



BOOK REVIEW

DOUGHNUT ECONOMICS

by Kate Raworth, Random House Business Books, 2017, viii + 372, ISBN 978-1-84794137-4

Reviewed by Imam Wahyudi Indrawan, Department of Economics, International Islamic University Malaysia. (Email: indrawan.imam@live.iium.edu.my)

Twenty-first century economists should revolutionize mainstream economics, Kate Raworth said. Recently, mainstream economics has been heavily criticized. Apart from the latest 2008 global financial crisis, mainstream economics is criticized because its flawed theories that rely on market mechanism have resulted in shortfall on humanity's needs, as shown by increasing inequality and deprivation, various conflicts around the world as well as hunger and poverty that not only appear in poor countries, but also in developed countries. On the other hand, mainstream economic theories that support capitalistic behavior of business also taxed the earth's ecological capacity and resources, as shown by increasing carbon dioxide emissions, ocean acidification and air, water and soil pollution. Twenty first century economists and today's economics students should develop new paradigms and theories to solve those problems. Mainstream economic theories rooted in 18th century philosophy and 20th century methodology are insufficient for today's economists. Thus, the author proposed seven ways of mind shift for economists that will pave the way to solving humanity's future problems.

First, twenty-first century economists should have different goals rather than merely focusing on Gross Domestic Product (GDP) growth. At first, Raworth recounted the history of economics thinking which, as science, has lost sight of the goal for the sake of economics as "science". Then, she criticizes GDP as the main economic goal of mainstream economists and policy makers because as stated earlier, GDP as measure of progress has created shortfall on humanity's needs fulfillment and overburdened the earth's ecological capacity. Instead, she proposed a "Doughnut" as a new goal, which represents the just and safe space of humanity's thriving life. It is called "Doughnut" because it is a ring shaped figure in which the inner side is the Social

Foundation of humanity, comprising water, food, energy, health, education, income and work, peace and justice, social equity, gender equality, housing, and networks. On the outer side of the Doughnut lies the Ecological Ceiling of earth, which consists of climate change, ocean acidification, chemical pollution, nitrogen and phosphorus loading, freshwater withdrawals, land conversion, biodiversity loss, air pollution and ozone layer depletion.

Second, to reach the goals within the Doughnut, twenty-first century economists should see the big picture of the economy. Instead of looking at the circular flow model of market, she proposed an embedded economic model, one that situates the economy within the greater sphere of society and earth's biosphere. So, instead of only looking at mechanism, today's economists must understand and admit the role of other entities, such as earth's biosphere as provider of resources and store of energy, society that provides connections, households that provide care and prepare human resources and the commons that create innovative way of using and preserving common resources; although market mechanism is still included in the model it is not regarded as the only mechanism to rely upon.

Third, twenty-first century economists should put aside *homo economicus* as the sole concept of economic agent in mainstream economics. This is because, as psychologists and behavioral economists have found, mankind is not always as rational as the *homo economicus* assumption stated. Instead, Raworth proposed an economic agent model which is socially adaptive. So, in criticizing the *homo economicus* model, she argued that human beings are socially reciprocating rather than self-interested, have fluid values rather than fixed preferences, are interdependent rather than isolated and embedded rather than dominating the living system. She also proposed today's economists to understand the norms and networks of mankind rather than solely focusing on market mechanism as a tool of policy-making for the people. Despite good elaboration on the issue of economic agent, this book is solely take

Fourth, twenty-first century economists should understand the complexity of the economic system rather than narrowly using the general equilibrium model comprising Supply and Demand as proposed by Alfred Marshall. She instead proposed complexity theory's approach of Feedback Loop model, comprising stock concept, flow concept, reinforcement (positive) force, balancing (negative) force, and delay. She argued that by analyzing the economic system with the complexity theory approach, economists can understand better the effects of economic phenomena and policies,

especially that affecting society and the environment. Instead of treating those effects as externalities, the Feedback Loop model will provide comprehensive insights for economists on the causes and effects of economic systems within a greater system of society and ecology. She also proposed that the mindset of economists today should move from engineer like mechanics into a biologist like gardener equipped with ethical conduct. As she stated, future economists should have at least four codes of ethical conduct: (i) act to service others; (ii) respect autonomy of communities; (iii) be prudential in policy making; and (iv) work with humility.

