

Selling the environment in order to save it? Markets, trade and sustainability.

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Thank you for the invitation to be the speaker at the annual AFTINET dinner. The invitation was rather courageous because listening to economists is not always good for the digestion. I don't think anyone doubts, however, that the relationship between the economy and broader social and environmental problems requires careful understanding. Hence the focus of my talk is on 'markets, trade and the environment'.

I have been teaching political economy at the University of Sydney for more than three decades. A major influence in the early days was Professor Ted Wheelwright, who died last year. Ted always stressed the need to engage economic analysis with politics and social changes. He put particular emphasis on the importance of the changes in capitalism on an international scale. Ted would have been very pleased to see the surge in the number of students enrolling in political economy this year - there are over 600 students studying political economy in my first year undergraduate course. I have just set them an essay, inviting them to reflect on particular features of the capitalist economy and its implications - for efficiency, equity and sustainability. The question of sustainability is perhaps the most profound, not just for those students but for all of us as citizens.

Sustainability has varied interpretations. Economic sustainability requires the reproduction of productive capacity, including the replacement of depreciating capital, whether natural human or manufactured. Social sustainability implies the reproduction of acceptable social structures, social capital and social cohesion. Ecological sustainability is a yet bigger challenge. It requires the maintenance of biodiversity, ensuring ecological integrity, maintaining the stock of natural capital and providing for intergenerational equity. That means that the current generation should leave to the next generation a physical environment in no worse shape than which we inherited.

All such considerations are threatened by climate change. The scientific evidence shows the potential severity of this problem. So we have to carefully consider how to move from an unsustainable situation to a more sustainable set of economic and social arrangements. Is it possible to make this transition in a way that is consistent with concerns about social justice? If that latter concern is not respected then we are unlikely to get the necessary basis for collective action to drive the necessary attitudinal, behavioural and structural changes.

Coalition building is politically necessary to confront in this context. No one group within the community has a monopoly of concern or the independent capacity to drive the necessary changes. A broader popular front is

necessarily implied. Thankfully, there are good prospects for the green and environmental movement, the labour movement, NGOs like AFTINET and participants in social welfare organisations to work together in this context. These all have strong traditions of opposition to the politics of neo-liberalism and some experience of working together for more progressive policies. There are tensions between them, of course, because they have distinctive histories, interests and political cultures. Yet they all have in common interests in opposing further environmental degradation and in seeking sustainability.

The position of business interests and organisations is significantly more problematic. Of course, businesspeople are citizens too, and ultimately just as vulnerable to the problems of climate change and environmental decay. In the short run, however, many of them profit from the very activities that create the environmental problems. That is the sense in which the challenge of sustainability is a class issue. As Clive Hamilton has documented in his book, *Scorcher*, corporate interests in Australia have played a pernicious role in obstructing the embrace of more ecologically responsible policies.

Business interests are not monolithic though, and there are at least some promising signs of awareness about the need to change. Some business organisations are also embracing a triple bottom-line accounting that involves monitoring of the environmental and social outcomes, as well as the directly financial outcomes, of business activity. Yet it is equally clear many other business interests are quite reactionary in responding to environmental concerns. A recent issue of the Australian magazine *Wealth Creator*, for example, featured an editorial that began by saying 'Kevin Rudd's decision to sign Australia up to the Kyoto protocol could cost the country billions of dollars and hundreds of thousands of jobs'. Reading that reminded me of an earlier addition of the *Business Review Weekly* that ran a picture of Bob Brown on its front cover under the banner headline 'The Green Menace'. The aversion to any social concerns that are seen as threatening to short-run profitability is a long-standing feature of capitalist business interests and their organisations.

Dealing with the looming environmental crisis is good economics though. The publication of the Stern Report in the UK shows that the economic costs of inaction will substantially exceed the economic costs arising from policies to prevent climate change accelerating. So agreement to remedial policy measures has a strong economic rationale as well as meeting environmental and social needs.

What is to be done? What policy possibilities are on the agenda? And which should a progressive social and political coalition be pressuring to have as the highest priorities?

An emissions trading policy seems to be at the top of the policy agenda at present. The review committee, chaired by Ross Garnaut, that the Rudd government set up to report on climate change policies, is putting a strong emphasis on this policy. Some environmentalists have welcomed the interim Garnaut report because it stresses the magnitude of the climate change problem. I cannot help recalling though the earlier report on the east Asian

ascendancy produced by the same Ross Garnaut for the Hawke government: it advocated Australia specialising in environmentally damaging industries because that is our comparative advantage relative to the nations of Asia. Perhaps Professor Garnaut's thinking has moved on. The advocacy of emissions trading, however, has similar roots in orthodox neoclassical economic theory. According to that theory, if a limit is set upon the total amount of allowable carbon emissions, and permits to pollute up to that limit are issued and traded in the market, the permits will then be acquired by those with the greatest need to pollute and the greatest ability to pay for doing so.

