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**Civil Economy and Civilized Economics:
Essentials for Sustainable Development**

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Abstract

This essay will consider the relevance of the social sciences - especially economics - to the foundations of sustainable development. Looming environmental crises have served as a prime motivating force for reevaluating fundamental principles. In particular, the concept of sustainability, carrying with it clear requirements for values, goals and ethics, has begun to reshape economics. The broadest conception of sustainability is found if we understand sustainable development to mean Socially And Environmentally Just And Sustainable development - "SAEJAS development".

Throughout the paper we will see examples of rules, or norms, that serve to organize human behavior without requiring that everything be rethought all the time. Among these may be found some ethical rules that lay the foundation for responding to the current situation in which humanity finds itself. What notice should the social sciences take of such rules? How would the social sciences - especially economics - have to change in order to be able to pay appropriate attention to ethical norms?

"Participatory science," involving citizens as well as specialists, is proposed as an outline for the kind of science that is needed under contemporary circumstances. The approach described under this rubric will be contrasted with the methods and assumptions of mainstream economics. The essay will give some attention to how economic ideas - for better or for worse - affect and shape culture and society. The theory of sustainable development is proposed as offering strong, practical elements of a needed alternative economic paradigm. The conclusion will remind us that theory alone has little effect, and will point to an area where theory and practice can work together to civilize modern economies.

Introduction

Most people, if they think about the purpose of the social sciences, assume that it is to serve the well-being of humankind. That is a reasonable assumption; at least, it is shared by the author of this article. However, within my own discipline, economics, under certain circumstances, a different assumption is stated and believed: that economics is value-neutral. Such a belief, where it is actually followed, strips economics of the possibility of having a purpose, or a goal; how can you have a goal if you have no values? That, some economists have claimed, is just the point; economics is no more than a tool, to be used for any goal pursued by any user of that tool.

Such a logic implies that the practice of economics is entirely individualistic, like the practice of painting. A person who has learned how to use a brush and pigments can paint pictures purely for her own pleasure, or for sale, or in the hope of becoming famous, or infamous, or to create gifts for friends, or as an expression of feelings or beliefs. While close friends and family may not always be able to avoid looking at the painter's products, the circle of those who are forced to take this medicine does not extend very far. If I paint bad pictures, it probably will not affect your life.

By contrast, the practice of economics is often, in its effects, a social activity. The collection of ideas, assumptions and explanations that make up this discipline probably does affect your life, in a variety of ways. Government policy-makers as well as CEOs and managers of large and small firms consult economists, or recall what they had learned in economics classes, when they make decisions on local, national and international levels. Roads are built here instead of there, or instead of railroad tracks. Loans are made to these people, or these nations, rather than to those. Laws are made to regulate industries, or not. International trade negotiations affect what is produced, where, creating some jobs and eliminating others. Minimum wage legislation, education policy, tax policy, interest rates, and myriad other pieces of the social framework are shaped by economic analysis.

If the practice of economics is going to affect our lives, it seems reasonable for you and me to care that this discipline be oriented towards our well-being - or, at least, towards the well-being of humanity, of which we are a part.

That statement can be argued. The neoclassical economists² who have urged that economics should be value-neutral can point to historical reasons why values in the social sciences can be dangerous. Nevertheless, this article will point to changes in the world that appear to tilt the balance in favor of the social sciences in general, economics in particular, accepting some ethical responsibility; and it will suggest some ways to define that responsibility.

We will start from the proposition that goals, values and ethics are critical parts of the civil context; and the civil context is, in turn, essential for the healthy functioning of an economic system.

1. The Civil Context

1.1. Goals, Values and Ethics as Social Capital

Goals, values and ethics are just beginning to receive renewed attention in the mainstream of economics. This is largely due, via a somewhat circuitous route, to the recent emphasis on sustainability.

It has long been recognized that production, of virtually any kind, is a process in which capital stocks (an example might be a factory with machinery and stocks of lumber) are deployed to produce a flow of output (such as wooden furniture). Traditional economics has focused on output flows. Thinking about sustainability has directed attention to the importance of maintaining the stocks on which these flows depend.

Labor economists, as well as less mainstream groups such as feminist economists and ecological economists, have pointed out that "built capital" (such as machines, or milled lumber) is only one of the kinds of stocks that are required for production. We also need natural capital (the trees that yielded the lumber, the land and ecosystem that produced the trees) and human capital (the skill and knowledge of the workers who will operate the machines).

All of these things together are still not enough to achieve efficient production. Wherever cooperation is required among two or more people there also has to be a kind of social cohesion, built upon some level of trust. Examples of the trust that greases the wheels of ordinary economic life include the ability to believe, for example: "the workers share my goal of producing output that meets an acceptable quality standard;" or "I will receive fair wages for my work;" or "I am not the only one who cares whether my working conditions are safe." Such trust is compounded of many things, including cultural norms which make it shameful to do too bad a job; or to cheat, outside of the circumstances where the particular culture winks at cheating; or to let down a working buddy; etc.

