

## **KATE RAWORTH – DOUGHNUT ECONOMICS: SEVEN WAYS TO THINK LIKE A 21<sup>ST</sup> CENTURY ECONOMIST (2017)**

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### ***ABSTRACT***

*What if we started economics not with established theories, but with humanity's long-term goals and how to achieve them? This is the question, Kate Raworth asks in her book "Doughnut Economics". She criticizes that our economical acts and decisions are based on the economic theories of the 1960s, which are mainly focused on a continuous and infinite growth. She suggests an update to the 21<sup>st</sup> century economy, which accounts not just for our well-being and prosperity, but for that of our planet as well. To make the missing factors in classic economics visible, she developed a "Doughnut Model", which includes twelve aspects of our social foundation, as well as nine planetary boundaries and explains that the ideal space of our economy is between these two elements. Her work is a wake-up call to transform our capitalist worldview, which is targeting to growth, into a more balanced, sustainable perspective that allows both humans and the planet to thrive.*

Keywords: New Economics, sustainable development, economic model, ecological economics

### **INTRODUCTION**

Did you know that global warming will increase between 1.0–3,5 °C until 2100? (Kessel, 2000). An associated rise of sea level is also expected and due to that, the number of people at risk from flooding by coastal storm surges is predicted to increase from the current 75 million up to 200 million in a scenario of mid-range climate changes. (Patz *et al.*, 2005). Further impacts of this warming to the planet like nature catastrophies, droughts or famines can just be estimated. These threats are not new. When Kate Raworth grew up in the 1980s in London, the problem was already existing and when she saw that bad news in television, she knew that she wanted to work one day in a profession, where she could make the world a better place. So, she decided to study economics in Oxford and after graduating, she started working for the Unites Nations and later for Oxfam. After twenty years of work for these organizations, she came back to the Universities of Oxford and Cambridge to work as a professor. In 2017, she published her book "Doughnut Economics: Seven ways to think like a 21<sup>st</sup> century economist". This paper will give an overview about the book's key points and will figure out further research questions.

### **DISCUSSION**

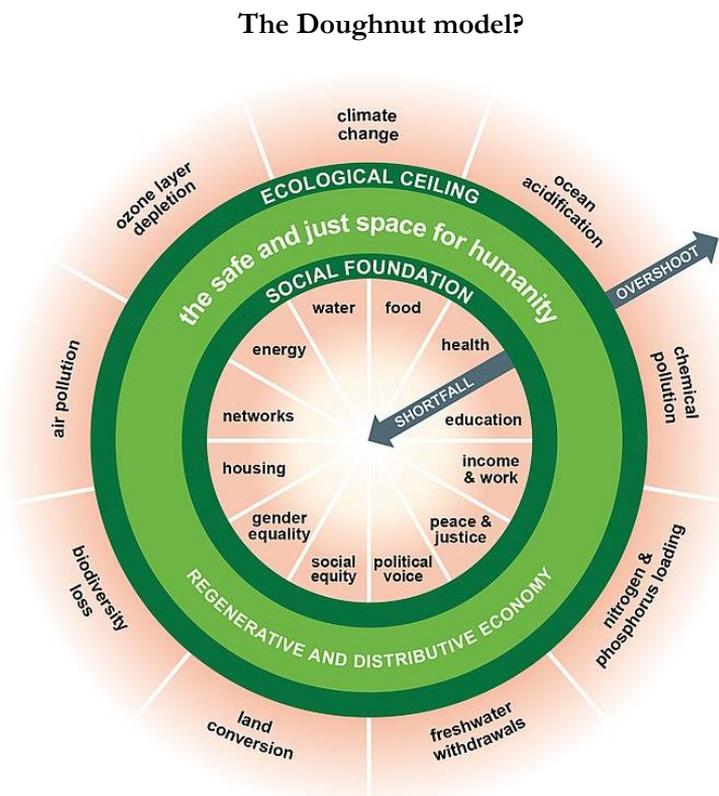
From Raworth's point of view, the current economic market system has three major weaknesses. The first one is the ecological context, which is not included in that model.

Everything is about increasing growth rates but forgets about the planet and its needs. The second one is work, which is not accounted. This includes all kinds of work which is invested in parenting or doing the housework. Helping other people without getting paid is counted to that, too. All that is work and creates value, but does not appear in any calculation. The last weakness is inequality. As known, the difference between the richest and the poorest people in the world is strongly increasing and the current market system intensifies that problem (Davies et al., 2015). Those failures were the motivation for Kate Raworth to develop the Doughnut Model and the consequential advice.

## THE DOUGHNUT

Indeed, the model really looks like a doughnut (Figure 1). The inner circle of the Doughnut represents our social foundation, which means all the basic needs we have like water, food or housing. The outer circle represents our ecological ceiling. These boundaries, like climate change, air pollution or land conversion were not invented by Kate Raworth, but scientifically evaluated by a group of scientists under the administration of Johan Rockström and Will Steffen. (Rockström et al., 2009).

Figure 1



Source: [https://upload.wikimedia.org/wikipedia/commons/1/12/Doughnut\\_\(economic\\_model\).jpg](https://upload.wikimedia.org/wikipedia/commons/1/12/Doughnut_(economic_model).jpg)

If we stay between these two limitations, we are in the safe and just space for humanity, where all people can live in wealth and prosperity and where we do not shoot over the planet's boundaries. If we fall inside the inner circle, the people have to suffer because they cannot cover their daily needs. If the use of resources and environmental pollution are so high that they hurt the planet, the economy crosses the ecological ceiling and goes outside the outer circle. At the moment we are outside of both boundaries. So, how can we ensure that we stay inside the safe and just space for humanity? Kate Raworth suggests to renew the way of how we think about economics and comes up with her 7 ways, to think like a 21<sup>st</sup> century economist.