The effectiveness of such a 'cap and trade' policy in practice depends upon how strictly the limit on acceptable pollution is defined, how vigorously it is policed, whether the initial allocation of permits gives preferential treatment to existing polluters, and the conditions under which the market operates. All these practical considerations can result the application of an idealised neoclassical theory producing a much a muddier outcome in the real world.

An alternative that has been strongly advocated by environmental activists for many years is a carbon tax. Our taxation on goods and services is currently centred on a GST that is levied at 10% across-the-board on most goods and services. A carbon tax, by contrast, would have a differential impact on the price of different goods and services according to the amount of fossil fuel consumed in their production. Products whose manufacture and supply requires the burning of much fossil fuel would become more expensive. Aluminium products are a case in point, because their manufacture involves the use of enormous amounts of electricity, typically produced by burning coal or oil. Proponents of carbon taxes argue that, once such products become heavily taxed, consumers will seek to switch to cheaper, less environmentally-degrading products.

Like emissions trading, the economic case for an environmentally-targeted taxation structure such as a carbon tax has its roots in neoclassical economic theory. The implication is that patterns of production and consumption will adjust to changes in market price signals. A strong incentive will be established for seeking and implementing technological changes that involve substitutes for increasingly scarce and non-renewable materials, energy sources and products.

The policy choice between emissions trading and carbon taxing has been widely discussed in the economic literature. In principle both policies could achieve the same outcome. The former sets the permitted level of output and allows the market price to vary. The latter policy sets the price and allowed the output to vary, in which case the tax can be adjusted either up or down in order to achieve the desired or acceptable level of carbon emissions. Here endeth the lesson from ECON 101...

In the real world market responses can operate quite differently. For example, you would expect to see a market disincentive incentive effect happening now as the price of petrol rises to \$1.50 a litre and beyond. However, I don't

observe less crowded roads. The availability of good, readily available alternatives to the car is a precondition for getting people to switch. And those alternatives do not just arise spontaneously. Meanwhile, the inflationary effects following from the oil price rises seem to be leading to other quite different problems – inflationary pressures have led the Reserve Bank to create rising interest rates; and have also generated calls from conservative politicians for the labour movement to exercise more wage restraint. The effect of the changing price structure is thereby shifted to aspiring home owners and to negative impacts on the incomes of working Australians.

Market-based policies for dealing with environmental concerns have particular problems. They seek to conserve the environment by putting a price on it. 'Selling the environment in order to save it' is indeed a strange principle. Emissions trading in particular has a narrow 'market logic' that does not recognize the more fundamental problems associated with capitalism as an expansionary economic system, and how the extension of markets has created the environmental stresses in the first place.

Moreover, market-based policies for 'environmental fine-tuning' all have predictably adverse outcomes from an equity perspective. Wherever the price of environmental goods rises they become less accessible to the poor. In the extreme, access to environmental goods - even to the requirements for life itself - becomes a matter of ability to pay.

The Australian environmental scientist Sharon Beder has written an excellent book, *Environmental Principles and Policies*, that explores some of these problems more deeply. She sets up three environmental protection principles - the sustainability principle, the polluter pays principle, and the precautionary principle. She further identifies three relevant sets of social principles - the equity principle, human rights principles and the participation principle. Assessing economic instruments for pollution control against these six criteria produces some very negative conclusions. Beder shows that economics-based environmental policies simply do not measure up to what is needed. So, if we are to go beyond tinkering with the current economic arrangements, we have to engage in yet more fundamental thinking about new directions in environmental policy.

Another prolific Australian author, Ted Trainer, has been arguing a stronger variant of this view for many years, emphasising the environmental limits to growth that require radical changes in our economic structures, going far beyond the 'fine-tuning' that leaves the underlying orientation towards profit-driven expansion unchanged.

Regulation is an alternative to the market-oriented economic policy instruments that warrants more consideration in these conditions. Neoclassical economists are always reluctant to embrace regulation because they regard it as less sensitive than market arrangements. But it sends stronger signals and generally produces more predictable outcomes. It is implied in 'cap and trade' emissions trading anyway, to the extent that the

'cap' is set by the regulator. More firm regulation may entail the prohibition of particular environmentally-degrading and hazardous activities altogether.

Government expenditure and subsidies also need to be part of the broad policy package. Government expenditure encouraging the development and use of more ecologically sustainable transport technologies is a case in point. The provision of better infrastructure and public transport services would directly result in lower emissions and less fuel consumption per capita if usage levels rose as a consequence of the public transport improvements. Installing solar power, and providing the industry policy arrangements necessary for the development and support of other industries producing alternative technologies, are other policies where government expenditure can contribute directly to more ecologically sustainable arrangements. We have had great solar energy scientists in Australia, but they have not had the government support for their innovations, with the result that some have chosen to work elsewhere.

