

Free market or sustainable development

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Alor honetako ekonomiaren eta estrategia berrien ikuspegi historikoa ematen du txosten honek. Ekologiaren auzia garrantzitsua da eta, Brundtland Txostenak dioenez, gizateriaren etorkizuna bera dago jokoan. Halaz guztiz, nagusi den ekonomia mota hau ez da ekologiaren auziari irtenbidea emateko gai izan, zeren eta naturaren kontserbazioa eta amaierarik gabeko hazkundea ùerrealitate alderaezinak biakù adostu nahi izan baititu merkatu librearen mekanismoarekin, berau natura babesteko arautu beharra delarik.

Giltz-Hitzak: Naturaren kontserbazioa. Ekonomia. Ingurugiroaren balioa.

Este informe aporta una visión histórica de la economía y de las nuevas estrategias en este campo. El problema ecológico es importante y, como afirma el Informe Brundtland, la supervivencia de la humanidad está en peligro. Sin embargo, la economía dominante no ha sido capaz de tratar la cuestión ecológica, porque pretende reconciliar la conservación de la naturaleza con un crecimiento interminable, realidades que es imposible equiparar, y el uso del mecanismo de libre mercado que debe ser regulado para proteger la naturaleza.

Palabras Clave: Conservación de la naturaleza. Economía. El valor del medio ambiente.

Ce rapport donne une vision historique de l'économie et des nouvelles stratégies dans ce domaine. Le problème écologique est important et, comme l'affirme le Rapport Brundtland, la survie de l'humanité est en danger. Pourtant, l'économie dominante n'a pas été capable de traiter la question écologique, parce qu'elle prétend réconcilier la conservation de la nature avec un croisement interminable, réalités qu'il est impossible de mettre sur le même plan, et l'usage du mécanisme de libre-marché qui doit être régularisé pour protéger la nature.

Mots Clés: Conservation de la nature. Economie. La valeur de l'environnement.

Classic economists thought that an endless growth was not possible because the earth is limited. But after the so-called neoclassical revolution, which began in the seventies of the last century, for one hundred years mainstream economics ignored the existence of limits. Of course, many scientists rejected this idea but they were ignored.

In the sixties environmental pollution intensified by some of the industrialised societies and rapidly became more widespread, as a result of the strong economic growth which began after the Second World War. Consequently, environmental awareness appeared and began to strengthen, and governments began to spend significant amounts of money in dealing with the problem, under the pressure of the public opinion.

Mainstream economics was no longer able to ignore the subject and its first reaction was to express fears that environmental expenditure might produce major damage to the economy (identifying economy, as it always happens, with growth). The report on an International Conference on Environment and Economics held by OECD in 1983, states that "fifteen years ago there was great concern that environmental action could impose a heavy, if not intolerable, burden on economies, slowing growth, aggravating unemployment, adding to inflation, inhibiting innovation and distorting trade."

However, the environmental policy carried out has been incapable of tackling the ecological problem. Although the emissions of some pollutants have been diminished, on the whole the problem is increasing, and is no longer just a set of local problems but has become a global one.

Mainstream economics cannot maintain its former position any longer, because if the ecological problem is a major one and, as the Brundtland Report states, the survival of mankind is in danger. Maintaining that ecology runs against market economy means the inevitability of changing the economic pattern, because survival is the highest priority.

As this position is no longer credible, mainstream economics now changes totally its strategy. Now it states that there is no unavoidable problem between ecology and economy, that endless growth and nature preservation are both possible, though growth must be sustainable in order to continue for ever. Most mainstream economists agree with the idea that free market is the most suitable instrument to achieve sustainability.

In order to reach this target, market mechanisms must be complemented, because they do not deal with non-market goods and services, and the environment is not a marketable good. The market does not give it any value. The solution has to be by valuing the environment, giving it a monetary value. And as there is no market to do this, it is necessary to create a symbolic one. The most common technique to do it is the Contingent Valuation. It is based on asking people how much they are willing to pay for the improvement of the environmental quality, or how much they are willing to accept as compensation for the loss of environmental quality.

Once the environment has been valued governments have to introduce the environmental costs into the markets by designing taxes or programs of tradeable permits of pollution. So environmental externalities have to be internalized. The solution to environmental problems becomes one of "marketising" the environment, which is the unique solution available to neoclassical economics, because as Gustafsson states, "(m)ainstream environmental economics is neoclassical economics and neoclassical economics is essentially the economics of the market mechanism" (Gustafsson, 98).

Now we are able to draw out the main conclusion of neoclassical economics: the free market is not responsible for the environmental problem. Governments have the responsibility because they have not been able to carry out the right environmental policy, to introduce

in the market the proper environmental cost, and in this situation markets can not give the right signals, the right prices. The World Bank, the OECD and the World Trade Organization, for example, repeat endlessly this idea.