Fifth, twenty-first century economists should design a distributive economic system to achieve the Doughnut's social foundation. Instead of relying on GDP growth to redress inequality as shown in the flawed Kuznet Curve, she proposed the idea of tackling inequality through a mechanism based on network theory of efficiency and resilience, where a network will be resilient if smaller nodes (entities) are also given a role to play in the system. Tackling inequality, she argued, cannot be done merely through income distribution. A distributive economic system must also provide wealth-sources distribution, comprising: (i) land distribution by imposing land value tax; (ii) labor distribution by creating a new enterprise model such as labor-owned enterprise; (iii) money creation distribution through cryptocurrency, community voucher to complement sovereign currency and a full-reserve banking system; (iv) technology distribution by imposing tax on robot, introduction of robot-dividend for citizens and promoting human-niche occupation; (v) knowledge distribution through open source knowledge sharing system rather than relying on individual copyright mechanism. The distribution of wealth-sources will provide economic system resilience by giving small parties a chance to involve in the economy.

Sixth, twenty first century economists should design a regenerative economic system to preserve the Doughnut's ecological ceiling. As in the previous case, instead of relying on GDP growth to clean up the environment as shown in the Environmental Kuznet Curve, Raworth proposed some designs of regenerative firms, cities, and nations. The basic idea is the current design of production and resource usage is linear; this means raw materials and energy are taken to make products for use by customers and products end up as waste or heat. She criticized that design and instead promoted the idea of a pair of circular production design systems. On one wing of the design, biological nutrients such as soil, plants and animals are regenerated into production process after consumption is done. On the other wing,

technical nutrients such as plastics, synthetics and metals are restored in production process by repair, reuse, refurbishment or recycling. In order to support the design and scale it up, this design must be partnered with biometric statistics, pro-environmental financing, government support and communal actions through open source networks.

Seventh, twenty-first century economists must be agnostic to the GDP growth. Raworth analyzed the possibility of GDP growth in the future while the economy moves toward Doughnut vision. Furthermore, by analyzing the debate between “keep-on-flying” versus “prepare-to-land” approach of growth, referring to Robert Solow’s airplane metaphor of growth stages, she concluded that a green GDP growth requires an absolute and huge decoupling between growth and resource usage. This decoupling is difficult if not impossible to achieve. Then, she proposed an economic model in which society can thrive whether the GDP is growing, stagnant, or declining. This requires financial system reform that moves from gain-seeking behavior and interest-basis toward value-basis financing and imposition of cost on holding money (demurrage), reform in the political field targeted at taxation reform such as incentives for labor intensive industry and justice taxation as well as alternative measure of success in the international field, and reform in society especially on tackling consumerism and promoting cooperation and sharing based economy.

Lastly, the author calls for today’s economists and economics students to be critical of mainstream economics teaching in university, by realizing that many heterodox schools are coming from non-economics departments in universities. In fact, some economists such as John Stuart Mill, John Maynard Keynes and Joseph Stiglitz had also recommended a holistic approach to solving economic problems. Today’s economics students should be able to learn, unlearn and relearn what they have been taught in universities.

This book has a diverse scope and perspectives within and is supported with updated data, recent developments in alternative schemes around the globe as well as strong and coherent arguments. Also, this book is inspired by ecological economists’ approach to sustainability, thus giving broad perspective, not only on economics per se, but also other fields such as sociology and ecology. However, as the author acknowledged, this book is still a beginning on developing a holistic science, and more work is needed in order to analyze this book’s approach as well as critical evaluation of concepts proposed by the author. Some concepts that must be addressed by

future studies are the concept of economic agent, which in this book heavily referred to WEIRD (Western, Educated, Industrialized, Rich and Democratic) society, the development of biometric statistics and various business design and policy making as well as mind shift which although addressed in this book, are heavily radical for the mainstream economics standard unless convincing researches provide supporting insights and critical improvement. Some concepts on economic agent, such as *Homo Islamicus* (Furqani 2015) and *Universal Man* (Mahyudi and Aziz 2017) may be included to make the proposed concept of economic agent more inclusive for all civilizations.

REFERENCES

- Furqani, Hafas. "Individual and Society in an Islamic Ethical Framework: Exploring Key Terminologies and the Micro-Foundations of Islamic Economics." *Humanomics* 31, no.1 (2015): 74–87.
- Mahyudi, Mohd, and Enizahura Abdul Aziz. "Rethinking the Structure of Islamic Economics Science: The Universal Man Imperative." *International Journal of Economics, Management and Accounting* 25, no. 2 (2017): 227–51.