International Labour Organization

Financial Times Best Books of 2024: Economics

Human-Centred Economics: The Living Standards of Nations

by Richard Samans

Published by Palgrave Macmillan in association with the International Labour Organization

Major reform of macroeconomics proposed to address 21st century social and environmental challenges at greater scale and speed

- AI and climate change seen as likely to worsen inequality and insecurity absent a new approach.
- New human-centred concepts of economies' "aggregate distribution function" and social "welfare gap" created to internalize household living standards and the social contract in macroeconomics, complementing traditional "aggregate production function" and "output gap" focused on GDP.
- Corresponding Bretton Woods-like overhaul of the international financial and trade architecture proposed **to triple international climate and sustainable development financing, double global climate R&D and replace over half of the world's coal plants in next 15 years** – including an additional $2 trillion equivalent to more than 3% of GDP between 2024 and 2030 for 100+ countries, comparable in scale to the Marshall Plan and all possible without increases in bilateral aid.
- Shifting economics to a more kitchen-table, standard-of-living framework of analysis and policy paradigm seen as key to revitalizing the liberal tradition and the multilateral system it inspired in an era of rising dislocation and polarization.

This book engages in a fundamental reflection regarding the chronic underperformance of economies with respect to social inclusion, environmental sustainability and human and systemic resilience. It proposes a reformulation of macroeconomic theory and policy to explicitly internalize the role of policies and institutions that enable them. Authored by the ILO's Research Department Director, Richard Samans, ***Human-Centred Economics: The Living Standards of Nations*** argues that modern economics has lost its way in this regard, having strayed from the more balanced model of economic progress framed by the field's most influential founders and codifiers in their 18th and 19th century treatises.

The current **cost-of-living crisis** is a reminder that people evaluate their country's economic performance based on progress in their household's and community's standard of living, not the more abstract and indirect notion of GDP growth. Adam Smith, John Stuart Mill and Alfred Marshall stated explicitly that markets and capital accumulation alone could not be expected to deliver broad and lasting improvement in the material well-being of societies. They argued that enabling policies and institutions were also needed in a wide variety of policy domains, which is to say that **a robust social contract is every bit as essential as markets in delivering the bottom-line performance societies seek from their economies: broad and sustainable progress in household living standards**. However, this macro-institutional context remains a residual consideration of modern economics, implicitly assumed to obtain over time as a natural by-product of economic growth. The book traces decades of evidence to the contrary, notwithstanding growth's crucial importance, especially for poverty reduction.

The author argues that **macroeconomics itself requires structural reform and rebalancing in a century facing the prospect of further inequality and disruption from artificial intelligence, climate change and other shifts and shocks**. Some see AI ushering in an era of abundance, but the digital transformation of economic activity has tended to widen inequalities thus far, both within and among countries. Generative AI systems and tools could well magnify this effect, other things being equal. And policymakers have been promising for years to better internalize environmental and particularly climate externalities in the way economies are managed. But nearly a decade since the Paris climate agreement's goals were set, humanity remains on a path to well over, rather than well below, two degrees Celsius of warming above pre-industrial levels.

The many international commitments made by political leaders since the Great Financial Crisis to render their economies more inclusive, sustainable and resilient remain largely aspirational and incremental in practice. **To effect change at the promised scale and speed, it has become clear that the source code of capitalism—liberal economic theory and the analysis, advice and assistance provided by international economic institutions—needs**

to be rewritten to correspond better to a world in which distributional and "just transition" considerations have become at least as important to many societies as the overall size of their economies as measured by GDP, and often act as a drag on growth itself. Economics requires refashioning so that it is focused explicitly on improving both the quantity and social quality of growth, and indeed on achieving the former through the latter wherever possible.

The author argues that correcting the modern imbalance in emphasis between markets and institutions, production and distribution, and national income and household living standards is the most important step required to replace 20th century trickle-down "neoliberalism" with a more human-centred model of economic progress in the 21st century. **The essential principle the book posits is that the living standards of median households deserve at least as much direct policy attention and cultivation by economists and policymakers as the overall wealth, or productive output, of nations**. Broad progress in the lived experience of people, rather than GDP growth per se, depends on the strength of both markets of exchange and institutions in such areas as labour and social protection, financial and corporate governance, competition and rents, taxation, infrastructure and basic necessities, environmental protection, anti-corruption, and education and skilling.

To support implementation of this principle, the book **integrates these and other key institutional dimensions of the social contract into the heart of macroeconomic theory** on a co-equal basis with the traditional factors of production of the aggregate production function. It proposes to systematically internalize such "factors of distribution"—policy and institutional enablers of broadly diffused and sustainable gains in living standards—in the standard growth and development model through the introduction of a companion "aggregate distribution function" reflecting the main channels by which improvements in living standards propagate at the household level, and then by mapping the wide range of policies and institutional features available to activate these channels more fully. The combination of the two functions is represented as an economy's **aggregate social welfare function**.

