

## **A 21st-Century Burning Issue: Doughnut Economics**

**Over time, perception has shifted of what economics ought to represent and how it should be applied. In Kate Raworth's *Doughnut Economics*, a new paradigm is presented, meant to replace the prevailing neo-classical one. An introduction to this worldwide influential book and its background: could it be of interest to care ethics?**

Kate Raworth, economist at Oxford University's [Environmental Change Institute](#), focuses on 'exploring the economic mindset needed to address the 21st-century's social and ecological challenges.' In Raworth's view, economic ideas as taught in introductory courses in university, are centuries out of date. They ultimately lead to ever widening inequality and environmental degradation.

### **Economics as a Value-free Science?**

In neo-classical economics, humanitarian and ecological values often appear to some extent subordinated to economic values by 'the law of the free market'.

In Raworth's view, neo-classical economics hides its premises behind a facade of 'science'. Supposedly constructed on grounds of 'value-free' thinking, the value of 'utility' is hidden in its core. Standing economic ideas still have their roots in theories of the 1850s, when economics identified itself as based on strict laws, imitating the physical sciences.

### **Appropriations**

Throughout *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist*<sup>1</sup>, Raworth traces the steps of major basic models and assertions in economics, taking a normative stance. She convincingly shows how the main models over time have become distorted appropriations of the original ideas, leaving out much of the detailing and – more importantly – many restrictions to them. She outlines how the moral goals of economics have been replaced by views of economics aspiring to be a behavioural science. As economics was stripped bare of its moral goals, it was equipped instead with a distorted view of man as a mere calculating *Homo Economicus*, and infinite growth became its main goal.