These norms may be codified in ethics - accepted rules of behavior that can avert "tragedy of the commons" outcomes by raising individual behavior above the narrowest concept of individual rationality, toward what is good for the individual because it is good for society. Still more controversial, and newer, than notions of natural and human capital, the term "social capital" is intended to describe the existence and importance of the cultural norms, ethics, trust, and other social habits or tendencies which impact the efficiency with which cooperative endeavors (such as production) can be carried out. (See Fukuyama, 1999)

1.2. Ethics in Civil Society

A closely allied intellectual movement is raising interest in the idea of "civil society" - and even a "civil economy." (See Bruyn, 2000) Neoclassical economists have modeled

markets as pure collections of economic laws, operating in a social and physical vacuum. This view has been largely discredited by the tragic examples of Russia and some other transitional economies; places where, in the absence of appropriate social capital, markets have developed that are, by almost any measure, inefficient and inequitable. It is becoming evident that there is not only one kind of market economy; there are many kinds, with clear bases for preferring some over others. (We will return to the questions: who does the preferring? and on what basis?)

Civil society is sometimes defined as all parts of society outside of government and business.³ It may be regarded as the locus of social value; in one version of this view, the purpose of the other two sectors - government and business - is simply to serve civil society. Civil society may be emphasized as the place to look for the generation and nurturance of social capital. Alternatively one may focus on an opposite causal chain: social capital is also required to maintain a healthy civil society - one that can convey constructive goals to its government and urge appropriate norms of behavior on its businesses. A topic of particular relevance to this paper is civil society's role in creating the context for a civilized economy.

1.3. An Example: The UN Conferences

Lest this all sound too abstract, I will give an example of a set of civil society activities which have had the function of affecting a number of relevant norms in important ways. I refer to the series of UN sponsored global fora that took place during the 1990s: notably, the UN Conference on Environment and Development ("the Earth Summit") in Rio de Janeiro; the World Conference on Women in Beijing; the International Conference on Population and Development in Cairo; the Conference on Human Settlements in Istanbul; and The World Summit for Social Development in Copenhagen. When I participated in one of these, I arrived with the question: "What is actually going on at these conferences? What are they really set up to accomplish?" I came away with a clear answer.

What I observed was speaker after speaker getting up to read *a statement of values* - saying, in effect: "This is what really matters." What I heard underneath the statements was: "This is the best draft I have come up with, so far, for the values that need to be emphasized in light of current world realities. Do I have it right? Do others agree?" To be sure, the value statements were backed up by recitations of facts; e.g.: "We should be concerned about the environment because human activities are having the following kinds of impacts..." "It makes sense to give special attention to women in development because women play the following pivotal roles..." But the substantive thing that was happening was that people from all over the world, from myriad different aspects of civil society, were working towards a convergence - even, at best, a consensus - on the basic values that are required as the foundation for setting goals and for reshaping norms and ethics for the coming century.⁴

This may sound abstract and "soft." The results are widespread and increasingly concrete. People involved with development are thinking about it differently and acting differently,

because all over the world additional emphasis is being given to the role of women and of the environment. The attempt to give a new emphasis to social equity has yet to have an equally evident impact; but it is possible that this has a longer gestation period, and will yet percolate through to global norms. (This possibility will be revisited below.)

At the same time, the strongest forces shaping the world today are not the people whose prime concern is with development as such; they are corporations. The real impact of the global fora mentioned above depends upon the extent to which the values promulgated there can reach beyond civil society, to business. We will discuss, at the end of this paper, some possibilities for achieving this. First let us look at the kinds of ethics that are in question.

1.4. Ethics as Behavior Rules for Situations of Interdependence

Ethics are rules which, when followed, cause individuals to behave as though recognizing interdependence. Humanity is aware as never before of global interdependence, connecting individuals with other, unknown individuals; connecting groups (such as nations) with other groups; and re-connecting humans with the non-human world.

Our planet, "Spaceship Earth", is, in most respects, a self-contained system. Technology and population growth have enabled us to brush up against many of the limits of that system. This reality importantly weakens some of the claims to sovereignty of the nation states, which must bow to the fact that, metaphorically, we are all poisoning our neighbors' wells, and we are all drinking our neighbors' water. The consequences of our actions go abroad and then return home in a new guise, whether we are damming a river, exterminating a species, dumping things into the ocean, or creating nuclear waste.

This new, global reality poses the need for a new ethic. At the same time, it provides the foundation for such an ethic.

Most major religions contain an ethical imperative designed to deal with interdependence. Christianity's version is the familiar **Golden Rule: "Do unto others as you wish that they would do unto you"**.

This ethic is receiving a new kind of support by association with the **Evolutionary Rule: "Survival is the first imperative"**. As products of evolution, we are born with a strong commitment to survival: as individuals, for our families, and as a species. Upon this commitment it is possible to go a long way in building a value-orientation that will be constructive and bonding, rather than divisive.

As survival - for individuals, groups, nations, and the whole human race - is increasingly understood to be intimately connected with the health of local and global ecosystems, the Evolutionary Rule translates into an **Environmental Rule: "Do what is necessary to preserve the health of the ecosystem, for your own survival depends upon it"**. It is a nice coincidence that everyone else's survival depends upon the same thing.

One translation of this rule is the requirement for all to live within our budget constraint; our communal planetary budget constraint, as well as that faced by each individual. This means, for example, taking care that, as we use our income (the flow of production of food, machines, people, etc.) we do not deplete the capital stocks upon which the income flow depends. As noted before, the capital stocks we must protect include stocks of natural, human and social as well as built capital.

