



## Towards a Global Comprehensive Context-driven and Decision-focused Theory and Method for a New Political Economy

**Winston P. Nagan**

Chair of the Board, World Academy of Art and Science;  
Samuel T. Dell Research Scholar Professor of Law,  
Levin College of Law, University of Florida

**Valeen Arena**

Junior Fellow, Institute for Human Rights, Peace and Development,  
Levin College of Law, University of Florida

### Abstract

*There is currently significant dissatisfaction with conventional economic theory. The unreliability of conventional theory as a predictor of future economic possibilities of catastrophes emphasizes the need for a new paradigm of political economy. This paper provides a capsule of some of the important limitations and consequences of the “old” paradigm. It proposes the necessary elements of a new paradigm and it seeks to locate the new paradigm of political economy in terms of its global reach. This requires a richer contextual approach, with the tools of contextual mapping. It has as well a focus on the global process of effective power and the emerging rule of law based constitutive processes. This is a key to the role of decision and the architecture of decision-making in political economy. We conclude with the global to local implications of the Vicos Experiment in Peru. Finally, we stress the wider lens of focus to identify the real and not the illusory generation of value. The implications here facilitate real global democratization.*

### 1. Introduction

In giving this presentation, we start with certain trepidation. Both my coauthor and I are specialists in legal academic culture. Our interest in economics is incidental to that professional focus. However, in exploring the role of law in global society it has become more apparent that we need a better economics as a coequal partner in the central challenge that confronts the global rule of law. That challenge is how to improve the human prospect in securing peace, security, human well-being, and ultimately a global culture gravitating toward the universal ideals of human dignity. In exploring the ideals and possible promise of a new paradigm of both law and political economy, we must readily concede that there are many insights in the discipline of political economy that may have escaped our focus of concern. However, we hope to bring some perspectives and methods of advances in law that may enrich the promise of a new political economy for a new world order. Conventional

economics has rarely shed itself of the label that it is a dismal science. It has earned this label because its central weakness seems to be the continuing diminished expectation that it may provide perspectives and methods that produce reliable predictions. In short, it is an unreliable enterprise that occupies space of major global importance to the well-being of humanity.<sup>1</sup> It would be useful to provide an overview of the problem of radical inequality as an outcome of conventional economic theory and practice.

## **2. Overview of the Crisis of Economic Inequality: The Political Economy of the Drive to the Bottom**

The most notorious fact about the American economy is that for decades we have experienced an inexorable drive to move the overwhelming majority of American citizens to the bottom of the economic system. In short, the expansion of inequality has been an extraordinary fact of the politically inspired economic policies of the Republican right wing.<sup>2</sup>

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Let us start at the top. Reputable economists tell us that one percent of our population takes one quarter of our nation’s income. One percent of our population controls forty percent of our nation’s wealth. One percent of our population has seen their incomes rise by over eighteen percent.

The central political question is whether this kind of outcome is desirable and in the national interest of the nation. If this is desirable, is there a sound reason to justify it? There have been marginal economic theories, which suggest that the one percent who have benefited so mightily are simply better than the rest of us.

Many people whom we consider talented and who have made enormous contributions and inventions to modern society have not necessarily benefited from this. The financial wizards who almost destroyed our economy were in fact rewarded with performance bonuses. Although to their credit, they saw the irony in this and changed the label to retention bonuses. Meanwhile, those at the bottom of the economic ladder were not candidates for any form of retention. They were candidates for pink slips.

One of the assumptions of right wing Republicans is that if we have a bigger economic pie there will be more to go around. Unfortunately, the arithmetic is the other way around. The bigger the pie, the less the American citizens share in its bounty. It would seem that our economic growth is essentially a growth that is downwards in the direction of inequality. This means we have an exponential growth in lost opportunity for the American people.

The extinction of opportunity for our people is a major social and economic loss because the success and the genius of American civilization has been its belief in human capacity and the critical importance of human resources for national prosperity.<sup>3</sup> This means that when we depreciate human resources we are attacking the recipe, which was at the heart of American genius. There is of course enough blame here for everyone. However, I think most of the blame must lie with the Republicans. They have historically been the most frenetic defenders of economic monopoly. Additionally, they have been successful in hijacking rational tax policy debate. No new taxes means that the weaker members of the body politic still pay while the special interests, which fund the Republicans, the well-healed financial oligarchs prevail with outrageous tax holidays. Indeed, a recent survey about the fairness of the tax system showed only twelve percent believing it was fair and eighty eight percent believing it was unfair.