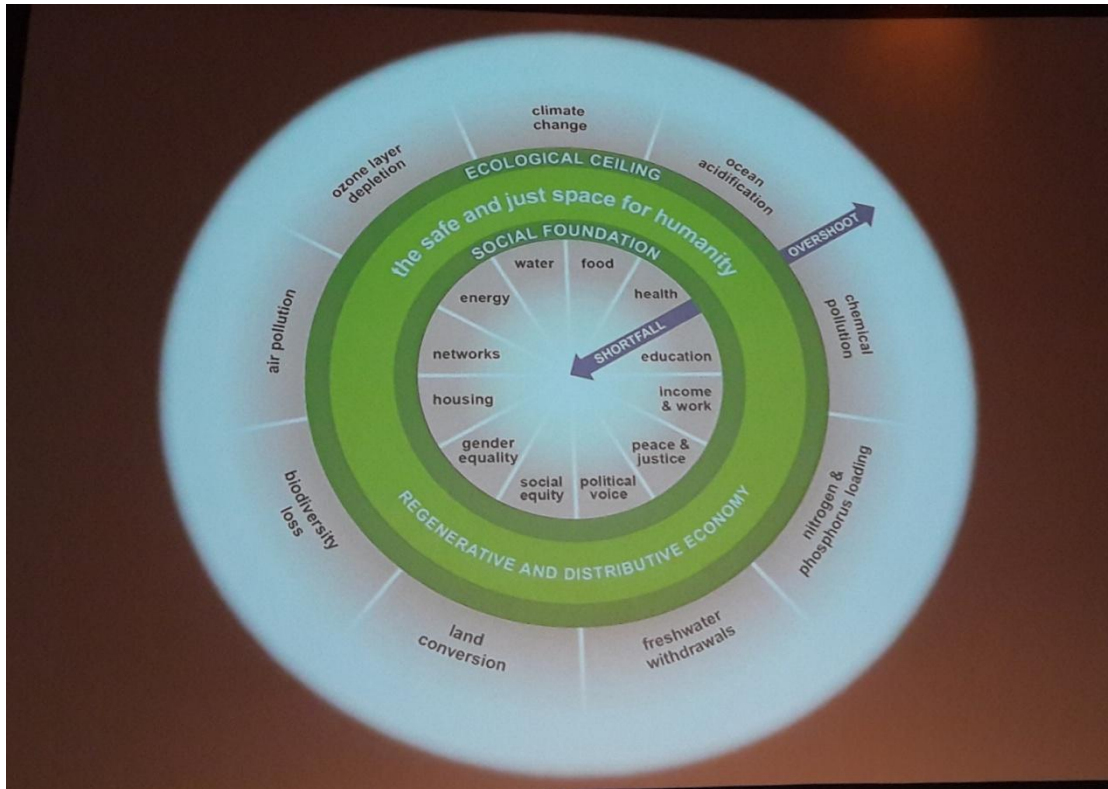
### **The importance of a new mindset**

Raworth emphasizes that economical theories are all-important in determining investments and public policy. They impact the way policymakers address global poverty, manage environmental issues and handle the 'refugee problem'. In Raworth's opinion, the classical economical dogmas, that create the problems of inequality and degradation, will not provide the solutions we need to solve these challenges.

Raworth takes on the challenge of formulating a more fitting approach to existing economics. She starts building theory bottom-up by putting humanitarian and ecological goals for the 21st-century center stage. Raworth points to the need to draw new, powerful pictures to replace the old ones, that have seized our view of economics. Her graphic model of the world takes the shape of a doughnut.

### **Creating the Doughnut**

The Doughnut consists of two concentric rings. The diagram of the nine planetary boundaries from the Earth system sciences, created in 2009 by [Johan Rockström, Will Steffen et al.](#), forms the basis for the outer perimeter of the doughnut-shape. The scientists identified nine processes as critical to the stable state of the planet for the past 10,000 years, that allows life to flourish. They defined the nine 'ultimate' boundaries necessary to avoid the risk of tipping the delicate balance in these processes by human activity, defining 'a safe operating space for humanity'. Overshooting these ultimate boundaries, that together form the outer ring of the doughnut, means the system by which life on the planet maintains itself, is seriously at risk.



The Doughnut of social and planetary boundaries (2018)

Raworth believes a far greater global equity should also be attained, if global sustainability is to be achieved. She added the concept of social justice and human rights to the picture. She defined the inner ring of the doughnut by taking the aspects considered necessary by all countries, to create the minimum living circumstances for a human to have a good life: food, clean water, housing and sanitation, energy, education, healthcare, income and work, access to networks and political voice, as represented in the [Sustainable Development Goals](#) (2015). Living in the innermost space of the doughnut is by definition a shortfall of these minimum circumstances, and means living in a state of deprivation.

Between the outer environmental ceiling and the inner social foundation a doughnut-shaped space remains, representing both the ‘ecologically safe and socially just’ space, which economics should help to create.

The major impact of *Doughnut Economics* is the realization that the economy has both a biophysical ceiling and an ethical social floor. It is clear, at this moment on Earth we are transgressing both boundaries of the doughnut in many places.

In creating the Doughnut and reframing economy, Raworth brings humanitarian and ecological values together into a single model, serving as a compass for steering economic values.

### Central challenge of the book

In a [recent debate](#) with economist Branko Milanovic, Kate Raworth points out: ‘Ending poverty and deprivation worldwide will lead to a significant increase in use of the Earth’s resources. The pressure of humanity on many of Earth’s life-supporting systems is already critical. There is a moral obligation for high-income countries as well as individuals to create circumstances that make it possible for others to lead lives free of deprivation but doing so within the boundaries of Earth’s life-supporting systems, which are fundamental to conditions for life to maintain itself. There is no evidence that any high-income country is decoupling its pursuit of endless GDP growth from resource use and ecological impacts on anything like the

scale required. The mainstream economic mindset – taught in universities and practiced in institutions worldwide – still fails to face up to this conundrum. Together these [...] claims create the central challenge of the book.’

### **Seven Ways to Think Like a 21st-Century Economist**

Raworth identifies seven ways, which she believes will lead to a Doughnut Economy.