As we think about the future and about sustainability, we find more points of overlap between economics and ecology, between evolutionary and moral imperatives; but it will not be a simple matter to make this agreement operational. Widespread adoption of, and attention to, the Evolutionary Rule is a good first step.

2. A New Kind of Science for the Current Mess

A second step may be the recognition that, in many areas, we are facing a kind of problem that seems to demand a special term. (As with the term "sustainable development," a new name can be an important start for a new way of thinking, and then of acting.) Much of what we now face is not a single problem, but an interlocked set of them, such that it seems impossible to solve any part singly; the set has to be approached as a whole. I will recall a term used by social scientists in the 1960s when this not very elegant situation was described by a not very elegant term: a "mess".

2.1. Characteristics of the Environmental Mess

The mess of environmental crises that we face has some additional characteristics.

-- It has transgenerational aspects. The economist John Maynard Keynes, confronted with the short term crisis of the Great Depression, dismissed the longer view with the statement, "in the long run, we're all dead". True enough, Keynes and his cohort are gone, but we, today, are living in the long run of which Keynes spoke; and our long run will, in turn, be someone else's here and now.

-- Similarly, our mess has many global aspects.

-- The transgenerational and global features create important equity dimensions, for the problems created in one place may be felt in another, with the costs and benefits of actions unequally distributed among rich and poor groups and nations.

-- The environmental degradation being brought about by current actions increasingly appears to threaten irreversible effects, occurring in a non-linear, unpredictable fashion.

-- Our mess is characterized by uncertainty and a high degree of complexity.

-- Its elements are interconnected and mutually reinforcing.

-- And finally, this is a mess with very high stakes: the consequences of decisions taken in the near future seem likely to have significant bearing on the survival of human civilization, even of the human species.

2.2. Responses to the Environmental Mess: Starting with Values

One response to the mess has been the enunciation of **The Precautionary Principle**, which emphasizes the need to recognize scientific uncertainty by taking extra precautions. This principle also lays a greater burden of proof on those who recommend behaviors that are considered a possible source of danger to the future of humanity than on those who counsel devoting resources to averting possible calamity; and it proposes the use of democratic processes to carry out and enforce the principle.⁵

To many thinkers, the value of survival, when paired with an informed understanding of the nature of "the mess", translates into an emphasis on foresight and prudence, and on building into all planning a wide tolerance for errors and the unexpected. Humility emerges as an important value, to enable us to anticipate the possibility of error before our errors are fatal. Serious attention to the current mess should lead us to examining and perhaps recasting the ways in which we define success, not only for ourselves as individuals, but also how we define such terms as "progress", "development", or "welfare", which refer to the success of human societies. The way we define these words, will affect our behavior and, ultimately, the success of our species as a whole.

Other values emphasized by recognition of the current mess include those of commitment, responsibility, stewardship, and a respect (sometimes also called reverence) for that which is not oneself: other ways of thinking, other peoples, other generations, and other species. Along with a global view of Spaceship Earth there also appears to be a survival value to local connectedness. Local connectedness can be translated into a sense of community, an attachment to and understanding of specific places, and, often, an aesthetic and emotional appreciation of the natural world. It then implies empathy with and obligation to others.

2.3. Participatory Science

Over recent decades it has become clear to thinkers from a wide variety of fields that some of the rules that have been evolved for reductionist, experimental science are inappropriate to deal with a "mess" as described above. Traditional science assumes adequate feedback loops, in which causes have effects that can be observed in time to comprehend and respond to them. In situations characterized by high degrees of non-linearity and complexity, disastrous irreversible effects may take place before the normal scientific apparatus has been able to measure, assess, peer-review and come to a consensus on the relationship between causes and effects. As an example, normal science has had several decades in which to examine the feedback effects in the complex chemistry that appears to be creating global warming. Scientific debate continues, regarding which causes are producing, and will produce, which effects. Meanwhile, the creation of atmospheric CO₂ by human-organized systems continues at a rapid rate. By the time the feedback loops are completed, so that we have certain understanding of the

effects of the emissions of the 1990s, we will be well into the twenty-first century, with no way of changing the history that has remodeled the sky.

Researchers in social improvement-oriented sciences, such as nutrition and development, have proposed methods and approaches under a wide variety of names, such as "action research" or "participatory rural appraisal." A fundamental aspect of such approaches is the recognition that **science cannot only be the responsibility of scientists**. The stakes are too high; we are all implicated. A leading philosopher of science, historian Bruce Mazlish, makes the point that, while the development of the human sciences must be embodied in a scientific community,

[t]he situation for the human sciences differs from that for the natural sciences, where the community at issue can be, and generally is, a small number of professionals. The community that is willing to accept the knowledge acquired in the pursuit of the human sciences and that is prepared to act on the basis of such acquisition ideally has to be humanity at large... (Mazlish, 1998, p. 3)⁶

Participatory science is required when a society faces decisions on such questions as: *What efforts should be made to redesign cities to use less energy and provide a better quality of life? What resources should be devoted to combat global warming or other major environmental threats? and, How should society spread the burdens of these efforts, or the costs if they fail?* Many different sciences - both physical and social - may be needed to assist in policy issues such as these, but the role of the scientist needs to embrace a new humility, honoring the potential contributions of all stakeholders. A basic reason why a broader community needs to be involved in solving a modern mess is that it inevitably raises political/cultural/ethical questions; and these mix, inextricably, issues of fact and of value.