The consequence of these outrageous benefits to those who already have an excess of resources is that they also promote the idea that national investment in education and human resources, investment in technical innovation and sound infrastructure are a waste of scarce resources. Their version of appropriate national incentives is driven by an intense desire to discourage investment in the future based on basic research and the central importance of our transportation and infrastructure system. Essentially, Republican policies have hugely empowered the financial oligarchs while undermining the participation of the overwhelming majority of citizen stakeholders in the process. They promote no version of a national common interest and see only the vista of narrow special selfish interests.

Greed is king. They attack labor unions, promote the replacement of labor with technology and export jobs abroad because foreign labor is cheap. American labor is a liability. It is too expensive for the oligarchs. Hence, their mantra about jobs is “send jobs abroad.” The role of government in seeking to moderate the concentration of wealth and power in the few was well expressed by the political genius of the last century, Ronald Reagan. The government is the problem, is the enemy because it is the critical restraint on the unfettered power of economic oligarchs. Now at present the agenda appears to be clearer: do what we need to do to keep our wealth and get more of it. Demonize the government as a moderator between extremism and the people; extinguish the opposition such as the labor unions and the independent media and most critical of all, no taxes on the rich.

Probably the most impressive victory of the financial oligarchs was their promotion of the economic theories of neo-liberalism. The center point of this approach was to oppose any and all government regulation. The great success was the deregulation of the financial sector. With the financial benefits, which they acquired through a non-regulatory state, they could use their bounty of wealth as a base of power to control a good deal of law making, and they did. Their successes have permitted a huge scale of financial manipulation in a no-financial rules context – the context they in effect purchased. This was a good financial investment.

After the Citizens United case, a major Supreme Court blunder, the corporate sector could now begin the process of purchasing the government without spending limits. In short, the Supreme Court solidified the nexus between wealth concentration and its capacity to

control the government in an almost complete form. One illustration of many will suffice. Big Pharma was able to squeeze a trillion dollar boondoggle out of the government by the Republican drive to block the government from bargaining with Pharma about the price of drugs. The Republicans have their eyes on other temptations such as Medicare, Medicaid and Social Security. What is it that drives the Republicans to destroy highly popular social safety nets?

The answer to the above question is to be found in the longstanding Republican nightmare called the New Deal. The New Deal produced popular policies and its political success was reflected in Roosevelt being elected four times. After his death Republicans considered that the New Deal was popular and an important base of power for the Democrats. The problem they confronted was that the New Deal programs were popular and could not be directly attacked. Their agenda focused on foreign fears and anti-communism. However, the lingering fear of New Deal institutions was finally frontally assaulted by the brilliant Ronald Reagan. Reagan had the insight that the New Deal worked only so long as the government could pay for it. The critical Republican strategy would now be to run up huge deficits so that there would be no funds to pay for New Deal programs.

Moreover, if the Democrats came back to power, they would find that there is no money in the state bank to fund their programs. So fiscal conservatives like Reagan and Bush ran up huge deficits, and borrowed billions, which they could now distribute as governmental socialism to Republican business and defense interests. This left us with a deficit nightmare and a mighty recession.

With a great deal of political amnesia Republicans now proclaim the morality of living within our economic means. You can't spend funds if your bank account has no funds in it. They are the architects of this approach and the creators of the monumental deficit. Few heard from the deficit hawks during the Bush spending spree, fueled with money borrowed from China. We still do not hear the Republican leadership willing to acknowledge their budgetary scam. Meanwhile, our nation is in a spiral towards radical inequality and a diminishing of our national values. Perhaps our economic oligarchs should be reminded of the wisdom of Alexis de Tocqueville who saw the key idea behind the American genius as "self-interest properly understood." By this he meant that by taking care of your own self interests you simultaneously express a concern for the other person's self interest as well.

### **3. Other Dimensions of the Problem of Economic Theory and Practice**

For a long time, conventional economics has entrenched itself in both academic and intellectual circles and in policy arenas. It has experienced sharp and trenchant attacks on its organizing theories, methods of analysis and more importantly, its unapologetic lack of concern for the undesirable outcomes for human society that it consistently generates. In our time, senior members of the World Academy of Art and Science had made the issue of the need for a new paradigm in political economy a prime concern. The new paradigm will require a serious revision of its fundamental premises, its failed methods and its lack of concern for the social consequences of its theoretical inadequacy. A number of specific issues

have been used to target the weakness of conventional theory. For example, the concern that the focus of economics should be on the value of the GDP is considered to be myopic and ultimately unrealistic.<sup>4</sup> Others have stressed the limitations of mechanistic measures to realistically understand values. The methods of measurement are thought to be rooted in the fundamentals of a Newtonian universe in which matter and cause are exclusively used in cognition. Still other concerns stress the lack of understanding of productive forces and productive relations in the real world, which has gravitated to a post-industrial political economy. This development has tended to overlook the salience and the contribution to value of the dynamic service economy. This new context effectually requires a call for a new emerging paradigm of global economics in the global social process.