***From Growth to Doughnut*** – Raworth criticizes neo-classical economics’ emphasis on unlimited growth and the inadequacy of applying GDP<sup>2</sup> as a first measure of economic progress. First of all, to Raworth, the striving for unlimited growth is impossible to maintain in the light of Earth’s limited resources. Furthermore, economic growth was not intended to be a marker for measure of wellbeing. Let alone on grounds of GDP, from which for many reasons the welfare of a nation can hardly be inferred.

It is an ambitious goal to create local and global economies in the 21-st century, that secure a ‘meeting of the needs of all within the means of the planet’. Going for anything less is not an option to Raworth: “This switch of purpose by itself transforms the meaning and shape of economic progress: from endless growth to thriving in balance.” (Kate Raworth, 2017<sup>3</sup>)

***To an embedded economy*** – Raworth redraws the Circular Flow Diagram, in which the major exchanges are represented as flows of money, goods and services between economic agents. This diagram usually portrays the economy as self-contained and self-sustaining. It is inevitable to see the economy as embedded within and dependent upon society, which in turn is embedded within the living world, says Raworth. She incorporates the household and the commons in the diagram. As the economy is also embedded in the environment, she adds to the diagram the flow of energy and waste – inconvenient realities until now defined as ‘externalities’ in economic theory.

Instead of looking to either the state or leaving the solutions to the companies and the market, the new model implies we are not just consumers and workers. As citizens, we can also act collectively, using the commons, the available technology and networks. And in this model the environmental issue can finally be addressed. “This new vision prompts new questions. For instance, just how big can the economy become, given Earth’s ecological capacity?” (ibid.)

***Nurture human nature*** – The neo-classical economics’ caricature of *Homo Economicus* – rationally maximizing utility as a consumer, and flawlessly calculating profit as a producer – is a very one-sided picture of human nature: “We are also reciprocating, interdependent, approximating people deeply embedded within the living world. It’s time to put this new portrait of humanity at the heart of economic theory, so that economics can start to nurture the best of human nature.” (ibid.)

***To a dynamic complexity*** – On the supply-and-demand-curve, Raworth commented in an [article](#): “[...] supply and demand, a criss-cross of two smooth curves representing the market in balance. This chosen starting point has far-reaching implications, implying from the outset that the economy is essentially the market, and that markets tend towards equilibrium. That’s two untruths in one sentence and not a wise way to begin.’

Thinking in systems, Raworth states, will change our view of the economy as a machine, of which we are able to predict and control the behaviour. Instead, we will look upon the economy as organic. We will need to embrace evolutionary thinking, to come to an adaptive kind of policymaking: “We have never had to deal with problems of the scale facing today’s globally interconnected society. No one knows for sure what will work, so it is important to build a system that can evolve and adapt rapidly.” (Elinor Ostrom<sup>4</sup>, 2012).

***Design to distribute*** – Raworth retraces the [Kuznets Curve](#), which diagram suggests that when a nation’s GDP grows, inequality first rises, but ultimately starts to fall. The claim of the diagram is that ‘people have to tolerate inequality as a way to achieve greater prosperity

and opportunity for all'. Inequality is seen as an inevitable stage in economic growth. Raworth debunks the myth of *trickle-down economics*, pointing at the research results by Thomas Piketty<sup>5</sup> to the contrary. According to Raworth: "Inequality is a design failure and many different choices can be made. There are many ways to design economies to be far more distributive of value among those, who help to generate it [...] going beyond redistributing income to pre-distributing wealth, such as the wealth that lies in controlling land, enterprise, and the power to create money." (ibid.)

