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## What is the appropriate role for economics in sustainable governance?

### Conference paper

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## **Title: What is the Appropriate Role for Economics in Sustainable Governance?**

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In this paper, we assess the role of economics in sustainable governance. We ask, firstly, how and to what extent has 'environmental and resource economics' – i.e. modes of economic thought with neoclassical roots applied to the study of natural resources and the environment – helped us understand the goal of sustainable development? We explain the context in which environmental and resource economics developed and the main propositions made and boundaries laid during its formative years. These help us understand the paradigm's approach to sustainability, characterised by, among other things, the social planner's desire to optimise human welfare over all time and the drive to place monetary values on, and aggregate, all forms of wealth, including natural assets.

Environmental and resource economics has offered important insights for sustainable governance, especially the notion of opportunity cost and the consequent imperative of valuing natural assets based on human well-being. Although one can legitimately object on ethical grounds to placing (monetary) values on natural assets, it is important to demonstrate this value as otherwise it will simply be ignored in value-driven economic decision-making. Also, it is inevitable that environmental sustainability will have to compete with other sustainability objectives and with non-sustainability objectives in securing scarce economic resources now. Also, in a world dominated by financial imperatives, it is important to show. Because sustainability has become a political concept as much as a scientific one – used by many organisations as a legitimising tool for essentially business-as-usual policy – the rigorous and consistent theoretical basis on which environmental and resource economics depends can also be considered a strength, *if* the assumptions that constitute this basis holds. But this is a big 'if'.

Indeed, we would argue that the nature of the sustainability problem stretches the credibility of environmental and resource economics, mandating a wider variety of approaches. Large-scale environmental problems such as climate change and biodiversity loss are characterised by significant risk, uncertainty and ignorance, by their very long-run effects (in turn necessitating the understanding of long-run economic change) and by the threat of major, discontinuous and irreversible changes in and damage to the environment. None of these elements has been adequately or fully addressed by environmental and resource economics. Instead, relevant research has been undertaken from alternative economic standpoints, including ecological economics. We discuss what these alternative approaches have so far achieved.

The second question we ask in this paper is what decision-making role should economics assume in sustainable governance. We argue strongly against the mode exemplified by the Copenhagen Consensus, in which a select group of Nobel laureates were asked to judge on cost-benefit grounds the merits of tremendously disparate and aggregated policy objectives, including climate change, education and migration. The outcome, for instance that trade reform is 'very good' but the Kyoto Protocol is 'bad', has received backing from the *The Economist*, betraying the fact that, even if many environmental and resource economists recognise the limitations of economic models of climate change, mainstream economists may not. This form of economic hubris is not supported by the theoretical and empirical state-of-the-art. We argue that economics has much to offer to sustainable governance, but it is not able to nor can it ever offer a definitive answer on what is the optimal path of sustainable economic development. Boundaries need to be set and a more pluralistic economics should be encouraged.

### **Provisional Contents**

1. How does environmental and resource economics address sustainable development?

- a. A brief history of environmental and resource economics, including its main propositions: optimal non-renewable and renewable resource extraction; limited market failure/externalities and corrective measures; valuing natural assets;
  - b. The discovery of a 'new' set of pervasive, global environmental phenomena and the emergence of a sustainable development agenda;
  - c. The economics of sustainable development: maintaining well-being across generations, either in and of itself or through the maintenance of some configuration of the capital stock; genuine saving; (hybrid) models of sustainability scenarios.
2. What has it contributed to the sustainability debate and what are its strengths?
    - a. The importance of valuing natural assets in a world in which there are many competing claims to scarce economic resources;
    - b. The strength of a rigorous and consistent analytical framework, especially with regard to a sustainability agenda that has become politicised and has as many meanings as organisational commitments.
3. What are its weaknesses?
    - a. Decision-making under risk, uncertainty and ignorance;
    - b. Equity issues;
    - c. The notion of ecosystem resilience and the threat of large-scale, discontinuous and irreversible change;
    - d. Endogenous technological change and endogenous preferences.
4. What alternative approaches exist and how much have they contributed?
    - a. Ecological economics: what does it do differently? What has it achieved? Is it actually useful to separate the paradigms?
    - b. Disequilibrium, evolutionary approaches;
    - c. Alternative conceptions of welfare and their impact.
5. How should economics engage in sustainable governance?
    - a. The Copenhagen Consensus: a critique;
    - b. Setting appropriate boundaries for what questions economics can and cannot answer given the present state-of-the-art;
    - c. Towards a more pluralistic economics of sustainable governance.