This **reformulation of macroeconomics would help to instill a new discipline in scholars and policymakers to focus on the bottom-line of economic progress**, broad and sustainable gains in living standards, rather than solely or principally its top-line: productive output. As such, it has the potential to transform the dismal science from its increasingly ineffective and unpopular capital-accumulation-centred, trickle-down construct into a more human-centred, lifting-all-boats dynamic in which governments are focused as much on the seaworthiness and ecosystem stewardship of vessels and their crews as they are on the level of the tide. It is the combination of the two that ultimately determines whether everyone in the marina rises with and profits fully and sustainably from the sea's incoming bounty.

Extensive comparative data are presented demonstrating that nearly every country has considerable policy space to narrow its social "welfare gap"—its underperformance on key dimensions of household living standards relative to the frontier of leading outcomes and enabling policy practices of peer countries—and that doing so can often also help to reduce its output gap, or underperformance on growth. The author proposes major corresponding reforms of international economic governance and cooperation to refocus them on supporting societies and the biosphere in this journey of ongoing institutional deepening—**a "Roosevelt Consensus" to replace the still reigning Washington Consensus**. These include changes that would optimize deployment of the existing resources of international financial institutions to enable humanity to achieve the goals its leaders have set on sustainable development and climate change, mobilizing a Marshall Plan-like additional $2 trillion to triple international development and climate financing from 2024 to 2030, double global renewable energy and sustainable agriculture R&D investment, and retire and replace the majority of the world's coal-fired power plants within the next fifteen years—a prerequisite for fulfilment of the Paris climate agreement's goals.

Many have called for a **new Bretton Woods conference** to renew the multilateral system and improve the coherence of its economic, social and environmental dimensions. But these appeals have never amounted to much in part because they have lacked an organizing principle—a new or substantially revised policy model upon which to build a renovated institutional edifice. Similarly, **human rights and economics have been like two ships passing in the night** since the adoption of the UN Declaration on Human Rights, which includes multiple economic and social rights. It is the strength of countries' corresponding enabling policies and institutions that determines how well they fulfil their obligation under international law "to achieving progressively the full realization" of such rights with "the maximum of available resources." But these principles remain absent from the standard teaching and practice of economics, as reflected in the use of GDP per capita as the standard measure of economic development, and this continues to distort the analysis, advice and assistance provided by international organizations.

The book concludes with a reflection on the relationship between the concepts and tools it proposes and the legacy of John Maynard Keynes, interpreting them as a way of reinforcing through structural and institutional policy his fiscal and monetary policy efforts to chart a Middle Way between laissez-faire liberal economics and state-controlled socialism—to better reconcile capitalism with social justice. Indeed, **over the next generation, humanity will need to chart a new Middle Way in economics, this time between environmentally destructive growth and socially destructive economic stagnation or degrowth**. The proposed systematic integration of the principal

institutional drivers of inclusion, sustainability and resilience in macroeconomic theory and policy creates the basis for the construction of such a new "**neoclassical-Keynesian-ecological synthesis**" and corresponding realization of the socially-embedded, FDR-inspired vision of global economic development and governance articulated by the 1944 ILO Declaration of Philadelphia, which was explicitly reflected in the founding articles of agreement of the IMF and World Bank at the Bretton Woods conference a few months later.

This long overdue step towards the routine internalization of social and environmental externalities in the understanding and practice of macroeconomics also has the potential to brighten the political outlook for the liberal tradition in the 21st century, both within and among nations. With its sharp focus on median household living standards, human-centred economics is kitchen-table economics. It is a strategy to increase investment in the lived experience of people—their employment opportunity, disposable income, purchasing power, and economic, environmental and social security. These are matters of tangible relevance to people of all demographics and political philosophies. They are also fundamental determinants of economic growth. As such, this approach would better enable political leaders to cut through the din of contemporary polemics over identity and immigration by responding more directly and effectively to the common aspirations of their people. In so doing, it offers a potential lifeline to the liberal tradition and multilateral system at a time of rising economic disruption, social insecurity and political polarization. These are profoundly corrosive of the liberal values underpinning democracy and the vision of global peace and stability framed by the ILO's 1919 Constitution and its 1944 Philadelphia Declaration annex as well as the United Nations' 1945 charter and 1948 Universal Declaration of Human Rights.

Richard Samans is Director of the International Labour Organization's Research Department and has served as its Sherpa to the G20, G7 and BRICS processes. He was formerly Founder and Chairman of the Climate Disclosure Standards Board, a Managing Director of the World Economic Forum, and Director-General of the Global Green Growth Institute. He served in the second Clinton-Gore Administration as Special Assistant to the President for International Economic Policy and National Security Council Senior Director for International Economic Affairs and was previously economic policy advisor to US Senate Democratic Leader Thomas A. Daschle.