**Create to regenerate** – The same story holds true for the [Environmental Kuznets Curve](#). More economic growth, Raworth emphasizes, will not create a cleaner environment. Degradation will not eventually diminish and drop at some point. Degenerative industrial design puts tremendous pressure on the Earth's resources, depleting its source material, resulting in environmental degradation that will not go away by ignoring it. "This century calls for economic thinking that unleashes the potential of regenerative design in order to create a circular, not linear, economy – and to restore ourselves as full participants in Earth's cyclical processes of life." (ibid.)

**Be Agnostic about Growth** – To change the financial, political and social addiction to growth, so deeply engrained in the system, will require new ways of economic thinking, that now still seem unthinkable. Raworth emphasizes the need to postpone judgments and start exploring new ways and concepts. Growth will have to stop being the sole focus of attention. "What we need are economies that make us thrive, whether or not they grow. To explore how our economies could learn to live with or without it." (ibid.)

### **An inspiring narrative**

*Doughnut Economics* draws from the different backgrounds of complexity theory, feminist and ecological economy, as well as political philosophy. Forming a synthesis, it represents a culmination point in an over-all movement away from a 'positivistic' view towards a normative approach to economics, politics and political and economical institutions. Reframing the economy by the Doughnut-model, Raworth has created an inspiring narrative. It brings together many people aspiring to translate the model into practice. In this way movements for sustainability, the common good, human rights or fair trade develop a common language.

A further outline of the background may allow us to grasp the intricacy of *Doughnut Economics*.

### **Limits to Growth**

The [Club of Rome](#) presented its report *Limits to Growth* in 1972. In this report, for the first time a *systems approach* was used to encompass a complex problem, such as climate change. Systems analyst – and one of the authors of the 1972 report – Donella Meadows<sup>6</sup> wrote: 'Systems can't be controlled, but they can be designed and redesigned. [...] We can listen to what the system tells us, and discover how its properties and our values can work together to bring forth something much better than can ever be produced by our will alone.'

### **Dichotomy between public and private realm**

In 1985, feminists<sup>7</sup> asserted the existence of a basic dichotomy in political and moral theory. By the separation between the public and private realms, human interdependency as well as differences, or matters of private life were thus rendered irrelevant to politics. Feminist economists pointed critically at the monetary economy, which also depends upon unpaid caring work, yet to the caring work no value was ascribed.

### **Biophysical Community**

In 1989, economist Herman Daly<sup>8</sup> criticized the prevailing economical thought in '[...] the abstraction of a circular flow of national product and income regulated by a perfect

competitive market.’ Herman Daly was one of the first to see the economy as embedded in the biosphere, which was a major conceptual shift introduced by ecological economists: ‘[...] What is neglected is the effect of one person’s welfare on that of others through bonds of sympathy and human community, and the physical effects of one person’s production and consumption activities on others through bonds of biophysical community.’

### ***Market Reasoning as Moral Reasoning***

In 2013, Michael Sandel<sup>9</sup> called for a political approach of economics: ‘[...] Mainstream economic thinking asserts its independence from the contested terrain of moral and political philosophy. Economics textbooks emphasize the distinction between “positive” questions and normative ones, between explaining and prescribing. The more economic thinking extends its reach into social and civic life, the more market reasoning becomes inseparable from moral reasoning. If economics is to help us decide where markets serve the public good and where they don’t belong, it should relinquish the claim to be a value-neutral science and reconnect with its origins in moral and political philosophy.’

### **A Care Ethical Perspective**

Raworth’s *Doughnut Economics* has many starting points in common with care ethics, offering ample opportunities for a debate. For one, burning issues gave rise to the comprehensive task of writing *Doughnut Economics*, driven by concerns that affect all of us; our generation as well as future generations.

Raworth is critical towards the mainstream ‘universal’ and ‘abstract’ approach of economists, and prefers a bottom-up approach and a ‘start at home’ (the word ‘economy’ is derived from the Greek word ‘oikos’, which means home). In *Doughnut Economics*, she advocates a type of economical system that serves people, relates to lived life (basic) needs and just institutions, and aims at the common good.