2.4. Mixing "is" and "ought to be"

Neoclassical economics texts are full of dicta about the necessity of keeping positive (factual) statements strictly separate from normative (value-based) statements; e.g., the oft-repeated pronouncement: "You cannot derive 'is' from 'ought,' or 'ought' from 'is'." Participatory science takes account of the reality that many - perhaps even most - statements in the social sciences are a mixture of "is" and "ought" - of positive and normative. And it turns out that you *can* derive a mixed "is/ought" conclusion from mixed "is/ought" premises.

From the point of view of academia, this is, indeed, a mess! Not only are positive and normative issues intermingled; the idea of the "expert" also becomes blurred. Who is the expert who can decide what is the best way to redesign a city or a transportation system? The citizens cannot refine their common values into an algorithm that the professionals can simply plug in, any more than the professionals can, comprehensibly, present all the facts that would be relevant for all values and goals. It must be accepted that often the most valid (specific) goals are derived through an interactive, highly communicative, time-consuming process, wherein the professionals can say, "if that's what you care

about, here are some options," and the citizens can respond, "those options don't look very appealing - let's reconsider what we said we wanted..." and so on.

3. How Sustainable Development is Saving Economics from Itself

3.1. Some Problems in Mainstream Economics

During the course of the twentieth century the legacy of Smith, Ricardo, Marshall, Keynes and many other economists was gradually re-formed into a system of theory that boasts of being "fully axiomatized" (in the presumed model of physics), so that (it is claimed) all economic conclusions can be logically traced back to a single assumption about human psychology: "Rational economic man maximizes his perceived self-interest."

It is reasonable that the discipline of economics, whose subject is human behavior, should begin with a psychological observation. However, one observation, no matter how important, may be much too simple for the work required of it. Moreover, questions can legitimately be raised about the single observation that was selected; e.g., is the presumption of exclusively self-interested behavior adequate to an understanding of all relevant economic outcomes? This question becomes more pointed with a recognition of the significance of social capital; there is, indeed, evidence that important pieces of social capital (such as honesty and civility in economic relations) are actually eroded by an education that teaches that only the maximization of self-interest is rational. (See Frank et. al, 1993 and 1996.)

Other concerns have to do with the methodology that is claimed, though not, in fact, completely implemented. The claim of neoclassical economics is that, by sticking to only a single assumption about human psychology, one knows exactly where one is: there are no hidden assumptions that might skew the results. In fact, in spite of the discipline's efforts to be "scientifically value-free," hidden assumptions do creep in, along with hidden values and goals. For example, the rationality assumption is more often than not used and interpreted to mean that human behavior is, and should be, purely selfish. (Careless use of the rationality assumption can be somewhat justified on the grounds that, when the assumption is most carefully parsed, it turns out to be a pure tautology, of no real use at all.) As just one other example, efficiency is offered, on the surface, as a value-neutral means to any possible end. However, it turns out that the word, "efficiency," carries its own freight; it often means maximizing the output that can be produced with a given quantity of inputs. This, clearly, is often desirable, but there is no point in pretending that "maximizing output" is not a goal, or that it conveys no values.

There are two possible responses to this criticism. One is to attempt, ever more rigorously, to root out hidden values and goals. The other is to accept that the effort to create purely positive social sciences has been proven impossible to achieve. (This

acceptance should be made easier by the fact that the natural sciences have long since abandoned their own pretensions to strict positivism.)

Value-neutrality has a strong appeal for a number of reasons, aside from the fact that, to many people, it looks more "scientific."⁷ It seems to offer an escape from Victorian judgmentalism and associated hypocrisy, as well as from the divisive effects of ideological confrontations. It was hoped that the adoption of value neutrality would defend against the ever-present danger of theorists describing what they believe should be true (whether for selfish or for ideological purposes) rather than what they actually observe. Together these motivations offered a truly noble dream. But it has become clear that it cannot be realized. Therefore we should now be asking: what is the best way of developing a social science that admits to the presence, and the importance, of values, goals and ethics?

3.2. Enter Sustainable Development

We may find the beginning of an answer to this question in the work that is being done on the theory of sustainable development. This is a concept that is, from the start, distinguished by its goals. One goal is embedded in the word "development;" that has to do with making life (but for whom?) better (in what ways?) than it was before. This is, clearly, not a word with an obvious, simple definition; we will have to return to it. But first, taking "development" for the moment as given, let us consider the goals that are implied in the other word, "sustainable."

That word has to do with making something endure. It means that, for example, the achievement of a transportation system or a library in some region in Africa is not a real development success if, after a few years, that region loses access to transportation and to the written word. Since the publication of the Report of the World Commission on Environment and Development (growing out of the Earth Summit), the consensus has been growing that, whatever development we want for ourselves now, we also want for people of the future. This is not only a goal, it is a value: by adopting the word "sustainable" we implicitly state that the conditions of the people of the future matter to us.