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Conventional economics has tended to ignore insights and criticisms that are particularly trenchant and touch on the question of fairness and collective wellbeing. At the turn of the last century in 1899 for example, Thorstein Veblen, the American economist, published a book. The book is titled *The Theory of the Leisure Class*. This book may well qualify as Veblen’s insightful dig at the one percent at the top which constitutes the leisure class. Indeed, since Veblen’s time this class may well constitute itself as a global plutocracy. Veblen’s central thesis is that the activities of the successful leisure class amounted to “the winning of wealth by force.”<sup>5</sup> But this form of winning wealth was sold as honorable and dignified. On the other hand, labor was denigrated and tainted with indignity. In Veblen’s view, the leisure class in the modern economy was not far removed from barbarian ancestors. Veblen’s detailed description of economic life at that time underscored the point that conventional economics served to justify and serve the taking class, and the leisure class.

Later, Veblen wrote another book, which has a curiously important message for our time. This book is called *The Theory of Business Enterprise* (1904). In Veblen’s view, the businessman is not the wealth creator but rather the saboteur of the system.<sup>6</sup> One of the important insights in this book is Veblen’s description of the divorce of finance from manufacturing.<sup>7</sup> He uses an example from US Steel. Businessmen came together to construct the manufacturing plant. Actually, their real interest was not manufacturing but how the plant could be leveraged in the financial markets. That was where the real profits lay. The company’s assets were \$682 million. Against this was sold \$303 million in bonds, \$510 million in preferred stock, and \$508 million in common stock. The financial company in other words was twice as wealthy as the manufacturing plant. In short, the investors made a vast amount of upfront money from the financial sector. The manufacturing sector was really only an incident of their interests.

Carrying Veblen's meditations into the contemporary context we find that these insights have a curiously contemporary relevance that are best illustrated in the context of the financial crisis of 2008. Alan Greenspan, a leader in the force of conventional economics and a powerful spokesman for its legitimacy, admitted publicly, "Virtually no one foresaw the U.S. financial crisis."<sup>8</sup> He suggested that certain irrational "animal spirits" were the root cause of the crisis. In short, the real blame for the financial mess was not to be found in the conventional approach, which had not anticipated the crisis. Rather, the root cause of the crisis was some unaccounted external force of economic animal spirits. To this extent, the conventional theory itself is flawless and bears no blame for the financial crisis.

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*"The management of political economy is a matter of human choice and decision and not a matter of meta-physical speculation."*

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It should be noted that many economists liberated from the old paradigm had in fact anticipated the problems of the housing bubble. These economists suggested that the crisis was not rooted in meta-physical animal spirits, but in a financial sector devoid of meaningful regulatory standards. Therefore, we could explain that these so-called animal spirits were freed in the crazy financial world of unregulated derivatives. These derivatives are highly complicated financial instruments whose value is derived from an underlying asset somewhat analogous to the U.S. steel example cited above. It was in the housing market that the imaginative derivative innovations of paper value ran amuck. Financiers bundled millions of toxic loans using mortgage income as an ostensible stabilizer. They then creatively generated a second layer of derivatives based on the value they assigned to the first set of derivatives and continued the layering process. The outcomes of these layered packages of derivatives produced a distinguishing if incomprehensible nomenclature such as "synthetic collateralized debt obligations" and "naked credit default swaps." The paper of face value of these manipulations was in excess of \$35 trillion. In effect, fourteen times the value of the mortgages supporting them.

Warren Buffet, the billionaire, described these exotic financial instruments as financial weapons of mass destruction. Other economists saw these novel instruments of value as being created by perverse incentives. The thesis of the conventional paradigm is that blame rests with meta-physical irrational spirits. It is incapable of recognizing the flaw of radical deregulation. A process that contributed to the destruction of the financial markets. It avoids the importance of human choice in the financial mess. A new paradigm at the very minimum must be able to assign responsibility to finite decision makers and to clearly recognize that the management of political economy is a matter of human choice and decision and not a matter of meta-physical speculation. In short, a new paradigm must generate a method and procedure that lead to economic accountability and improved choices for the common good.

The central elements that implicate a new paradigm of economic thinking rest in the acknowledgement of the centrality of human capital as the prime concern of responsible economics. Second, there must be recognition of the facts and conditions of great economic transformations and an understanding of the balance between the freedom of contract and

responsible social regulation to guide the freedom of contract in constructive ways. By constructive ways we are talking about the fundamental values of liberty, equality, security, and social justice. Deep concerns are expressed at the great gulf that divides finance from productive economic processes. WAAS theorists maintain that “money is not the root of all evil that it has been blamed for. But the cancerous growth of unregulated speculative financial activity may be a good candidate.” They also insist that there is an important role for law in managing political economy, especially when law is based on human rights, human wellbeing and social justice.

