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What is the economy for?

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The field of hedonic psychology builds on the work of economists such as Richard Easterlin, Tibor Scitovsky and Bruno Frey; psychologists such as Daniel Kahneman, Ed Diener and Robert Lane; and philosophers such as Mark Sagoff, Jerome Segal and Martha Nussbaum. The findings from this relatively new field suggest that those in the rich countries can actually be happier, healthier, and better protect our environment by producing and consuming less stuff – but there appears to be an inherent conflict between a fairly clear vision of a better world, where people enjoy life and preserve and heal our natural environment, vs. the requirements of the economy. As market economies are now organized they contain a number of seemingly intractable contradictions between what is good for most people, in the present and the future, and the immediate incentives for the most powerful market actors. These contradictions include the following:

- If the rules of the market encourage competition that cuts the money costs of production without regard to the pay, health, or work experience of the workers, or the impact on the environment, or on other stakeholders, then corporations who do not engage in these competitive, cost-externalizing practices lose out; under the existing culture and practice of market competition, firms that wish to survive cannot avoid degrading the human and social capital on which they depend.
- If the structure of the economy and the polity permits enormous concentrations of political and economic power in corporations, movement towards sustainability will be hindered by the ability of business to persuade governments to act in the narrow corporate interest, against the interests of the future and the rest of the world.
- If the viability of many businesses depends on persuading people to set their sights on a luxurious life-style, it will remain exceedingly difficult to counter the prevailing messages heard by people, from infancy on; messages that make people believe – against the evidence of their own experience as well as the results of good research – that happiness is usually or best achieved by more stuff.

Such contradictions appear irresolvable – as long as we attempt to solve a systemic problem from *within* the system that is in trouble. We cannot begin to think our way through to constructive scenarios so long as we face a contradiction that makes it impossible even to consider a reduction in economic growth as now defined. Unfortunately macroeconomic theory, as it is now taught and applied, sets inappropriate goals, de-contextualizes the economy, gives too little attention to the future and to important types of economic activity, and is severely biased toward monetary values and the status quo.

Given severe contradictions in the economic system and shortcomings in the theory purporting to explain it, we must go a level up, to consider the other systems within which the economic system is embedded. Most importantly these are the ecology on which economics all depend, and the societies whose well-being is supposed to be the goal of the economy.[1]

When markets transgress the limits that they need in order to keep from harming their social and physical environment, they generally lack the ability to self-heal. It is becoming evident that the present mix of economic activities, globally and in large economies, is not ecologically sustainable; it is creating the conditions for future disaster. But the future (even as it looms very near) is not adequately represented in the systems of market incentives that motivate many economic activities. To some extent markets can be made more efficient by a stringent insistence on internalizing negative externalities – that is, finding ways to make polluters, for example, pay for the harm they do. Clever regulations can find ways to include, within the market (as long as the regulations stay in place and are obeyed), more complete feedback which forces economic actors to pay for the social and ecological costs of their actions. (This is the point of "internalizing externalities.") However such feedback can probably never be perfect; it certainly cannot be perfected (though it can be improved) in time to be the only force inducing adequate climate mitigation. And, most important, the incentives to internalize externalities must come from outside the system. Cost-internalization is a way of making the system work better for the whole society, but is not in the interest of the individual actors who, if they can shift to others the true costs of production, marketing or other activities, will gain a market advantage and/or larger profits. It is even harder for any system to block its own meta-externalities.

Meta-externalities are *unwanted side-effects of the whole economic system on its physical and social contexts* – effects in which the economic culture fouls its own nest, if the "nest" is understood broadly as all the contexts for economic activity. The replacement of thrift with conspicuous consumption, of concern for integrity with concern for winning, are examples, in the cultural context, of meta-externalities that emanate from the economic system we now have. Markets are creating meta-externalities that degrade natural, human and social capital, and they often provide inadequate maintenance for the shared manufactured capital (e.g., transportation, communications, and municipal infrastructure). To translate from negative to positive terms, the common capital assets on which society at large depends may be understood as social goods, or (in economic language) as "public goods." It has long been well understood that free markets supply too little of this kind of good (while also over-supplying such "bads" as pollution, injury, corruption, etc.).

A focus on the environmental causes of climate chaos leads almost inexorably to a requirement to reduce the total global consumption of energy, and of materials with energy-intensive requirements in production or transportation. The replacement of fossil fuels with sustainable alternatives may ultimately relax this requirement, but we must expect at least a 50-year transition period while those alternatives are developed, mass-produced, and their costs lowered. For this transition to take place in a way that increases, rather than reducing, resilience and social cohesion, it will be essential to support policies that depress conspicuous consumption, and encourage societies to define success in terms other than material possessions.

However, an economy cannot be weaned away from one orientation without giving it a new one. As long as jobs depend on profitable businesses, businesses need to be profitable. But the reason we want jobs is to earn the income that will allow us to purchase the things we need and want. It is not easy define precisely what constitutes adequate food, shelter, support for health, and care for the young, the old, and the infirm; but even without precise definitions, we can at least point to these as immutable needs. Wants, however, are another matter: they are highly suggestible, and the satisfaction of wants does not always lead to well-being.

A new look at the economy requires a closer examination of which aspects contribute to well-being. There is much activity in the primary and secondary sectors – extraction and manufacturing – that supports basic needs. There are other large portions of these sectors that create profits and jobs, but do not create well-being. There is much evidence that the gambling industry falls into this category; tobacco and many narcotics are other obvious examples. As argued in *It's Legal but It Ain't Right: Harmful Social Consequences of Legal Industries* (Passas and Goodwin, eds.) existing government decisions as to which such products to permit, and which to criminalize, are not immutable, and may not be the best decisions; many scholars argue that gambling should not be legal, but that tobacco and most drugs should be – while being severely restricted in their advertising, where they can be sold, to whom, etc. (the "legal but hassled" model that is being invented with respect to tobacco).

Other important primary and secondary sector activities produce products that are theoretically benign, but either the production process or the way they are sold create serious negative externalities. Food and agriculture provide good examples. Food, as a general category, is obviously essential; but high-fructose sweeteners (often derived from corn) are introduced so widely into the North American diet as to be a significant factor in the dangerous epidemic of obesity. The way food is prepared and sold – e.g., the fast-food culture, and the appeals to children on TV – add to the harm done by this sector. Finally, the means of raising food, in huge monoculture plots or animal enclosures, are creating a series of grave health hazards.[2]

A summary conclusion from this is that the U.S. *could* have much healthier food and a healthier agricultural sector, while reversing two centuries of environmental destruction on the land. This would require a conversion to a system of agriculture with reduced use of chemical inputs, reduced energy inputs, and increased inputs of human time and human intelligence. The downside would probably be increased overall cost of food. U.S. households on average spend a much lower proportion of their income on food than has generally been the case for any highly urbanized society; nevertheless, any increase in food costs – just like any increase in energy costs – is hardest on the poor. Food and energy are thus two examples, among many, of areas where efforts to mitigate climate change and move away from an economy dominated by cost-cutting competitiveness will need to be balanced with efforts to protect low-income households

[1] This contextualization is what I and my colleagues at the Global Development And Environment Institute are attempting to do in our college-level textbooks: *Microeconomics in Context*, published by Houghton Mifflin, and *Macroeconomics in Context*, which is available – for free – on the web site, www.gdae.org.

[2] See Ritchie, "The High Price of Cheap Food" and Riggs and Waples, "Accountability in the Pesticide Industry," in Passas and Goodwin, eds.

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