That is what values are about: they are convictions regarding what matters - what matters a great deal - even, in some cases, what matters the most. (In other cases - and this turns out to be a significant division between different value systems - there is no single thing that matters "the most;" there may be a group of final values which are ends in themselves where no one of them is entirely explained by, or clearly superior to, the others.)

How is all of this related to the economy, or to economics? One answer is that the discipline of economics desperately needed the idea of sustainable development; as cynics have said about God, if it didn't exist, we would have had to invent it. And why would economics need to invent sustainable development? Because over the course of the

20th century this discipline had progressively denied its values, its goals, and, with them, its excuse for existing.

Early economists, up through the time of Alfred Marshall (writing up to the 1920s), took it for granted that economics was not simply a descriptive science. (Nor had they yet taken on Milton Friedman's goal, that it be a predictive science.) Its goal was to help people to understand the workings of a market economy, but this understanding was not only to serve idle curiosity. Normatively, the purpose of the study of economics was to enable people to keep the system working as well as possible. "As well as possible," of course, implies, again, goals and values. It raises the questions: what kind of good are we seeking? And for whom? Exactly the questions we raised about development.

Development can mean many different things. It might mean massive inflow of foreign investment; or it could mean rapid promotion of production for export. Both of these possibilities again raise the questions: what is being produced, by whom - and who benefits, in what ways? (Scenarios can readily be imagined - or cited - in which the natural resources of a country may be destroyed in a development agenda that focuses exclusively upon foreign investment, or upon production for export.) A more common assumption is that development is simply about raising Gross Domestic Product (GDP). GDP can grow in ways that improve the living conditions of the majority of the people; or it can grow in ways that make a small group very rich while leaving the rest worse off, or no better off, than before; or it can grow through exploitation or pollution of natural resources in a way that will impoverish the people of the future. If we care about which of these kinds of growth actually does occur, we need to make our values explicit: simply saying we want growth in GDP will not do that. Growth in GDP can be an important aspect of development, but it is a means, not an end in itself - to be valued only when it is an effective means to ultimate goals.

3.3. Defining the Goals

So how might one define the ultimate goals of development? I will start by referring to the stream of thought that is exemplified in the Human Development Reports of the UNDP, and in work by a theorist such as Amartya Sen. (See for example Sen 1993.) A major theme of these analyses may be summarized as (Goal statement #1): **Development is the use of economic means to enhance people's choices and improve human well-being.**

The concept of sustainability, as first defined in the 1987 report of the World Commission on Environment and Development, adds an additional requirement (Goal statement #2): **Achievements in development must not imperil the well-being or the range of choices of people in the future.**

A further, humanitarian, assumption, which is emphasized in the works of Paul Streeten, is (Goal statement #3): **Development must be especially concerned with the people**

who now have the most unsatisfactory quality of life and the poorest choice set. (See Streeten, 1981 and 1995.)

These three goals may be combined as "**SAEJAS Development:**" i.e., **Socially And Environmentally Just And Sustainable Development**. SAEJAS development can include, but is not limited to, market institutions and market-oriented development. It differs from most standard economic concepts of development which tend to be focused on output growth, and are insensitive to the second and third goals just stated. Because of its breadth of concern, SAEJAS development must also recognize possible tensions between the goals of poverty alleviation and environmental preservation.

I would like to believe that, increasingly, terms such as "sustainable development" and "human development" are used as a shorthand for the more complete SAEJAS concept. While these concepts go beyond the idea of simply changing the relationship between economic development and the natural environment, it was the recognition of environmental constraints in particular, and of how development collapses upon itself when these constraints are ignored, that got people thinking about the broader questions involved in sustainability.

3.4. Additional Contrasts Between Mainstream Economics and Sustainable Development

It seems astonishing, in retrospect, that these considerations were not emphasized sooner. One of the greatest weaknesses of the neoclassical paradigm has always been the fact that, because it is difficult to include useful representations of the passage of time in most tractable economic models, the leap from static to dynamic modeling and theory has too rarely been made. The idea of sustainable development, by contrast, is centrally concerned with time - so much so that it will be obliged to eschew methods that only work tidily under static assumptions. One of the useful observations that has already emerged from this emphasis is that, the longer the time horizon of any two economic actors, the greater is the chance that they will find a convergence, rather than a competitive conflict, of interests. For example, when environmental regulations make it clear that businesses will pay a price in the future for pollution they create in the present, lenders and investors, who care about future revenue streams, will force businesses to act as if, they, too, care about the future. The interests of businesses and environmentalists will converge, as the former discover that the warnings of the latter are useful to them.

Another discovery (the cause as well as the result of the move to develop a theory of sustainable development) is that, within a longer time horizon, many development "successes" turn out to be failures. A system of deep wells that looks good when first installed becomes a failure when it dangerously lowers the water table. A scheme for promoting literacy is a flop if it only lasts as long as the pilot program finances the teacher's salary, or if it is only used by the elite in a village setting.

One reason for such failures is that the short-term perspective is the selfish perspective; those who go into development work for the quick buck or the quick promotion create Potempkin villages that do not endure. A second common reason is that development that is organized by the rules of "normal" science too rarely involve the individuals to whom development is supposed to happen. When outside experts assume the goals and set the agenda, failure often results from the resistance of the local populace to changes which they do not regard as in their interest. A third reason for development failures is that too many development efforts have been undertaken without adequate knowledge of, or regard for, the impact of human activity on the natural environment.

