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Sustainable Economics: A Very Short Introduction

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Sustainable Economics

A VERY Short Introduction

Professor Larry Udell

September 4, 2019

Economics and the well-ordered society in the 20th and 21st centuries

Mass Flourishing, pollution and shadow prices (hidden costs that are not reflected in market prices).

Partha Dasgupta in 1982: “The view that the market prices of goods and services often differ considerably from their ‘social values’ has gained increasing acceptance in recent years.” (*The Control of Resources*, p. 1)

Climate Change: the view from 1982

- “When, for example, any of us burns fossil fuels, then among other things the carbon dioxide (CO₂) content of the atmosphere is inevitably increased. So too is the content of the darkly coloured particulate products of combustion. These particulates absorb solar heat, whereas Co₂ produces a ‘greenhouse’ effect. The net effect is that the combustion of fossil fuels tends to increase the mean global temperature.” (ibid, p. 2)

Economics: A Very Short Introduction (2007)

- The pessimistic view: “there is strong evidence that the rates at which we are currently utilizing [natural resources is] unsustainable.”
- The “optimistic view emphasizes the potential of capital accumulation and technological improvements to compensate for environmental degradation.”
- “Environmental scientists and activists hold the former view, while economists and economic commentators maintain the latter.”

Removing the shadows

- Interpret natural resources inclusively allows us to treat them as capital assets.
- Treat pollutants as negative resources: resources as goods, pollutants as bad.
- Thus a logging firm that imposes costs upon residents, so there is an “implicit subsidy”...paid for by people who are evicted from the forest and by people downstream. The subsidy is hidden from public scrutiny; but it amounts to a transfer of wealth from the exporting country to those that import the lumber” (121).

Discounting the future on climate change

- “[W]hen in 2004 eight eminent economists were invited to Copenhagen to offer advice on how the world community could most usefully spend \$50 billion over a five year period, they placed climate change at the bottom of their list of ten alternatives” (122).
- “Huge costs now, but the benefits would be enjoyed only 50 to 100 years from now.”
- Bringing us to *The Economist’s Hour*

False Prophets, Free Markets, and the Fracture of Society

- “As the quarter century of growth that followed World War II sputtered to a close in the 1970s, these economists persuaded political leaders to reduce government’s role in the economy – to trust that markets would deliver better results than bureaucrats.”
- “When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.”

From Political Economy to Economics – And Back

- Or from macroeconomics to microeconomics, and back.
- Classical economics focused on macro questions – the distribution of income between the classes (Ricardo, Marx)
- The neo-classical economists of the 1870s put the focus on microeconomics; the labor theory of value is supplanted by opportunity cost.

The Keynesian Revolution and its aftermath

- Keynes emphasized market imperfections, leading to the “Neoclassical Synthesis,” with separate courses in micro and macro.
- When that fell apart in the 1970s, the “supply side” schools went back to classical micro theory, with its hypothesis of perfect markets and
- Individual maximizing as the key to changing things (e.g., Coase’s Theorem)

Hobbes, Adam Smith, and Nash

- Hobbes: Free individuals in a competitive setting results in a prisoner's dilemma / free rider outcome.
- Adam Smith answers that competition a free market with a rule of law to protect property can utilize the potential gains from cooperation and division of labor to produce a beneficial social outcome.
- Nash goes between Hobbes and Smith: People will generally not free ride or undermine cooperation *provided that they think others will too.*

The basic structure of society and the macro perspective

- The basic structure as a macro question
- Macro questions are policy matters to be decided democratically
- Macro decisions involve not just monetary goods, but all “primary goods”

Some remarks about economic systems

“It is important to keep in mind that our topic is the theory of justice and not economics, however elementary. We are only concerned with some moral problems about political economy. For example, I shall ask: what is the proper rate of saving over time, how should the background institutions of taxation and property be arranged, or at what level is the social minimum to be set? In asking these questions, my intention is not to explain, much less to add anything to, what economic theory says about the working of these institutions...” (*A Theory of Justice*, 1971, p. 265).

Basic income and full employment?

- Rawls's social psychology: in a well-ordered society, people have a tendency to act a la Nash, rather than a la Hobbes.
- Many environmental problems are exacerbated by luxury spending. (Compare flying a billionaire around the world in a private Boeing 747 with feeding, clothing, and sheltering people).
- Employment and basic income would likely make people feel they are part of a system of social cooperation.