

A Practical Pathway to Economic Sustainability & Prosperity

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Geopolitical forces have brought about a dramatic realignment of the world's economies, potentially allowing for future economic sustainability and prosperity in a multipolar world.

The government of Canada, for instance, recently announced an initiative to diversify its trading relations across Canada and the globe, the implementation of which will include building critical new infrastructure, with projects such as highways, railways, ports, airports, oil pipelines, critical minerals, mines, nuclear energy facilities, and electricity generation and transmission systems. The idea is that these projects will enhance Canada's prosperity and strengthen access to Canadian resources and goods and services for a diverse group of dependable trading partners.¹

Now, the expectation of economic sustainability and prosperity is one thing. Fulfillment of that expectation is quite another. Even the most well-thought-out plans encounter breakdowns somewhere along the line — breakdowns that can have devastating economic consequences in communities.

A root cause of economic breakdowns can be attributed to not adverting to economic process. For it can be observed that *economies have intrinsic norms and criteria of their own*. Its norms and criteria are ripe for discovery and verification if attention is paid to how *actual* large and small individual businesses work and contribute to economies. Without the benefit of this approach, economic breakdowns are inevitable. Conversely, with the benefit of this approach, effective economic advisories can follow.

Hiding in plain sight, then, is a practical pathway to economic sustainability and prosperity.

Its possibility has long been ignored, owing to misguided assumptions about economic systems and performance, assumptions that have also negatively impacted our institutions in education, government, business, banking, and finance.

Economists in academia, the main source of current mainstream views, have resisted undertaking this needed shift in attention, thereby cutting themselves off from the only means by which to obtain economic data in concrete instances. Instead, they take their stand on conclusions drawn from speculative and imaginary models that are not only known to be flawed but also are remote to concrete circumstances in local and regional communities. This includes, for example, the circular flow model that is commonly assumed to be an obvious account of economic activity. It also includes GDP (and related metrics) that is generally considered to be the standard by which economic performance and the business cycle are measured.

Meanwhile, in the name of pragmatism, the approach taken by politicians and their economic advisors has roots in both capitalism (the economy should *exclude* government intervention) and socialism (the economy should *include* government intervention). Regardless, economic policy in the main is tied to GDP metrics, and consequences of the business cycle.

Also, in the name of pragmatism, business, banking, and finance normalize simplistic notions of profit, simplistic notions of supply and demand, principles of maximization of profit, principles of competition, and the commoditization of money. Collectively, these errors have evolved into pathologies that contribute

directly to, for instance, ongoing currency or balance of payments crises, trade crises, debt crises and widespread predatory behaviour by oligarchies and corporate elites.

In order to invite a reversal of this parade of misguided assumptions and errors, we only need point to an approach by which intrinsic norms and criteria present themselves. In other words, one needs to know what to look for. In fact, key insights about the intrinsic norms are generally accessible by observing what happens in any business, be it as small as one's local bakery or as large as one of Canada's national projects.

Understanding how any business contributes to the economy begins with observations that lead to the familiar distinction between consumer and capital goods. Observing that supply chains yield both consumer and capital goods is not new. *However, little significance has been attributed to the distinction between the two types of production.* By focusing on details of actual production and supply chains—from natural resources through to finished goods, final sale, and *usage*—it becomes clear that the distinction between consumer and capital goods, and their production and usage, respectively, is essential to understanding how modern economies work.

A handy way to understand the distinction is to notice that consumer goods are all the things that are produced and that go into our day-to-day living (for example, a loaf of bread). On the other hand, capital goods are all the things that are produced and *used to eventually produce* all the things that go into our day-to-day living (for example, a baker's oven, a factory in which the baker's oven is produced, a robot in the factory that assembles oven parts, and so on.). As far as *usage* is concerned, then, we *do* eat bread, but we *do not* eat ovens, etc., etc.

In brief, what can be observed is that, among other things, there are *two types of production and usage, and five monetary functions* (thereby also exposing the naivety of the circular flow model). None of these functions are defined either in terms of materials, or sectors, or ownership, or transactions. The results are verifiable at all levels and in all sectors, from individual roadside businesses, through banking and finance, to vast aggregates of businesses contributing to global production and supply chains. By following up on these observations, a preliminary heuristics for two types of production and corresponding monetary flows is obtained. The heuristics are conveniently named *two-flow economics*.²

Advocates of current mainstream economics might attempt to assess this heuristics based on the extent to which it agrees, or not, with current economic views. However, because of how mainstream terms are defined, they are not verifiable in individual circumstances. But two-flow economics is intended to replace mainstream economics, and by contrast, its terms *are* verifiable concretely in individual economic activities as well as in aggregates.

Claims of mainstream economics to the contrary, two-flow heuristics makes it clear that, in particular, GDP is not an appropriate metric for economic performance. Among other things, in all of its terms—import, export, net export, government, capital and consumer—GDP fails to strictly distinguish consumer, capital and monetary functions. And so, for instance, it is used to measure the business cycle. But to what end?

During an expansion, evidence of which might soon be seen in Canada's national projects, GDP is increasing, and growth as currently understood has a momentum of its own. But with no attention given to the two types of mutually dependent production, let alone their respective monetary functions, it is inevitable that, before long, the two types of production and the distinct types of monetary flow will fail to synchronize. A slump will follow, but the cycle can begin again.

Current practice may seem to work for getting expansions going. *However, the point is that current practice generally fails to bring expansions through to their fulfillment in consumer production.* That failure, in fact, stems from inadvertence to the mutual dependencies and appropriate synchronization of ebbs and flows in capital and consumer production. It begins to become clear then that, far from being necessary, the business cycle is, in fact, another pathology that is the result of not adapting to the intrinsic dynamics of capital and consumer production.

The pathway is clear for economists to change course in favour of observing *actual* production and payments in an economy. The validity of two-flow heuristics will then be difficult to deny without contradicting the facts. But because such contradictions so far go unheeded, it is also going to take an effective groundswell of public opinion to insist that economists and, ultimately, our institutions embrace two-flow heuristics.

¹ Source: Government of Canada website, “Building Canada Act – Projects of national interest”.

² Eventually, there will be a new science of economics and applications of two-flow heuristics will be as sophisticated as any modern applied science.