Unfortunately, the economic actors who produce the greatest environmental damage have often, in the past, managed to escape the consequences, leaving others who have less political and economic power to bear the burdens of ill health and reduced productivity. Well known are the "cancer alleys" where toxic wastes are dumped near the residences of the poor. This brings us to the definition of a "negative environmental externality" - an economic term for a cost created by one economic actor and borne by another.

To make this discussion complete and comprehensible, we will also define a "positive externality," as a benefit produced by one actor and enjoyed by another. An example is the value to society of good parenting, which may cost the parents a great deal in foregone income, lost sleep, etc.. In former times, the parents reaped the rewards of what was then defined as good parenting (i.e., the production of obedient and productive children) because the children were their old-age insurance. Today society benefits from parenting that results in healthy, intelligent, well-motivated members of the next generation, but - for better or for worse - many of the links between this outcome and the parents' continuing well-being have been broken.

Let us return to the more specific topic of negative environmental externalities. As it becomes increasingly widely known that powerful economic actors routinely dump their costs (e.g., wastes) on those with little recourse, while the powerful receive the benefit from the actions that produced the wastes, this is viewed as immoral. Neoclassical economics, in attempting to be value-free, has tried to avoid recognition of the moral element in any discussion of economic theory; the neoclassical response to negative externalities, once it became impossible to ignore their extent, was to say that these represent market imperfections, and hence are sources of inefficiency.

A major function of morality is to formalize the link between particular human actions and their effect upon the actor at a future time, and upon other human beings both now and in the future. Economics, eschewing this link and limiting its judgments to the less obviously action-related issues of efficiency/inefficiency, must bear the blame for much unsustainable development. Economic theory will only be able to contribute to truly sustainable development when it accepts the reality that economic actions do not occur in a vacuum; they must be understood within the social/psychological context of human motivations, ethics, history, culture, politics and institutions, as well as the physical context of technology and the natural environment.

4. The Reciprocal Influence Between Economic Ideas and Social Realities

Economics is both descriptive and prescriptive. As it performs its function of describing the world, it also affects those who read or hear of this particular way of understanding reality.

4.1. The Danger of a Particular Bias in Economic Theory

Neoclassical theory - the kind of economics that is at present dominant in the West - has co-evolved with the actuality of market economies, developing in a particular relationship with the economic systems that it describes. That relationship has a bias towards the people in society who possess the greater part of the resources; they are, after all, the ones who are most apt to be paying the salaries of economists outside of academia - and the thinking that goes on inside of academia has not been able to escape from that influence.

Any theory gives a slant to the reality that it attempts to organize into a description. The process of organizing the "blooming, buzzing confusion" of reality into a coherent theory necessarily involves a selective emphasis, where some things are brought into the foreground and others receive relatively little mention. As described earlier, neoclassical economics largely ignores the degree to which the efficient workings of markets actually depend upon trust, honesty, responsibility and concern for the welfare of others. It has been actively dismissive of such norms as cooperation and social conscience. Unfortunately, when the theory treats these issues as if they do not - or even as if they should not - exist, then markets increasingly evolve in ways that minimize encouragement for these qualities. In such cases, enforcement mechanisms must replace moral norms, and heavy transactions costs (more reports to fill out, more hidden TV monitors, more barred windows, more lawyers' fees) are added to the ordinary cost of doing business.

Neoclassical economic theory has also idealized competitiveness, and, in its view of individual motivations, has given support to legal and economic institutions that emphasize short-term profit-making at the expense of all else.⁸ It has a strong bias against government interference with markets, based upon an idealized notion of the efficiency that would occur in a world that met a number of never-achieved conditions for perfect competition. The advice of economists, and the general beliefs they encourage, have detracted from efforts to strengthen governments' ability to step into the gap that is created when an economy operates in a cultural environment that does not respect ordinary morality.

Governments are, to be sure, only a second best; a strong set of ethical norms is certainly the most efficient basis for a well-working market. When the cultural/ethical norms are underdeveloped, and the state is not organized to create fair and efficient enforcement mechanisms, then businesses create their own mafia to fill the gap - as they have done in

Russia, in parts of Italy (which gave the world the term, "mafia") and in a number of less developed countries. Such private enforcers operate without regard to due process, and often brutally. The total social welfare is greatly diminished as everyone, in such an environment, scrambles to maximize his own individual welfare without regard to the overall effect.

4.2. A First Step to Reforming Economics

We have mentioned only a few of the serious criticisms that may legitimately be leveled against the discipline of economics as it exists today. These criticisms need not, however, imply that the entire system of theory needs to be abandoned. Instead, it is a reasonable goal to take what is valid and constructive from the existing theory, and integrate additional elements that can support SAEJAS development. Obviously, this cannot all be accomplished in this paper: the goal here is just to give a taste for how one might go about constructing such a revised paradigm.

An interesting example of a real step that is being taken towards revision is an **economic version of the Golden Rule**, which is: "**Internalize the externalities**". That means: "Insert into the cost and profit accounting of individual and institutional actors the costs and benefits their actions impose on society or on other individuals". If this could be achieved, we should be able to have a world in which any polluting firm would bear the full cost of its pollution, rather than leaving individuals to bear the cost in terms of ill health, etc.; and every family whose children grow up to be constructive members of society would be fully compensated for the foregone earnings and other costs involved in devoting time and resources to raising children.

