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Marketplace usually ignores the ecosystem -- at our peril

Neil Dawe, Oceanside Star
Published: Monday, August 04, 2008

Conventional economics is leading us down a treacherous path, one that isn't grounded in reality. First, its current goal of ever-increasing economic growth is not sustainable. And second, the famous "invisible hand" of free markets, which supposedly leads profit-driven firms to do what is "best" for the world, doesn't always work.

Let's look at the first problem: continuous economic growth. Basic high school physics taught us that matter-energy can neither be created nor destroyed. In other words, you can't make something from nothing.

Production of the economic goods we purchase requires raw materials, which also form the structure of ecosystems. This structure, much of it a diverse web of plants and animals, is what allows ecosystems to function and provide ecosystem services. These vital, life-support services include clean air and water, ozone for UV protection, pollination of food crops, and buffering from storms and droughts.

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So it is important for us to understand that all economic production imposes costs in the form of diminished and degraded ecosystem services. The more our economy grows the greater the costs.

Thus when BC Finance Minister Carole Taylor said in her 2008 budget speech that we no longer have to choose between having a healthy environment or a strong economy she was absolutely wrong. There is a fundamental conflict between a healthy environment and a strong economy if that economy is based on continuous growth.

Once you're aware of this, you'll begin to notice that most government efforts to deal with climate change invariably include a statement that allows for continuous economic growth while at the same time supposedly reducing greenhouse gas emissions.

Finance Minister Taylor put it this way: "This budget supports and adds new momentum to the government's plan to reduce B.C.'s greenhouse gas emissions. It also includes a series of initiatives to keep our economy strong and growing."

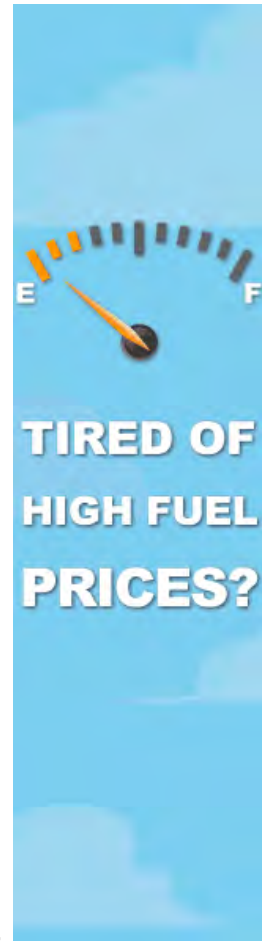
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The second problem concerns the market as an effective means of doing what is "best" for the world. However, it certainly doesn't seem "best" for our children. The BC child poverty rate increased from just over 10% in 1980 to over 23% in 2004 despite the growth of BC's economy by nearly 50% over the same period. Markets based on one dollar, one vote, as they tend to be today, lead to the concentration of wealth and resources while if based on one person, one vote, they would tend to lead to just distribution of wealth and resources.

But just as importantly, market forces do not always work. Sir Nicholas Stern, world authority on the economic consequences of global warming said that global warming was "the biggest market failure ever seen." Why didn't markets work in the case of global warming?

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Markets only work when resources are, in economic terms, excludable and rival or privately held and competitive. Excludable resources work well in the market because individuals can be prevented from using them unless they pay. Rival resources also work well in the market because when one person is using them it precludes another person from doing so.

However, virtually all ecosystem services are non-excludable and non-rival. For example, no one can prevent you from benefiting from the carbon sequestration that an old-growth forest provides or from the oxygen it produces. And the oxygen you use from the forest doesn't prevent me from using the forest-produced oxygen. So if you can benefit from these resources without having to pay for them, why would you pay?

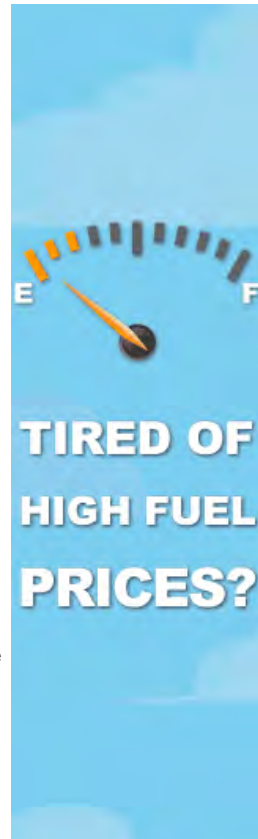
Thus, ecosystem services, the life-support services of Earth, do not fit well with the 'invisible hand' and are usually ignored by the marketplace. In part, this explains our current environmental crisis of degraded ecosystems, diminishing biodiversity, and climate change.

This brings us to what ecological economists call the macro-allocation problem: how much of the ecosystem structure should we use for economic production and how much should we leave in a natural state for the production of ecosystem services? It's an important question because if we don't get it right, it could mean the end of humanity.

One thing we do know for sure, based on physical and ecological laws, is that we can't have an ever-growing economy and a healthy environment. We need to move to a new economic model that's in balance with the capacity of the Earth's ecosystems to regenerate what we remove as raw materials for economic input and to absorb the wastes that result from economic production.

Today's conventional growth and market-based economics is a discipline filled with jargon. But understanding its principles allows us to challenge some of the impossible claims of its proponents and work to base an economic model on the real world.

Learn more about a sustainable economy at www.steadystate.org. Neil Dawe can be reached at nkdawe@qualicuminstitute.ca



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