In spite of the simplicity and apparent consistency of the theory, mainstream economics has not been able to deal with the ecological problem. It pretends to reconcile two goals (endless growth and nature preservation) which it is not possible to match, and at the same time defends the use of free market mechanism but the market must be regulated in order to protect nature.

Now I intend to analyse the inconsistency of the mainstream economic theory in dealing with nature and its inability to solve the problem.

It is clear that liberalization reduces the governments autonomy. This is more evident in the case of environmental policy. When a government puts into practice tougher environmental measures than others, it may produce two kinds of situation. Such measures could either increase the costs of the domestic firms or, they could produce greater costs to the exporters to the country affected. In the first case, the competitiveness of the domestic firms will be lowered. As a result of this, the firms will put pressure on the government to eliminate or, at least, reduce the scope of the measure. The problem could be solved by implementing tariffs to the exporters, but the World Trade Organization, will oppose to the solution, arguing that it will be a barrier to free trade. In the second case, the exporting firms will complain to the World Trade Organization, which always rules against trade obstacles.

Examples of the first case are the taxes on energy. At the beginning of this decade several nordic governments put into practice high energy taxes, and energy-intensive industries complained for the loss of competitiveness. As a result, governments have eliminated or lowered their taxes. The European Environmental Agency admits that Denmark, Norway, the Netherlands and Sweden have exempted or partially exempted their energy-intensive industries (European Environment Agency, 96)

An example of the second case is the German law *Verpack V* which obliged firms to recycle the packaging of their goods. Other governments and their exporting firms complained and the European Union banned it.

Other major contradiction of mainstream economics is that the theory of internalization of the externalities runs against the free market.

There is general agreement that the monetary valuation of the environment depends on three factors: consciousness, severity of the problems and rent. Taking into account that the level of these factors changes widely from one place to another, the valuations will be very different. The OECD Report, "Taxes and Environment", explains these differences:

In the first place, there could be important differences between countries regarding their ability to assimilate the discharges. When this capacity is very strong, the environmental policy can be less strict. Second, as rents differ widely from country to country, it is normal to find that the preferences for the environmental quality are very different.

The European Commission (1996) recognizes as well that there are many variations in values and priorities between countries. When this happens taxes must vary widely. It acknowledges the problems of competitiveness which is generated and finds the solution in the coordination of policies.

However, they do not explain how coordination could solve the contradiction. How could it deal with differences in costs? The only solution consists in unifying the environmental policies if liberalization is to be maintained. However, this goes against the theory of valuation.

Even in the case of Multilateral Environmental Agreements trade regulation is necessary, because the agreements must be defended from non-signatory countries. This happens with the Montreal Protocol, and the Basel Protocol, and so on. It is widely admitted that these regulations fail to comply with the World Trade Organization rules, specially articles I, III and XIII. The European Union asked to be made an exception to the free trade rules in the World Trade Organization, but the proposal has not been accepted (European Commission, 97.)

Apart from the governments loss of autonomy, liberalization generates other obstacles against sustainability.

As liberalization increases, it will be more difficult to reach new multilateral agreements.

Liberalization interferes with the implementation of the agreements, as frontier controls are disappearing. A WWF report on the repercussions of the NAFTA agreement states that it will stimulate the illegal trade of endangered species (French, 93.)

In rich countries liberalization decreases the necessity of sustainable management of their own resources, because after their exhaustion they can buy them at low prices in the international market from poor countries.

Liberalization stimulates the growth of trade, resulting in greater energy consumption, the building of more infrastructures, which destroy resources, and so on. On the other hand, it makes the recycling of materials more difficult.

Consumers in a global economy are more likely to be isolated from the consequences of their choices. This isolation occurs in part because increased division of labour and increased specialization widen the gap between local consumption and global production. It makes it difficult for the consumers to know how the commodities have been produced. They are left with little basis for their decisions beyond price, and quality.

In conclusion to my analysis of liberalization, liberalization, far from dealing with the ecological problem, is undermining the existing environmental policies and represents the major threat to sustainability.

Giving the outcomes of the market in reality, if we did not know the hegemony of the free market ideology, it would be surprising that neoclassical economics increasingly dominates the whole public discussion of sustainable development.

On the contrary, sustainability has to be founded on at least three principles:

1. Nature is not an inheritance that we can dispose of as we like, but a legacy that we have received from the past generations and we must deliver without harm to the coming generations. It is what Bromley calls **environmental regency**.

2. In order to ensure the integrity of nature, we have to take into account, in dealing with it, its systemic and holistic character.

3. Human economy is a part of the more general economy of nature, and for this reason the former has to comply with the rules of this economy.

I'll explain the transcendence of the principles:

1. Market economics deals with nature as if it were a commodity, something that can be bought, sold and destroyed, something that can be divided into pieces for the sake of the market exchange. But nature is not a commodity in the full sense of the term, because it has not been produced for sale. It is not something that can be reproduced endless times to cope with the demand.