4.3. The Limits to Internalizing Externalities

The economic golden rule can only produce deep change if it is accompanied by the recognition that there are some market imperfections that cannot be cured within the system. If the neoclassical paradigm is stretched to embrace the assumption that all externalities can be internalized, it may appear that there is no reason to look beyond markets to resolve any problems that have an economic component. Economists can then continue to justify their attack on the role of governments. In fact, however, externalities are effects that occur outside of the "natural" or "free" operations of a market. Effects that are external to such a market can only be internalized if an outside agent (usually a government, but sometimes a civil society group) has sufficient power to change the institutions that govern the market - to change its basic rules.

Unfortunately there are some irreducible measurement problems that make it impossible to internalize all externalities. There are many ways of assessing, for example, the value of education or of human health, or the cost of ill-health or of a degraded ecosystem; but none of these is even moderately satisfactory for most uses. There are times when it is

important to use them nonetheless - when a poor measurement is better than none - but their limitations must always be remembered.

Thus, internalizing externalities is an excellent ideal towards which it is important to keep striving; but we must not be fooled into thinking that, when economics has accepted the Economic Golden Rule, it has solved all of its problems. One example of the kind of problem that remains shows up in the fact that the Economic Golden Rule can be applied in two different ways.

-- A socially responsible economic system would strive to ensure that those who reap the rewards of particular economic activities pay the costs.

-- This is different from the currently fashionable neoclassical idea that those who are hurt should be compensated.

The second formulation finds its way into theory in the assumption that an economic activity is considered worth undertaking if it generates enough wealth so that those who receive that wealth could, theoretically, compensate those who are hurt. Unfortunately, that theoretical compensation almost always remains just that - theoretical. It is commoner for the businesses that created a "cancer alley" to be forced to clean up the toxic dump than for the victims to receive compensation for their ill-health and lost work days.

Moreover, the second formulation - the one that has received more attention in formal economic theory - emphasizes an individualistic approach, requiring the identification of individual losers. When the ecosystem is the locus of harm, the individual losers are hard to identify. They may include people who are not yet born, or a diffuse collection of many people who may live in many different nations; and they may also include other, non-human life forms. Often (though not always) it is simpler to identify the winners. Therefore a major goal of economic thinkers should be to find ways of bringing home to the gainers the full costs of their economic activities.

This requirement may be the central issue in the uphill struggle of a discipline that, as mentioned earlier, has grown up in a close relationship, not only to a particular kind of economy (variously called market-oriented, or capitalist), but also to the economically dominant segment within such economies. This segment comprises the economic winners - precisely that group that has economic power, and that is accustomed to using it to externalize some of their costs onto those who have less power.

5. A Balance Between Equity and Efficiency

Teachers of mainstream economics are human beings, who sometimes remember their humanity and forget their training enough to admit that: *Yes, in fact, economic theory is supposed to support two values - equity and efficiency.* Regrettably (they almost always add), the economic methodologies that have been developed during the twentieth century, while often brilliant at showing the way to increase efficiency, are generally silent on the

subject of equity. (This methodological bias has been entirely compatible with the friendly relationship that has existed between the dominant economic paradigm and the dominant economic actors.)

5.1. Some Reasons for Optimism

We need to ask: What kind of economics would adopt, as overt goals, not only the Environmental Rule ("Do what is necessary to preserve the health of the ecosystem, for your own survival depends upon it"), but also well-being for all humans? Such a system of theory would surely continue to pay significant attention to efficiency; properly understood, this is a value that is highly appropriate to the survival of humanity and the health of global and local ecosystem. The obvious departure from the present is that this theory would give equal weight to equity - the step-child of neoclassical economics.

We have said that sustainable development, especially when clearly defined as SAEJAS development, requires a substantive change in focus. It need not disdain all those who control large resources; indeed, for SAEJAS development to take place it is essential that the economically powerful be constructively engaged.⁹ However, any proponent of sustainable development must distance him or herself from the interests of those who benefit from externalizing their costs onto others; and she or he must be prepared to adopt new methodologies - new ways of developing and communicating the content of economic theory - that are at least as good for fostering equity as they are for fostering efficiency.

This is a tall order, but I do not believe we should be too pessimistic about it, for two reasons. One is an essential core, in academia, of respect for truth. While intellectuals can follow a path of expedience for a very long time, when the evidence mounts that this path is false, and when an alternative, truer path is available, the theoreticians will (gradually if not rapidly) shift towards the latter.¹⁰

The other reason for optimism is that, as the concept of externalities gets to be widely understood, it becomes ever harder for economic winners to justify foisting these costs onto others. Human norms of fairness exist in every society, and, though they differ in details, there are many common themes and widely shared assumptions. I know of no society where the idea of externalizing costs, once it is explained, would not be considered illegitimate. There is still a distance to go, between declaring something morally illegitimate, and putting a stop to it. However, as the idea of economic externalities is increasingly accepted into normative structures, a very strong start has been made towards a significant shift towards equity.

