

# The Free Market and the Sustainability Mindset

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Markets and capitalist incentives have great strengths in promoting economic efficiency, growth and innovation. And as Ben Friedman of Harvard University argued persuasively in his 2006 book "The Moral Consequences of Growth," economic growth is good for open and democratic societies. But markets and capitalist incentives have clear weaknesses in ensuring stability, equity and sustainability, which can adversely affect political and social cohesion.

Obviously, abandoning market-capitalist systems — and implicitly growth — is not really an option. Collectively, we have little choice but to try to adapt the system to changing technological and global conditions to achieve stability, equity (in terms of opportunity and outcomes alike) and sustainability. Of these three imperatives, sustainability may be the most complex and challenging.

For many people, sustainability is associated with finite natural resources and the

environment. The global economy will probably triple in size in the next quarter-century, largely owing to growth in developing countries as they catch up to developed country incomes and adopt similar consumption patterns. Thus, there is a well-founded fear that the planet's natural resources, broadly defined, and recuperative capacities will not withstand the pressure.

To some, this logic leads to the conclusion that growth is the problem and that less growth is the solution. But in developing countries, where only sustained growth can lift people out of poverty, limiting it cannot be the answer. The alternative is to change the growth model to lighten the impact of higher levels of economic activity on natural resources and the environment.

But there is no existing alternative to which we can all switch. Changing the growth model means inventing a new one over time, step-by-step, from complementary parts. The two key ingredients seem to be education and values. Everyone, not just policymakers, needs to understand the consequences of our individual and collective choices. We need to be aware, for example, that population growth and rising consumption levels have intergenerational consequences and that how we conduct ourselves will affect the lifestyles and opportunities of our children and grandchildren.

Thus far, the quality of our choices has been unimpressive, reflecting little sensitivity to sustainability and the impact of our choices on future generations. As a result, many developed countries have built up dangerously large public debts and even larger nondebt liabilities, owing to unsustainable growth patterns.

Most of us, I believe, do not knowingly make choices that adversely affect future generations. So perhaps incomplete knowledge of the consequences of our choices is responsible. Moreover, an unfunded liability path, once taken, is hard to leave because at the point of departure some generation is paying for past commitments and at least beginning to fund future ones. If that seems unfair, it is because it is unfair.

Most people might agree that living beyond our means via unfunded social services and insurance or disproportionate use of resources imposes a burden on our offspring. But we might still fail to reach agreement on who should pay for funding these programs or for reducing our consumption of resources. Too often, it is easier to deal with the distributional problem by shifting the burden to those who are not present and who are insufficiently represented by those who are.

Education and values are the foundation of sound individual and, ultimately, collective choices. Without them, the incentives and policies that economists rightly argue are needed to increase energy efficiency, limit carbon emissions and economize on water usage will lack support and fail in the democratic decision-making process.

If sustainability is to triumph, it must be predominantly a bottom-up process. Environmentalists are right to focus on education and individual choices, even when their policy proposals are not always on target. Education and values will drive local innovation, alter lifestyles and shift social norms. They will also affect business behavior via choices by customers and employees, including business leaders. Thus, they are essential components of the formulas needed to pursue sustainable patterns of growth.

But while education and values are necessary, they clearly are not sufficient. Complementary national policies and international agreements will require careful scientific and economic analysis and thoughtful choices. The need for burden-sharing, particularly between advanced and developing countries, will not magically disappear. Climate-change risks, though serious, should not be mistaken for the entire sustainability agenda.

There are clear steps that can be taken. Appropriate regulation and sufficiently long time horizons can make structures of all kinds much more energy-efficient, without imposing burdensome costs. In a similar way, transportation can become less energy-intensive without restricting mobility. Some of these shifts might be subject to international coordination to avoid adverse competitive consequences, whether real or perceived.

But too much coordination can be a bad thing. That is why climate-change negotiations are shifting from the misguided objective of seeking risky 50-year commitments to binding carbon-emissions targets to focusing on parallel, step-by-step processes, including higher energy efficiency, better urban planning, improved transportation systems and on learning as we go. Likewise, businesses and industries that are heavy water users will simply develop new technologies and thrive in the face of scarcity.

Progress has been helped by growing awareness in populous Asia — and in developing countries generally — that sustainability is the key to achieving their longer-term growth objectives. This perspective perhaps comes more naturally in an environment of rapid growth because their growth models require continual review and adaptation to be sustainable.

Over time, values shift as knowledge is acquired and disseminated. Policies aimed at sustainability are likely to follow. What is unknown is whether we will reach that point fast enough to avoid major disruptions, or even potential conflict.

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