The common challenges, which provide the challenges for a new paradigm, are generally speaking the following:<sup>9</sup>

1. They all transcend narrow disciplinary boundaries.
2. They are interrelated, interdependent and defy solution by partial, sectoral approaches.
3. They are all global in nature and cannot be fully addressed without coordinated actions by the international community.
4. Approaches to resolving these challenges are subject to conflicting claims, priorities and interests.

The central problems that are a current global priority and which cry out for new paradigm thinking include inter alia the following:<sup>10</sup>

1. *Economy & Employment*: How can global food security, full employment, and abolition of poverty be achieved within a decade?
2. *Energy & Ecology*: How can global living standards be raised to middle class levels without depleting or destroying the environment or depriving future generations of the capacity to sustain these achievements?
3. *Human Capital – Education, Health and Welfare*: How can global levels of education and public health be raised to OECD level?
4. *Money & Finance*: How can the necessary financial resources be generated and mobilized to achieve the goals described in the first three questions?
5. *Security*: How can we permanently eliminate war and WMD that threaten to destroy all other development achievements?
6. *Global Governance*: How can we design and implement systems of global governance capable of implementing necessary measures to achieve the other five goals for the welfare and wellbeing of all?

#### **4. The Necessary Elements of a New Paradigm<sup>11</sup>**

If we are searching for a global economic theory important to the entire global community, there would appear to be three things that the approach to a new paradigm should develop.

These four characteristics are as follows:<sup>12</sup>

1. It must be contextual, i.e., it must perceive all features of the social process of immediate concern in relation to the manifold events comprising the relevant whole.
2. It must be problem-oriented.
3. It must be multi-method.
4. It must be interdisciplinary with a focus on the dynamics of global interdependence and global inter-determination.

A new paradigm must have a focus that accounts for the social process context of the global economy and contextualize an orientation to the global processes specialized to the generation of “wealth.” It should clarify the concepts of reciprocity, barter, and money and examine the process from the perspectives of the participators including their perspectives regarding capital accumulation, surplus and the fundamental myths surrounding capitalism, socialism, and cooperativism. It must examine the concepts of free market and command economies. It should clarify the base values, which underlie the wealth process. It should examine the strategies relating to the conservation, production and distribution of wealth, introducing particularized strategies that relate to finance, production development and research, procurement and services, as well as aggregate strategies that for example are required in a money economy which in order to operate smoothly must generate a stable monetary unit and an adequate monetary supply. It must account for particular and aggregate outcomes and effects. In particular, the indicators of national wealth. Attention is given briefly to the gross national product, net national income, money supply, and the role of the government sector.

As a background to the evolving international norms of political economy, it is useful to consider the crisis of the great depression of the early 1930s. One of the great myths of the period was that the market was a completely autonomous, self-regulating entity. The great challenge to this form of economic orthodoxy was that the Great Depression was caused by human choices and could be resolved by human choices. Additionally, one of the struts of the belief in an absolute market was that it was the only appropriate guarantor of liberty. Again, Roosevelt challenged this idea by suggesting that necessitous human beings experienced diminished liberty. The central role of law invalidating the invisible hand of the market was the law’s construction of the meaning of property and contract in particular. The question that emerged juridically was whether property was essentially an aspect of liberty and was juridically absolute. This required a deconstruction of the notion of property itself.

The role of the New Deal in regulating the legal foundations of its economic emphasis permitted government intervention to restrain the unlimited power of the private sector often validated by fundamental law. Two of the most important consequences of the victory of the New Deal were reflected first in the Atlantic Charter, which articulated the war aims of the allies. In the war aims of the allies was a future in which there would be freedom from want. These ideas found expression in post-war efforts to give direction to global economic



development. The economic foundations of international human rights were expressed in the Universal Declaration as well as several important UN documents culminating in the Declaration of the Right to Development. These developments confronted the emergence of neo-liberal political economy, with a claimed global reach.

One of the important limits on the conventional paradigm of political economy is its stress on excluding certain segments of reality that are generally seen as inconvenient externalities. This approach essentially is excluding the relevant social universe of human interaction which involves the broadest possible range of economic activity. Excluding such activity excludes its economic value and distorts the outcomes of economic inquiry. Let me provide an illustration from the fields of law and economics that provide some promise in bringing in the context to inquiry about the interrelationship of law and economics.

Professor/Judge Posner provides a model of economic social process based on wealth. He believes that wealth is a defensible value.\* The model runs as follows: Human beings pursue wealth through institutions based on wealth to achieve more wealth. In this model wealth is a desired goal and wealth at the same time is a base of power to acquire more wealth. The problem with this model is that there are other social values universally identifiable based on either human needs or basic human claims. This is a model that would limit the focus of the economic inquirer.

