get exists and this job is so close to their home that it will not be necessary to move if they decide to take the job.

Here are some other advantages that a guaranteed job can offer a person who has become unemployed: they can start the job right away and cannot be fired, but may quit at a short notice. The wage is higher than what they would get from receiving unemployment benefits.

But a guaranteed job has one disadvantage that can motivate, and which is meant to motivate a person who has such a job to search for an ordinary job: the wages for guaranteed jobs are lower than the wages for ordinary jobs.

The guaranteed jobs are not meant to “squeeze out” ordinary jobs. Thus, they are not used to do the most highly prioritised tasks in the public sector. Instead they are used to do work, which has a lower priority, but which is nevertheless desirable to get done.

Extensive use of guaranteed jobs will lead to large expenses for the state. This means that public sector poverty makes such use impossible under the current economic system. But because public sector poverty can be reduced under the alternative system, extensive use of guaranteed jobs is possible under that system.

## 10.9 THE REQUIREMENT FOR EQUALLY GOOD FRAMEWORK CONDITIONS

### Introduction

In the unit which consists of chapters 1-7 and 9, a large number of theories are presented and a large number of conclusions are drawn. There are probably many readers who find it difficult to get a clear overview of all these theories and conclusions.

The purpose of this section is to contribute to such an overview by drawing attention to a topic which plays an important role in almost all chapters in the unit. The topic is the requirement for equally good framework conditions.

### An overview of chapters 1- 7 and 9

#### *Chapters 1 and 2*

Chapters 1 and 2 deal with the current economic system in the Industrial Society. Here is a summary of the contents:

In the current economic system, there is to a great extent free flow of goods, services and capital between the industrial countries.

A consequence of this is that if a country is to avoid increasing unemployment it must be competitive and attractive for the localisation of businesses. This leads to competition between the countries where each country tries to ensure that the framework conditions for their businesses are at least as good as the framework conditions for other countries' businesses.

Because a country's authorities must make it a priority to avoid the country losing this competition, it is impossible for these authorities to get rid of "the five problems".

#### *Chapters 3-6*

Chapters 3- 6 deals with an alternative economic system for Norway. When I developed this system, one of my goals was to find a system that could make it possible to avoid "the five problems". The problems cannot be avoided unless Norway frees itself from the requirement for equally favourable framework conditions for Norwegian and foreign businesses.

#### *Chapter 7*

Chapter 7 deals with an alternative system for the Industrial Society. When this system was developed, I used that I had arrived at in chapters 3-6 to a great extent. Because the requirement for equally good framework conditions plays an important role in those discussions, it also plays an important role in Chapter 7.

In Chapter 7 is shown that if the industrial countries go over to The alternative system for the industrial society, then it will be possible for the industrial countries to get rid of The five problems in a short time.

#### *Chapter 9*

Chapter 9 deals with an economic system for the Industrial Society that differs from the current system, because decision-making power has been transferred from national to international authorities. It differs from the alternative system for the Industrial Society because goods, services and capital can flow over national borders as freely as they can under the current system.

In chapter 9, it is argued that it will not be possible to transfer so much decision-making power from national governments that the following can happen: national authorities have so little decision-making power that the basis of the competition over framework conditions disappears.

If that competition remains, then it will be impossible to get rid of “the five problems”.