Public ownership is a yet more direct aspect of state intervention in the pursuit of ecological sustainability. There is no universal reason why public enterprises should adopt more ecologically sensitive technologies than private enterprises. It all depends on the policy priorities that drive the decision making within those enterprises. However, taking the current issue of electricity privatisation in New South Wales as a case in point - a policy proposal being driven by my former students Maurice Lemma and Michael Costa ! - it is clear that prospective shift from public to private ownership would close off policy options. Privately owned energy providers have a direct stake in increasing the demand for their product. What is needed in current circumstances is precisely the opposite. We need electricity to be provided by institutions that will work with customers in order to reduce electricity consumption. From this perspective, public ownership, if not a pre-requisite for the adoption of more ecologically responsible managerial practices, at least keeps open the progressive possibilities.

Of course, it is important to recognize that a broader array of social changes is integral to the process of shifting to more ecologically sustainable arrangements in our economy and society. Information about the nature of climate change and the impact of different forms of production and consumption is important. Education, stressing the nature of the problems and the avenues through which solutions may be achieved, is equally important. The promotion of energy-efficiency is crucial, helping us to act in more individually and socially responsible ways. And the broader challenge to consumerism of as the dominant ideology is something to which we can all personally contribute. As Clive Hamilton and other social researchers have shown, there is no reliable relationship between consumption and happiness anyway, so restraint in consumption for those who are already quite affluent should have no adverse effect on wellbeing.

There is evidently a wide array of strategic responses and policy alternatives to the looming environmental crisis. Quite properly, there is much debate over the relative merits of different policies. Quite likely we will need to move on all

fronts. The movement will need to be global in nature. Indeed, it is at the international scale that some of the most dramatic challenges arise – the challenges of uneven development, of local production for local consumption and combating neoliberal free trade policies.

The problems that result from uneven development are fundamental. The glaring international economic inequalities requiring more advanced industrialised nations to take a lead. That is a precondition for eventually gaining the cooperation of poorer countries. The latter are understandably more reluctant to embrace policies that they see as likely to slow their rates of economic growth, unless they see yet more vigorous initiatives from the wealthier nations.

A report backed by 60 countries – announced in today's newspaper – illustrates the importance of this distributional dimension. It notes that "the unequal distribution of food, and conflict over control of the world's dwindling natural resources, presents a major political and social challenge to governments, likely to reach crisis status as climate change advances and world population expands from 6.7 billion to 9.2 billion by 2050". The authors further argue that "the present system of food production and the way food is traded around the world... has led to a highly unequal distribution of benefits and serious adverse ecological effects, now contributing to climate change".

Local production for local consumption is a principle that needs particular attention in these circumstances. There is a prodigious use of energy and transport resources in moving products around the world in order to increase the range and variety of products available at particular locations in 'the global supermarket'. This is simply not sustainable. Some aspects of the consumer movement are already starting to give priority to the advantages - including food freshness - of consuming products that are relatively local in origin. The embrace of such a principle also flies in the face of neoclassical economic orthodoxy that has underpinned the arguments for free trade and the growth of international free trade agreements.

We must surely be coming to the end of this period of neoliberal globalism in which creating international free trade has been the dominant drive. The challenges are not just to a dominant economic ideology though. They are also to the power and influence of transnational corporations, the World Trade Organisation, the International Monetary Fund and other institutions that are deeply wedded to economic practices that prioritise profit-seeking over deeper societal and ecological concerns. Not only is free trade wasteful of energy and other scarce resources, trade agreements also frequently inhibit the autonomy of national governments and their capacity to implement environmental protection policies. It is important to continue challenging these arrangements, as AFTINET is doing.

Australia's contribution to redress of the global environmental crisis is crucial. Quantitatively, Australian consumption, production, energy use and effluents are a tiny part of the global aggregates. But we have a potentially strong leadership role, as a relatively affluent, developed nation with the capacity to

be a global exemplar. Simultaneously, as the world's largest coal-exporting nation, we have a particular need and responsibility to change. The tension between the economic gains from environmentally unsustainable production and exports and the moral imperative to embrace radical reform is striking. A strategy for transition from an unsustainable to a sustainable economy is imperative. The coal industry cannot and should not be closed down immediately, but the Rudd government needs to urgently introduce a transitional program if it is serious about making the structural changes in the economy that are necessary for ecological sustainability in the longer term. That transitional program needs to focus on arrangements for shifting workers to new, sustainable jobs, and on regional policies to address the particular needs of areas like the Hunter and the Illawarra.

Thinking in terms of sustainability requires quite a different mindset. A shift from competitive and individualistic to co-operative and collectivist behaviours is implied. Action for sustainability, if it is to also embrace social justice, must also challenge the dominant political and economic institutions of the current era. Economic and environmental 'fine-tuning' will not suffice. This, to my mind, is why sustainability is an issue of modern socialism and social democracy, because it necessarily challenges the prevailing ideology, power structures and practices of corporate capitalism. Simultaneously, it also opens up opportunities for progressive political action, based on the coalition of forces – *our* coalition - that the severity of the environmental problem makes possible and necessary.

The punch-line for my talk was going to be 'The heat is on, and we have not got that long' but it seems that the AFTINET auction is about to be on and I haven't got any time at all. Thankfully, tonight we are not auctioning the environment...