Now let me recommend a more comprehensive model of social process that includes a comprehensive range of value institutional relationships. Here the model may be stated as follows: Human beings pursue all social values through institutions based on resources. We may now consider the relevance of the other values to a realistic theory of political economy. First, we have indicated that wealth may be sought as an economic value. We may have omitted the fact that wealth may serve as a base of power to acquire more wealth. Wealth may also serve as a base of power to acquire other important values in social process. For example, wealth as a base of power may be used to acquire power, to acquire respect as well as enlightenment, health and wellbeing, skill, affection, rectitude and aesthetics. However, all these other values may be used to acquire wealth. In short, power may be a base to acquire more wealth. Respect may be a base to acquire more wealth as might be the case of enlightenment, health and well-being, skill, rectitude and aesthetics. This picture of value processes interacting with each other to reproduce themselves or to reproduce other value processes is almost an indispensable focus for a realistic global foundation of a new paradigm of political economy. This is a useful way to underscore the relevance of both interdependence and inter-determination in the global social process.

We now provide elements of the context especially relevant to a new paradigm that is comprehensive and particular in its focus.

## **5. The Context of Ecological Values**

There was a time when the conventional wisdom in economics was that nature and related environmental resources were unlimited. Today, the reality of climate change challenges this

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\* There are limits to this defense of wealth accumulation when we ask what wealth is for. Does it satisfy greed, or entrenchment of plutocracy?

earlier altruism. A new economics must consider both the potentials and the limits of the ecology of the planet. The ecology of the planet, therefore, is a crucial factor of context for a new political economy.

## **6. The Context of Global Social Interaction**

Global social interaction involves the shaping and sharing of all values. The outcomes of this process generate the aggregate statistics of human development or the lack of human development. One of the most important problems that emerges from global social interaction is the problem of effective power and social conflict. However, the new economic theory must have a useable model of the global social process in order to fully appreciate the problems it generates on a global basis for all values.

## **7. The Global Process of Effective Power**

The global social process reproduces the institutions and imperfections of the production and distribution of global power. It is well understood that the outcomes of global power represent conflict and competition. Additionally, the expression of global power in society is done through the process of decision-making itself. We can call this decision-making according to naked power. Since power expresses itself in terms of conflict, war and often violence, it will be obvious that peace and security are critical foundations for a social process that seeks to maximize its human capital resources. In short, war consumes human capital resources, and does not enhance or reproduce it. The new economic theory must, therefore, account for the global processes that generate and sustain human conflict, since these processes generate deficits in development.

## **8. The Evolution of Power into Behavioral Constitutional Processes**

Conflicts about power do not always endure indefinitely. Indeed, there are periods when the power broker contestants in conflict may see that the continuance of conflict may only result in zero sum losses. This realization may generate the elements of inter-elite collaboration from which understandings may emerge about how to manage power in ways that avoid conflict and promote collaboration. If this happens, a society may emerge with a series of understandings about how power is to be distributed, indeed allocated among the power broker contestants. This level of institutionalization of power will reflect the emergence of the power dynamics constrained by distributions, which have the support of the authority of community members. When there is a form of constitutional process, we effectually have expectations about institutionalizing the forms of authorized decisions about decision-making itself. This is the foundation for the establishment of a system of public order in which all the values are distributed and produced via the authorized institutions of society. It would, therefore, be appropriate that the new economic theory develop and map the constitutive process (local to global) because it provides the framework of authorized decision-making regarding all the basic values in society including wealth. In this sense, a constitutional order that has a working capacity has an approximation to the idea of the rule of law. And the constitutive process is made operative by the constitutive functions

of decision-making. Thus, constitutive decision-making may both directly and indirectly influence development and progress. Additionally, a theory of economic novelty would have to account for the decision-making functions.

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## 9. The Functions of Decision-making relevant to a New Economic Paradigm

1. **Intelligence.** Intelligence, which includes gathering information relevant to making decisions and its processing, storage, retrieval, and distribution to all participators performing decision functions.
2. **Promotion.** The decision-making function of promotion requires agitation and recommendation of certain policies, which in the form of prescription have the quality of law. In this sense, promotion is a critical component in decision for directly changing the common interest. It is in this sense that we cannot look at economics as value-free.
3. **Prescription.** This decision function implicates the formulation and adoption of certain policies as authoritative pronouncements in appropriate sectors of the social process.
4. **Invocation.** This function of decision-making is essentially a provisional decision function that characterizes behavior as incompatible with the law and goals of the community. Those who perform the invocation function raise the question of what initiatives enhance or violate community prescriptions.
5. **Application.** This is the authoritative characterization of conduct as lawful or unlawful. To secure lawful ends, the applier must use tools of some form of sanction to secure appropriate application. In terms of the objectives of development, the consequences of development may be critically related to the actual applicative performance. The new economic initiative must, therefore, give careful attention to the idea of application if development goals are to be real.
6. **Termination.** The decision function of termination means the termination of something in the status quo and its replacement by something that changes the status quo. New economic theory must ensure the termination of dysfunctional traditional standards and embrace new thinking.
7. **Appraisal.** The theory of decision-making as applied to economic policy requires that there be constant measures that may be appraised in terms of advancing toward progressive economic goals and avoiding the regression to the opposite.

