

**Economics for a world with limits**

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I’m delighted that we have this chance to talk about sustainable economics – a reunion, really, given that the words ‘economics’ and ‘ecology’ come from the same root, the ancient Greek *oikos*, meaning household.

And it’s also helpful that economics is concerned with the allocation of scarce resources – because certain key resources do indeed seem to be in rather scarce supply. At the program I run at NYU, we’re especially interested in five such resources:

* atmospheric space for carbon emissions,
* oil,
* land,
* water, and
* food.

In each of these cases, we see the same story: rapidly rising demand, thanks to a growing population and rising affluence, coupled with hard questions about whether supply growth will keep pace. We see increasing volatility. And, ultimately, we see questions about the limits that bound our economy.

And in terms of the research and policy agendas that this implies, I’d like to highlight just three.

The first and most obvious is **how we make economic growth environmentally sustainable**.

Ecological economics has of course already made numerous important contributions here, for instance looking at internalisation of environmental costs, the impact of perverse subsidies, pricing carbon through taxes or cap-and-trade, or the work now underway on valuing public goods like avoided deforestation or ecosystem services.

But looking to the future, I think two areas are critical for further work.

One is the emerging debate between those who argue that the nature of the challenge is to ‘decouple’ economic growth from environmental impacts – i.e. less carbon, less pollution, less waste per unit of GDP – and those who go further, and argue that in a world of finite resources, there are limits to economic growth *per se*. Perhaps we can come back to this issue in discussion.

The other area for more work is what happens when rational actions to protect the environment are held back by political obstacles.

No government wants to pick up the tab for protecting global environmental commons. Vested interests are adept at lobbying to keep environmental costs out of prices. Governments like Pakistan’s keep trying to remove food and fuel subsidies they can’t afford – until the politics force them to back down.

And I think that political economy analysis, to pick up the theme of this weekend’s conference, has a crucial role to play in analysing how policymakers can assemble coalitions that have an interest in making change happen, and overcoming these blockages.

This leads directly on to what I think is the second key theme in economics for a world with limits –taking seriously the issues of **fairness** that arise.

Martin Wolf provided a neat summary of this aspect of the issue in a piece he wrote in 2008, when he noted that:

**“**Climate change and energy security are such geopolitically significant issues because they bring back the question of limits. For if there are limits to emissions, there may also be limits to growth.

“But if there *are* indeed limits to growth, the political underpinnings of our world fall apart. Intense distributional conflicts must then re-emerge – indeed, they are already emerging – within and among countries.**”**

We see this happening in fragile states, where competition for access to land, water and other natural resources is becoming a major threat multiplier.

We see it in the ‘scramble for energy’ taking place around the world, in the trend towards so-called ‘landgrabs’, and in other aspects of resource nationalism.

And of course, we see it vividly in global climate policy.

Stabilising the climate will ultimately depend on defining a safe global carbon budget, and keeping global emissions within it. But that also entails 192 nations agreeing how to share that carbon budget out between them.

In all these instances, actors have a common stake in sustainable management of shared resources. There’s a risk of sliding into zero sum games. But there’s also the possibility that scarcity can prompt them to cooperate, and create non zero sum outcomes.

But crucially, those non zero sum outcomes depend on governance frameworks being seen as fair.

So on climate, for example, I’ve long believed that the only way countries will be able to agree on how to share out a global carbon budget, is if there is a managed process of convergence to equal per capita entitlements – an approach Adair Turner also argued for, when he chaired the UK’s Committee on Climate Change.

Admittedly, the politics aren’t yet in place for such a radical approach – but then, I don’t think the politics are yet in place to solve the problem, period.

If and when they are, I think that will in large part be *because* space has opened up for franker discussion of these fairness issues. I wish technology, innovation and voluntary action alone would get us where we need to go, but unfortunately I don’t see the evidence for that.

The third key agenda here, for me, is about **dealing with the shocks, stresses and volatility** that will come with a world of limits.

We’ve already seen plenty of shocks in recent years resulting from environmental degradation, climate change and natural resource scarcity – commodity spikes, extreme weather, food export bans and so on.

And this raises the question of how we can invest in resilience – especially for poor people, who are disproportionately vulnerable.

Within developing countries, this agenda is about governments, communities and aid donors really scaling up work on areas like climate adaptation, social protection and peacebuilding – areas overlooked in the Millennium Development Goals agenda.

Internationally, we need to look at how to make the trade system more resilient in the face of security of supply concerns – through commodity reserves, mechanisms to manage the risk of food export bans and so on.

And we also need more stress testing on institutions exposed to climate change and resource scarcity.

How will changing precipitation patterns affect trans-boundary water agreements? How will receding coastlines impact the UN Law of the Sea, and its system of Exclusive Economic Zones? Where will scarcity flashpoints create risks of violent conflict, and how do we prevent it?

But as well as investing in resilience, I think we also need to do more to anticipate and prepare for the *windows of opportunity* that open up immediately after shocks.

Gordon Brown emphasised yesterday that while successful navigation of the transition ahead depends on collective action, political space for it seems to be closing down, not opening up.

To overcome this, I think much depends on our being ready with the right ideas – on sustainable economics, on managing globalisation more broadly – when a shock means that there’s suddenly willingness to think the unthinkable.

I’ll close, on this note, with a quote from Milton Friedman that seems especially apposite to an INET conference at Bretton Woods:

"Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable”.