The e-book version is available on an open access basis at:

https://link.springer.com/book/9783031374340

Praise for *Human-Centred Economics: The Living Standards of Nations*

"John Maynard Keynes argued that the ideas of economists are more powerful than we realize; that they determine the framework in which we think about the economy and hence the specific policies that determine economic and social outcomes. This excellent volume argues that the framework of liberal economics is no longer fit for purpose. It proposes a revision of the standard framework to address issues such as rising inequality, climate change, and social polarization. It challenges us all to think afresh, building on the strengths of conventional economic analysis while at the same time recognizing its weaknesses."

Ravi Kanbur, T.H. Lee Professor of World Affairs, International Professor of Applied Economics and Professor of Economics at Cornell University and former Director of the World Development Report and Chief Economist for Africa at the World Bank

"A new social contract and just climate transition are urgently needed, but they will require a fundamental reform of economics as it has been taught and practiced for the past half century. This book proposes the most serious and specific replacement of neoliberalism and the Washington Consensus I have seen. It should be required reading in academia, governments and international organizations—and for anyone interested in systemic rather than piecemeal action on social and environmental justice."

Sharan Burrow, Former General Secretary of the International Trade Union Confederation and President of the Australian Council of Trade Unions

"Free market capitalism is sick and the soul searching of economists, who bear some responsibility for its weakened state, has yet to produce solutions. In 'Human-Centred Economics,' Samans focuses on non-market institutions to re-anchor the market economy. Institutions affecting distribution and average worker well-being – democratic political formations, collaborative international relations -- should be as integral to economic thought as market forces. This friendly amendment to economic theorizing supports an important policy proposal that seeks to address persistent problems of underdevelopment, climate degradation, excessive financialization, and 21st century declines in human well-being. This provocative book deserves a wide readership."

William Milberg, Professor of Economics and Director, Heilbroner Center for Capitalism Studies, The New School for Social Research

"This is such a timely and important book. It provides a crucially needed compass and roadmap for the growing number of governments which are setting national goals based on social and environmental wellbeing rather than a sole focus on GDP growth. And it brilliantly addresses the intellectual and moral flaws in current economic theory and practice by setting out a new human-centred operating system for the conduct of economic policy. I cannot recommend it too highly."

Stewart Wallis, Executive Chair of the Wellbeing Economy Alliance and former Executive Director of the New Economics Foundation

"This book achieves a rare feat: anchored in a critique of the past, it sets a template for the future. Rather than go down the rabbit hole of academic shortcomings, Richard Samans goes straight to the key policy challenge of our times: particularly for middle-income and high-income economies 'more growth' is not the most important policy target; more inclusiveness, resilience and environmental sustainability is. He argues that the 'living standards of nations' needs to be internalized at the multilateral and national levels. In this respect, there is kinship between Samans and J. Bradford DeLong's Slouching Towards Utopia; Samans delves more decisively into the international development policy domain—and aims to show what liberal political economy could deliver in the 21st century."

Achim Steiner, Administrator of the United Nations Development Programme and former Executive Director of the United Nations Environment Programme and Director-General of the International Union for Conservation of Nature

"In 'Human-Centred Economics: The Living Standards of Nations,' Richard Samans takes us back to the basics and lays out, in clear and compelling prose, where we have gone wrong. He identifies the gap between the concerns of classical political economy and much contemporary economic policy and explains what is at stake in this disjuncture. In deconstructing the social contact and framing it as indispensable to both national wealth and collective well-being, Samans provides an alternative vision for macroeconomics in a learned but accessible text that is as useful for advanced undergraduate and graduate students seeking a deeper understanding of the field as it is for policymakers interested in scaling action on inequality and climate change."

Jennifer Lynn Bair, Professor of Sociology and Associate Dean for the Social Sciences, University of Virginia

"Samans is director of the International Labour Organization's Research Department. In this thought-provoking book, he argues that we need a new objective for policy. Instead of focusing on aggregate GDP, countries should 'devote at least as much policy attention and investment' to the aggregate distribution. The target, in other words, should be 'protecting and promoting median living standards', instead of the average, which is unavoidably distorted by the extent of the success of those at the top. This makes sense."

Martin Wolf, Chief Economics Commentator, Financial Times, Best Books of 2024: Economics

"Richard Samans explores why modern economies have underperformed in terms of social inclusion, environmental sustainability and human wellbeing. In doing so, he provides a lucid critique of orthodox economics which seeks to focus on markets as means with growth and efficiency as ends. Invoking the intellectual tradition of classical political economy, the author argues that it will be possible to harmonize economic and social progress in the 21st century only if we can restore the balance between markets and institutions, production and distribution, and national income and living standards of people. This refreshingly different book is an engaging read."

Deepak Nayyar, Emeritus Professor of Economics, Jawaharlal Nehru University, New Delhi, Honorary Fellow, Balliol College, Oxford and former Vice Chancellor, University of Delhi