## 10. New Economic Thinking, Development and Social Change

The new economic thinking has its focus on development in terms of human capital and its potentials for improving the human prospect. It would have to identify a plurality of commu-

nity systems that are inter-dependant and inter-determining and range from the local to the global. What we observe are territorial communities who know what they want and where they need to go but lack resources and skills. An extreme example is “cargo cults”. If placed on a continuum, we may see the socio-pathological condition of hyper development. There are a multitude of problematic circumstances in between. For us to develop an approach that permits us to identify where we are and where we want to go, we would have to measure development in terms of the existent state and potentials for transformation of at least the following nine values:<sup>13</sup> power, wealth, enlightenment, skill, well-being, affection, respect, rectitude and aesthetics.

1. **Power.** The most important expression of power as decision is the understanding of the institution within which it expresses itself. For example, globally, power is significantly decentralized. This means an economic paradigm of global salience runs into the problem of the degree of lack of institutionalization of power. It is probably true that the most power-deprived are the least well off in global society. The new theory must be able to map global power and to appreciate its capacity to be mobilized for rational developmental objectives.
2. **Wealth.** In general, this refers to the aggregate volume and composition of what a society produces. It may refer to income in the community and also to the notion of an aggregate resource base. In general, when wealth is developed, the outcome is an increase in the volume and composition of products without depleting the resource base.  $(P+I) \div R$
3. **Enlightenment.** What we mean by enlightenment is the prescription and application of education in social and economic development. The nature of enlightenment as a social capital is evident when education in a society leads to development. A society with an increased education-knowledge base uses enlightenment to extend development through informed decision-making. Decision-makers would make decisions based on informed enlightenment.
4. **Well-being.** Well-being including health refers to the state or condition of a society and its members. The well-being of a society is directly proportional to the level of “life expectancy” and indirectly proportional to the expectancy of disease occurrence in that society. The optimum level of well-being, however, is dependent on other values in that society.
5. **Skill.** Skill is the ability to perform tasks (especially employment or professional tasks), as a function of human capital development. The skill value is for the benefit of society. Skill development is a consequence of an increase in the strength of the “skill pool” in a society where skills are directed towards development. Skill is a critical component of individual and social capital.
6. **Affection.** Affection is a form of positive sentiment and underlines the loyalty of individuals and associations to the group. Being a basic value, it has tremendous

social capital. The increase in scope of positive sentiments in a society increases developmental achievements and goals.

7. **Respect.** Showing regard for other individuals within a society is crucial to development. A lack of respect gives rise to discrimination, which in turn becomes a direct cause of retarded development.
8. **Rectitude.** Rectitude drives moral behavior in society. When rectitude of individuals within a society matches its development goals, there emerges what we call rectitude development.
9. **Aesthetics.** Aesthetics is rooted in human creativity and in human creative capacity. A culture of strong aesthetics will inspire economic development objectives.

These values are the critical components of a theory of global political economy. They are also implicated in the development and enhancement of human and social capital. The system of mapping the global social, power, constitutive and public order processes represents the essential contextual background for a political economy that focuses its theoretical foundations on the development of human and social capital. Essentially, the repository of human and social capital should be focused on the value institutional context and the framework of decision-making that shapes this context in ways that maximize the human and social capital capacity in society. The values approach gives us a shorthand method of understanding that human and social capital are clearly implicated in at least nine values that a cross cultural world can be observed with appropriate tools of investigation. The challenge for theory is to understand the divergent institutions respecting the cultural values and their level of efficacy in practice. We could start with the first challenge of theory, which is to establish the appropriate goals of human and social capital development.

Here, the challenge is to generate procedures and practices, as well as a theory to explain and justify this, which has the task of maximizing the production, distribution and sustainability of every value institutional process in order to maximize the structure, understanding and deployment of human capital. As a consequence we want to maximize the production, distribution and sustainability of power, wealth, respect, skill, enlightenment, wellbeing, affection, rectitude and aesthetics. In developing this framework we will be alert to the interdependence and inter-determination of functioning value systems. This means that power may be sought for its own sake but it may also be used to maximize value shaping and sharing and sustainability with regard to every other value listed above. Wealth may be sought for its own sake but may serve as a base of power to acquire power and all other values. In short, every value may be sought for its own sake and may also serve as a base of power to shape, share and sustain every other value. This approach requires us to see economics not as a disembodied field from human relations, and if we see in the value processes the repositories of human and social capital, we bring a sense of realism required for a durable new economic theory.