### **Taking care of the world**

Raworth courageously criticizes her own discipline and takes a stand for a new perspective that opens up future life, going beyond the model of the rational, independent *Homo Economicus*. Social injustice is one of Raworth’s main issues, exploring the vulnerabilities and sufferings that stem from social injustice. Some care ethicists may appreciate the moral approach and moral appeal, as well as the underlying – in essence – harmony model of relatedness and togetherness of humans in *Doughnut Economics*.

Raworth underlines the importance of the daily (un)paid caring work; cooking, washing, cleaning, raising children, caring for the elderly and sick, et cetera. She recognizes ‘care’ as paradoxically neglected by economics, although it is one of the fundamentals of our wellbeing.

Her book can be understood as a plea for ‘taking care of the world we all live in’.

### **Wake-up call**

Care ethicists have not paid much attention to recent (21-st century) economical theories and practices, and their worldwide dramatic influences. Realizing this shortcoming of care ethics, we should be thankful for Raworth’s wake-up call.

At the same time many questions remain. Perhaps the most important issue is: How to address the matter of multinationals that own mighty digital, financial, (social-)technical and big data markets? And related to that issue: What are the consequences of leaving out the strongest, fast growing markets for economic and political theory and praxis?

What is the road from an utopian view to political and economical realities of many complex conflicts of interests? How should we, citizens – whom Raworth encourages not to think deterministic, but instead speak out and act – practically start walking on a path of change? Kate Raworth’s wake-up call sensitizes us for the burning issues of today. There are others, who may be helpful in shedding further light on these matters. For example: the economist Mariana Mazzucato<sup>10</sup>, who published *The entrepreneurial state* (2014) and Andrew Sayer<sup>11</sup>, who wrote *Why we can’t afford the rich* (2015).

## Critical debate

Raworth has started a debate in economic science, criticizing many of its dogmas. She calls herself an activist, and so is not providing a blueprint. She aims to bring together international critical economy student movements, politicians and policymakers, as well as many others who are aware the 'growth' story must end.

We invite care ethicists and fellow travellers to contribute to this debate on our website.

*Madzy Dekema*

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- 1 Raworth, Kate (2017). *Doughnut Economics*, London: Random House Business Books (2017)
  - 2 Gross Domestic Product or GDP (being the total value of an economy's domestic output of goods and services, exchanged within a nation's monetized economy in one year), excludes the value of unpaid services and goods, as well as human, social and natural assets. GDP's focus on the aggregate level indicates nothing about the distribution across households. Yet distribution matters greatly, when it comes to wellbeing.
  - 3 <https://www.opendemocracy.net/transformation/kate-raworth/seven-ways-to-think-like-21st-century-economist>
  - 4 Ostrom, Elinor (2012). 'Green from the grassroots'. *Project Syndicate* 12, June 2012
  - 5 Piketty, Thomas (2014). *Capital in the Twenty-First Century*. Cambridge MA: Harvard University Press, 2014
  - 6 Meadows, Donella (2009). *Thinking in systems*, London: Earthscan, 2009, pp. 169-170
  - 7 Benhabib, Seyla (1985). 'The Generalized and The Concrete Other: The Kohlberg-Gilligan Controversy and Feminist Theory', in *PRAXIS International*, 4, 1985
  - 8 Herman E. Daly and John B. Cobb Jr. (1989). *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future*. Boston: Beacon, 1989
  - 9 Sandel, Michael J. (2013). 'Market Reasoning as Moral Reasoning: Why Economists Should Re-engage with Political Philosophy', in *Journal of Economic Perspectives*, Volume 27, Number 4, Fall 2013, pp. 121-140.
  - 10 Mazzucato, Mariana (2013). *The Entrepreneurial State: Debunking Public versus Private Sector Myths*. London, UK: Anthem Press, 2013.
  - 11 Sayer, Andrew (2015). *Why We Can't Afford The Rich*. Bristol, UK: Policy Press, 2015.