### **1. Change the goal**

Economics is about consumption and as known, the best indicator of how much an economy consumes is the GDP. This is probably the most important figure to measure. It is expected that the GDP grows from year to year up to 5% and if an economy does not fulfill these expectations, it is deemed bad. Donella Meadows, an American scientist said: "Growth is one of the stupidest purposes ever invented by any culture. We've got to have an enough." (Raworth, 2017). Raworth notes, that this 20<sup>th</sup> century strategy of growth pushed a lot of societies into deep inequality and the world into an ecological collapse. A high quantity of people falls short with their daily needs, but at the same time, we are pushing too much pressure to our planet and our liv-sustaining systems, which led to climate changes or the breakdown of biodiversity. It is time to get into the sweet spot of the Doughnut and to replace the goal of endless growth for a new one, a 21<sup>st</sup> century goal. This goal is clear from Raworth's point of view: To cover both, our as well as our planet's needs and to live in balance with our environment.

### **2. See the big picture**

Traditional economics describes the economy always with the same picture, the circular-flow diagram between companies and households. In that description, economy is an isolated system without any relations to other systems. That theory presumes that the markets are so efficient to let them run free, the state is too incompetent to meddle, everyone benefits from trade and that the society quasi does not exist. So, the triumph of the markets was almost inevitable and have been driving us to financial and ecological crises. Also, the statement that the financial markets cannot fail was clearly disapproved in the global financial crash, which puts the first theory into question, too. Raworth says, it is time to draw the economy in a new way, where it is embedded in larger systems like the society, the earth or the solar system with the goal to put it in service to life.

### **3. Nurture human nature**

In the focus of economics is the Homo Economicus. According to definition, it is a rationally thinking person. To visualize the Homo Economicus, he can also be described as a person who stands alone, with the money in his hand, the calculator in his brain, knows every price and has the nature at his feet. It can be observed that the more economy students study, the more self-interested the Homo Economicus

becomes. Kate Raworth says, we cannot keep living in that way, we have to change ourselves from self-interested to socially reciprocating, from fixed preferences to fluid values and from isolated to interdependent ones. That will give us the opportunity to nurture human nature, and due to that, more chances to get in the safe and just space of the Doughnut.

#### **4. Get savvy with systems**

Raworth shows that economy is a complex, constantly changing system and not a simple, stable one like the economists in the 19<sup>th</sup> century invented. Those economists were inspired by Newton's laws of physics of how the planets were moving, so they were looking for laws to describe the market movements. The result was that they were trying to transform their ideas into maths and developed models, which are based on equilibriums. The fault in this calculation is that economy is too complex and depends on too many factors. Furthermore, equilibriums do not always exist. Systematic thinking is more helpful to understand the dynamics of economics, which can be summarized in a pair of feedback loops. Because of that, Raworth says that 21<sup>st</sup> century economists do not see themselves as engineers who control the economy, but as gardeners who take care and shape it.

#### **5. Design to distribute**

The basic for that way is the Kuznet curve, which says that when an economy develops, market forces first increase and later decrease economic inequalities. It means that the income per capital first rises to a maximum and causes inequality, until it can decrease it. Raworth criticizes that the economic inequality is not an economical need, it is more a design error. 21<sup>st</sup> century economists have to recognize that a lot of possibilities exist to design economies with the result of more equality when distributing their created values. It means that it is much more, than just distributing incomes, but wealth. Especially when that wealth comes from possessing land, companies, and technologies or from the creation of money.

#### **6. Create to regenerate**

Economics regarded a clean environment for a long time as a luxury good, which was just available for the higher classes. That way of thinking was forced by the environmental Kuznet curve, which indicates that the environmental pollution has to increase first, until the economic growth can decrease it. Raworth disagrees with that theory because there are no proofs that this will happen. She says that the environmental damage is a result of a degenerative orientation of the industry and that we need a new economical thinking in the next century, which has a regenerative orientation and a more circular approach. We should change our business model which eats up the planet's resources and spits out just waste into a system, which turns waste back into valuable goods.

#### **7. Be agnostic with growth**

Traditional economists regard constant economic growth as essential, but in nature nothing grows infinitely. We have to realize that the economic growth must

eventually reach a limit. Kate Raworth suggests that the traditional exponential growth curve has to be replaced by the s curve, focusing on a level where we can cover both, our as well as our planet's needs to live in harmony with our environment.

## **CONCLUSION AND FURTHER RESEARCH QUESTIONS**

Kate Raworth offers with Doughnut Economics a completely new way, a 21<sup>st</sup> century way of economical thinking. The interesting point is that her ideas are not that new as they seem, it is much more back to the economic roots, which we might have lost. Economics comes from the Greek words *oikos* (household) and *nemein* (manage or distribute) (*Singer*, 1958). That definition leads inevitably to the question if it is really householding what the 20<sup>th</sup> century economics stands for because householding is about working with the resources which are available and not overshooting them. But how to avoid an overshoot when the economies are aiming for infinite growth rates on a finite planet? Is that even possible?

Kate Raworth does not recommend concrete actions, how to transform her theories and to apply them, but after reading that book, a thinking process is started and that is probably one of the author's goals. But how can we ensure that the book's results will influence our future economies? From my perspective, there is just one way. We will not be able to change economics overnight, but we can change it in the future, when we realize that the students of today are the decision makers of tomorrow and due to that fact we should rethink, what we teach at universities, because the key to change lies in education.

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