It will be obvious that these value institutional relationships that we identify are sought to contextualize what happens in the context of the global social, power and constitutive

processes. The central feature of power and constitutive process is the centrality of decision-making. We can expand this idea further by suggesting that the centrality to the development and uses of human and social capital is the capacity for the human agents of capital formation and use, to be active and important decision makers in the very processes through which human beings generate value through human capacity. We therefore suspect that the mechanistic approach to economics represents a dramatic failure in its omission to understand the role of decision as a critical component of human and social capital. We now will proceed to provide a few practical examples of these theoretical possibilities.

## **11. Human and Social Capital in Development: The Vicos Experiment**

The Vicos Experiment is a form of intellectual inquiry that also sought to induce a form of constructive, evolutionary social change in development. The inspiration for the experiment emerged from a view that peasants were incapable of modernization. An anthropologist, Allen Holmberg, and a former president of WAAS, Harold D. Lasswell, led the project. The project was located in the Uplands of Peru and included the village of Vicos. The project leader, Professor Holmberg, understood that the Vicosinos were the occupiers of land owned by an absentee landlord. Their position on the land was defined as the status of serfdom. With a small grant from the Ford Foundation, Holmberg purchased the land and the hacienda and essentially became the patron.

The farming practices of the village were unproductive because they had no incentive to produce crops that would be expropriated by an absentee landlord. This involved the project leaders in providing incentives to improve the village economy via farming. That also meant a movement away from near survival to a circumstance of modest prosperity. The incentive was that if the villages cooperated in farming operations, they could keep the profits for community purposes and if the profits were sufficient, they could purchase the land and become landowners. The project leaders found that the initiatives of the serfs with their intimate knowledge of farming capacity and climate, etc., supplemented by some technical expertise, essentially produced a significant sequence of crops and upon marketing, funds as well. It was important that the villages were participating in the decisions about agricultural production.

This initial initiative raised questions about how to exercise decision making in managing the profits from farming activity. This permitted the interveners to promote the idea that maybe decision making should be shared with the community and decisions eventually evolved to issues about healthcare, in particular, healthcare of women, schooling, including schooling for women, and the project evolved with a self-conscious direction of training in the processes of decision making and an awareness of appropriate goal values. One significant event was when the community decided they would invest in a truck to transport their products directly to the metropole and increase the value of their products by direct marketing.

The model pursued in Vicos attracted external attention. Some of the Peruvian elites were particularly concerned about what they saw as an incipient process of empowering the underclass. Other Indian communities saw Vicos as a model that they would try to emulate.

The Vicos leadership were willing to transfer skills to other Indian communities as well. Unfortunately, a delegation of Indian leaders on the way to Vicos to retrieve the recipe were attacked by hired goons. Several were killed. This gave the sovereign Peruvian state an excuse to terminate the project on the basis that it was disruptive of social peace. Although the project was ended technically, enough seeds of change and the processes of decision making to enhance human capital had been transferred. This village is still an example illustrating the importance of developing human capital on the basis that it is sustainable over time. The idea behind Vicos was recently of interest to the World Bank. One of the participants in the project presented the Bank with a broad prototypical framework of how this could be replicated elsewhere. The World Bank has also developed a more limited version of this idea in its projects that have dealt with micro-enterprise finance. It would seem that bank theorists would prefer to focus on a narrower framework of value institutional capital. The Vicos project combines elements of macro theory, intermediate macro theory and micro theory. The theoretical value of the Vicos experiment is that it can be simplified in terms of a useable development prototype. In this sense, it could have some value for new economic theory to focus on the multitude of possible prototypes that might be given operational effect worldwide. Several years ago, we discovered that there were several women from the village of Vicos who had completed advanced doctorates in the United States.

## **12. Indices of Value Accumulation in the New Paradigm**

We have given an overview of the problems inherent in conventional economic theory and method; we have also proposed a radical new way of approaching a new paradigm for economic theory and practice. We have illustrated that a new paradigm must have a focus that is global and comprehensive and yet have the dexterity to be problem-oriented and solution-directed. In this sense, a new paradigm must also be decision- or choice-oriented in focus. To this end, we have outlined the architectural or decision functions, which could enrich the level of economic discourse and practice. We have also provided the Vicos illustrations of the comprehensive global and local fora.

We conclude with a more specific explanation of the evolution of wealth and capital in economic discourse to the challenges of a newer “wealth” epistemology, we would submit that the approach we recommend will be well-suited to properly account for the omission using conventional economic measures of such vital value generating indicators as found in the service sector of the economy in social process.