By treating nature as a commodity, we put forward two processes of destruction. On the one hand, we submit the parts of nature that have market value to the logic of maximizing profits. On the other hand, we ignore the value of the functions of nature without market value. Altwater (1993) says that, "(v)alorization ... always entails a largely hidden definition of the non-valorable or valueless objects, the destruction of which is permitted. The price of valorization is thus the ruin of that which has not economic value."

On the contrary, Aldo Leopold says the following: "that land is a community is the basic concept of ecology" but "we abuse land because we regard it as a commodity belonging to us", and, "when we see land as a community to which we belong we may begin to use it with love and respect" (Goldsmith, 96.)

2. The earth is a complex entity involving biosphere, atmosphere and soil; the total constituting a feedback or cybernetic system which seeks an optimal physical and chemical environment for life in this planet.

De Groot (1994) believes that the natural environment provides us with four types of functions making possible the existence of the human species: regulation functions; carrier functions; production functions and information functions. Each function has sub-sets of functions, which amounts to a total of 36. The author suggests that these functions or values may be grouped in three sets: ecological values, social values and economic values.

Market economics treats nature as a set of commodities. But a commodity is something individual and independent from the rest of commodities. If I crash my car, the rest of the cars, the rest of commodities will not be affected. This does not happen in nature: if we destroy an ecosystem, the whole biosphere will be altered.

As Holling (1994) states, "the environmental problems are therefore not amenable to solutions based on knowledge of small parts of the whole (...) Therefore, the science needed must be interdisciplinary. A science that is able to integrate studies that combine insights and people from developmental biology and genetics, evolutionary biology, physics, economics, ecology, etc."

3 The human economy has to respect the rules of the economy of nature.

3.1 Nature does not grow, but evolves seeking always stability: it is continuity or stability that has been the most striking feature of the world of living things (Goldsmith, 96).

The goal of the economic activity is an endless growth and transformation of the nature and transgression of natural limits. This activity generates a vision of an unstable future. The insurance companies concern about the climate change is an example of it.

3.2 Nature thrives on diversity because diversity facilitates resilience. Fraser Smith (1996) affirms that "(a) growing body of ecological research gives compelling evidence that biodiversity confers stability on ecosystems by buffering them against natural and artificial perturbations and that increases system productivity."

The market mechanism promotes specialization and, for example, specialization in agriculture has caused a large-scale reduction of the number of species and is spoiling as Swanson (1994) puts it "a uniquely formulated insurance policy against shocks to the living system itself...because existing life forms encapsulate a history of successful adaptation within a changing physical environment".

3.3. As evolution proceeds, so do natural systems become increasingly self-sufficient, reducing their dependence on forces outside their control. This is an essential strategy for in-

creasing their capacity for homeostasis and hence their stability (Goldsmith, 96). According to Aalborg Charter, sustainability is "a creative, local, balance-seeking process extending into all areas of local decision-making."

A market economy seeks to increase the division of labour, the specialization, and by doing it, the autonomy and self-sufficiency of societies are diminished.

3.4. In order to maintain stability, and taking into account that the resources of the planet are finite, materials must be constantly recycled, the waste products of one process becoming the raw materials for the next process.

A market economy seeks a throw-away society, because by doing so firms lower their costs. As a result, waste is an increasingly problem in the western societies.

3.5. In nature the cycles of most materials are short, their use is local in order to reduce the need for transport. The market economy tends to globalization, enlarging more and more the distance that materials are transported, making the energy consumption greater and worsening the environmental destruction.

3.6. Nature produces only materials that can be reduced to the simplest components, so it maintains without change the amount of materials that it uses, and at the same time it avoids pollution. The market economy creates every year more than one thousand non-biodegradable chemicals, increasing every day the pollution and the depletion of resources.

3.7. Nature uses an inexhaustible source of energy, the sun. Market economy relies on hydrocarbons, that are exhaustible and polluters.

3.8. Increasing complexity and diversity that accompany evolution are closely associated with increasing cooperation between the constituents of the ecosphere (Goldsmith, 96.) The Aalborg Charter states:

"We shall encourage each other (the cities) to establish long term local action plans..., thereby strengthening inter-authority cooperation".

As the free market ideology expands, social cooperation is replaced by interpersonal competition. This replacement produces two main problems: it destroys the social wealth and by doing so it reduces social stability and it weakens the ability of the social system to take the path of sustainability. Gar Alperovitz (1996) thinks that "(u)nstable communities, unstable individuals cannot generate long-term visions, cooperatives, and social networks that are able, over time, to generate political and cultural support for sustainable systems".

3.9. Many important natural processes are characterized by relatively slow time rates. Formation rates of soil and recharge rates of groundwater, for example, run into hundreds and thousands of years.

Market economy changes quickly. In order to gain new markets and maintain the existing ones, firms have to produce new goods endlessly. As there is no time to waste (time is money) and an integral investigation on the repercussions of innovation repercussions would produce high costs, both humans and in effect nature are suffering the costs which firms are not willing to pay for.

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