

Climate Change and New Economics

By Rajni Bakshi

Climate change has been good for new economics. It is not yet clear if the reverse will also be true. Can the diverse streams of 'new economics' thinking substantially bolster the intensifying efforts to grapple with the threat of ecological doom? Can they indeed provide a decisive input?

First, a quick recap of how and why the red alert on climate change has helped to vindicate new economics thinking.

In 2006, at about the same time that the Inter Governmental Panel on Climate Change put out its disturbing findings – that climate change is now set to accelerate exponentially and the window for our species to correct course is closing rapidly—the British economist Nicholas Stern made a still more startling statement. He called climate change the biggest market failure in all of history.

Stern had just completed a report for the British Treasury on the business implications of climate change. His conclusion echoed the IPCC's findings and added further emphasis: business as usual cannot tackle climate change.

At a gathering like ours, here at Fireflies, this may seem like a no-brainer. Hey! We've known this all along. And yet what Stern's statement implied was something far more radical.

It is not just that climate change is a monstrous market failure. It is, in some ways, a failure of the very idea of the market as it has been understood and practiced for the last two and a half centuries.

The prevailing market system rests on a basic assumption that's dressed up as a 'law'. Namely, that if each one of us studiously pursue our individual self-interest the larger good will naturally unfold. This is the famous magic of the invisible hand. Now in a limited sense this is true – as long as we are thinking only of something as elementary as Adam Smith's famous baker and the buyer of bread. You don't want to, or can't, make your own bread. Ms. X down the road is good at baking bread so she does her thing, you become her customer and both benefit.

But apply this to all of life and the 'law' turns to sawdust. We don't have to go as far as climate change to see this. The traffic jams in which we spend most of our time now are a more immediate piece of evidence.

Everyone's 'self-interest' in owning their own car has contradicted the basic attraction of having a car – ie. the ability to go anywhere at anytime at a rapid speed in the comfort of your own vehicle.

The good news is that a more diverse range of people now 'see' this. Even more significantly there are inputs coming from different branches of research and knowledge which vindicate the work of many streams of philosophical insight and economic thought which we tend to club together as 'new economics'.

1. Work at the interface of neurology and economics is showing that the human brain, and its decision making processes, do not quite match the construct of the narrowly self-aggrandizing individual around whom most of classical economics was designed.
2. Independent of this research there is a mounting rebellion within the discipline of economics against the concept of 'homo economicus' – and this is not limited to streams like Ecological Economics.
3. The exponential growth of well-being indicators is repeatedly providing evidence that after their basic survival and comfort needs have been met most people don't experience a proportionate increase in happiness as they acquire more and more things.
4. On a different grid new arts of number-crunching have put a monetary value on the services provided by eco-systems. This more accurate accounting of natural wealth, is seen as a substantial aid to redressing ecological imbalance – by making producers and consumers pay full costs of their footprint on the planet.
5. A new generation, people now in high school and college, is more in tune with these shifts and more aware about the fundamental rupture between ecology and economy. As these young people enter professional life and rise to decision-making positions they will bring a new world view to bear on business and industry.

All these developments are valuable in the broad, and inevitably long drawn out struggle to restore ecological balance. But will these provide a decisive shift? Honestly, I don't know.

If you listen to the intellectual leaders of these thought-movements there are mixed signals. For example, Paul Ekins – who pioneered some of the earliest work on new economics in the late 1980s and early 1990s – now says that he spends less time in trying to challenge and tweak economics. The real shift that's needed must be in the social and political values which drive our societies. Similarly, Steve Marglin, who has been a challenger from within at

Harvard's economics department, points out that politics drives economic thinking not the other way around.

Many concepts that sounded 'wild' within the mainstream discourse in 1985, when many of the new economics proponents first met in London for the first TOES (The Other Economic Summit), have matured and are having impacts. Such as:

- Well-being indicators
- Related emphasis on Gross National Happiness rather than just Gross national Product.
- Methodologies for measuring local multiplier in the economy of a town or region.
- Emergence of the concept and measuring tool of Ecological Footprint.
- Pressure on private companies to report on a Triple Bottom Line (of Planet, People, Profit).

A comprehensive list would be much longer.

These are substantial gains. The red alert on Climate Change along with the financial melt-down of last year has caused many of the 'unconverted' to have deeper doubts about the prevailing market culture. There is a greater willingness to listen to different, even radical, perspectives. But whether this in itself will help push forward economic policy, a public culture and consumption patterns that foster sustainability depends now on the momentum of social, cultural and political movements. In this I would include new business models which are anchored in what one industrialist has called the "triple top line", ie. making ecological sustainability and social equity the starting point at the design stage.

The road ahead is as excitingly promising as it is dangerous.