Hence, it may be useful to start with the problem of the housing bubble and the “\$35 trillion” of “value” generated by it. The critical questions are, are these new value instruments such as credit default swaps and related instruments a real indicator of value in social process, or are these really an illusion of real value? Adam Smith, for example, saw the production of value in industrialization. This represented a closer focus for the creation of real value, than the tracks of the financial markets have taken. In our time, importance of a framework of more realistic indices of value in social processes lies in Veblen’s thesis about the parasitical leisure class. Marx’s analysis of the importance of political economy and class stressed, inter

alia, the value of the building and control of capture, which facilitated the generation of the monetization process. This, in turn, facilitated the emergence of the states controlling the political economy (the command economy), by elites who controlled the state.

The rise of the new liberal economy validates the role of the private sector's control over the political economy. Here, the private sector corporately exercised, generates a tendency to plutocracy. Neither of these perspectives solves the problem of realistic indicators of economic value, how to measure it, and how to make it serve the common interests. In short, the old paradigm distorts reality. It does not help.

The important economic theorists insist that salient transformations are happening in a world of economic value and we need a more comprehensive focus of inquiry to understand their social process impact and consequences. For example, Orio Giarini has indicated that global economic relations today are largely shaped by the emergence of a global service economy.<sup>14</sup> Giarini states that,

*“At his time, rightly, Adam Smith underlined the priority of industrialization, which was in between agriculture (an important sector, but which of course had to improve) and services (depending on “dedicated” people, but with no recognized economic relevance).*

*The point is that services tend today to provide about 80% of all the “productive” activities. The higher levels of technology, in most cases, become more and more efficient every day and the tools are becoming cheaper. But they require more and more services to conceive, manufacture, distribute, finance, control etc.*

*Some economists (see those who were involved in the GATT discussions) tried to include in the “normal” economic theory, the evidence of the growth of services, saying that they are simply products that you don’t feel even when they fall on your feet.”*

A proper appreciation of development of services in the nature of their real economic value is linked to the notion of risk management in time. This suggests that an aspect of value is linked to the future. This has profound implications for the science behind the notion of a service economy. According to Giarini,

*“Uncertainty and probability are the rules of the game (a little like going from Newtonian physics to Quantum physics). The economic value depends largely on the period of utilization, which also includes costs. At the beginning of the whole process, research is also based on managing probabilities, as well as market success, maintenance and security up to disposal costs. Value is necessarily linked to the notion of performance (in time). Entrepreneurs know this.”*

Unfortunately, conventional theory underappreciates the salience of service-related value as an indication of producing wealth in society. If our focal lens about epistemology of other wealth generating forms of activity such as the service sector were made a central indication



of the emergence of the new property, we would in effect be taking steps towards a new social reality, which implies a realistic optimization of wealth and a better distribution of it. A better distribution of wealth would also be an indication of social empowerment. Social empowerment would probably be in a progressive direction and the new property and its distribution would stimulate important developments for strengthening the global rule of law and global governance as processes generating a more enlightened regulatory scheme, which promotes and defends human rights law.

It would also be appropriate to examine important legal forms that new property might take.

Property as a form of wealth is one of the most enduring of legal institutions. Its chief characteristic has been its conservative nature. The legal myth is that stability mandates changes in the nature of property are slow and incremental. This myth still has vitality in legal culture. However, in the real world property is actually one of the most dynamic institutions in social process. The forms of new property are often far ahead of normal legal regulation of its creation, uses and termination. In fact, very few property lawyers would effectively describe the nature, functions and boundaries of the new financial property institutions. Additionally, new property forms are liberally incubated in the human imagination and emerge through complex social and technological processes into new forms of property such as intellectual property. A new paradigm must account for real conditions of property creation, duration, and termination no matter how contingent these processes are and also the value of human capital and its relation to social capital as well as the dynamic role of technological innovation generated by human and social capital and how it impacts on the social and economic consequences on society.

### 13. Conclusion

We conclude this paper encouraging the reader to appreciate the relevant economic and political markers and their interdependence and interrelationships. We have stressed that we need a comprehensive contextual approach that permits a focus on problem particularity and permits the use of multiple methods cutting across disciplinary lines.

The contextual map below represents the idea of a comprehensive global social, economic, and political process with the capacity to link a multitude of markers and pointers of relevance to economic theory and policy.

We hope our contribution facilitates the further exploration of the appropriate boundaries of political economy guided by the normative imperative of universal human rights and universal human dignity.

#### *Author Contact Information*

**Winston P Nagan** – Email: [nagan@law.ufl.edu](mailto:nagan@law.ufl.edu)

**Valeen Arena** – Email: [Valeen@ufl.edu](mailto:Valeen@ufl.edu)

## Notes

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