This idea will be pursued through some specific examples in the concluding section. For now let us turn toward one of the most concrete issues associated with the idea of equity: namely, the distribution of resources. I will argue that a more equitable distribution will be necessary, though it may not be sufficient, to get us through the current mess.

5.2. Why Justice is Necessary for Sustainability

There are a number of reasons why we cannot achieve environmental sustainability until we have more distributional justice. To understand these reasons we must revisit some of the basic facts about the evolving relations between human economies and the environment.

5.2.1. The Need to Reduce the Material Flow

Since the beginning of the industrial revolution, production was understood as an essentially linear flow, in which material is taken from nature, processed, eaten, delivered to the consumer, used, and then turned into something regarded as waste and thrown away. There is a word which is sometimes used to refer to everything that goes through that flow: it is called "throughput". Right now, in industrialized countries, much of the material that goes through that flow ends up degraded or as waste. In recent decades it has become evident that this is unsustainable; you can't really throw things away, because "there is no away". We therefore confront the necessity to convert the linear flow to a circular one, where the output of each production process is the input to another one. We must convert "throughput" to what I propose to call "circumput".

As this requirement has been increasingly recognized, there has been a growing emphasis on reprocessing and recycling. Unfortunately, these activities are often fairly energy intensive; thus, even with a transition to a more consistent circular materials flow, present patterns of production and consumption could require more energy than it is safe to employ (assuming the reality of global warming, along with other negative environmental impacts from energy use). Can this problem be solved by converting to renewable energy sources? There may continue to be environmental impacts from virtually any energy source; also, depending on the technology used, even when we tap into renewable energy we could bump up against the limits of available energy.

It seems likely, then, that we will not only have to convert the flow of materials from a linear to a circular one; we must also control the total content and the composition of that flow. There is more leeway for using materials in "circumput" than in "throughput", but in neither case can we continue on a path of endless increase of materials use. (See, e.g., Vitousek et al, 1996.)

5.2.2. Can Economic Growth Continue Indefinitely?

These observations suggest the need to look hard at the individual and societal goals and values that affect what and how we produce and consume. The alterations in technology and capital stock needed to make sizable and continuous reductions in TP/CP (the proportion of ThroughPut to CircumPut) are likely to be felt first (indeed, they are already in evidence) on the production side. However it is possible, even likely, that

reductions in the TP/CP ratio will be insufficient to achieve sustainability, given even the most optimistically small projections for foreseeable population growth. Then the next line of defense will be on the consumption side, with the requirement to change the composition of consumption. Just to give one example: if food consumption in rich countries were to shift, overall, away from meat and towards grains, the same total amount of calories and other nutrients could be made available to a growing world population without an increase - possibly even with a decrease - in the rate of degradation of agricultural lands.

The overriding question is whether economic growth, in anything resembling the form it has taken during the twentieth century, can continue without disastrous consequences to the environment. Perhaps a shift from fossil to renewable fuels, and from throughput to circumput, along with changes in patterns of consumption and distribution, will not, all together, suffice to achieve a sustainable development path. Then the final line of defense - one that no society is likely to choose, but that could be forced upon us by environmental realities - would be reduction, cessation or even reversal of aggregate growth of output.

It is hard to know quite what meaning to give to such a proposition. The idea of "aggregate output" is conventionally summarized in GDP figures, but there has been much recent discussion of the value and meaning of those figures. They blend together indiscriminately intangible services (some of which, like education, may have minimal direct environmental impact) and tangible products, like bicycles, lawn mowers and refrigerators. They count some environmental and social "bads" (e.g., military expenditures, the cost of cleaning up an oil spill, or increased medical costs due to air pollution) as contributing to GDP, while some "goods" (the value of standing timber or the health created by preventative medicine) are neglected or undercounted. And they ignore the value of anything that is not bought and sold through a market transaction. Considering all this, one could imagine situations in which total GDP, as now measured, could decline while most people would feel better off (at least, if they were not depressed by the knowledge that GDP was declining!).

Indeed, there is evidence that a significant fraction of the high consumers of the world are being encouraged by our economic and cultural systems to consume more than they want, more than is healthy for them, according to many reasonable indicators - and certainly more than the planet can stand. At the same time, however, there are many other people who are consuming at far too low a level, so that malnutrition, illness and lack of education shorten and immiserate their lives, and can prevent them from making positive contributions to the society. While some people at the high end of resource use could have happier lives by reducing both their working hours and their expenditures, there are others at the low end who have no work, or whose work is so poorly paid that they are always seeking more of it - miserable though it may be - just to make survival possible.

5.2.3. Four More Reasons for SAEJAS Development

(a) Extrapolating from the experience of the Asian (and global) economic crisis of the late 1990s, we can expect that the working poor and the jobless will suffer the most when environmental realities cause economic slowdowns. The best way to prepare for this eventuality is to try to reduce the economic inequalities that keep market economies addicted to growth.

(b) At present, economic growth in developing nations, and economic health in many developed ones, is closely linked to export success; and export success for U.S. trading partners is closely linked to the increasingly external deficit-dependent, highly energy- and materials-intensive U.S. demand. Alternative sources of demand must be found for the world's producers. A more even distribution of the world's purchasing power (both among and within nations) could achieve this. Moreover there is growing evidence that environmentally destructive consumption is more increased by wealth than it is decreased by poverty; hence a more even distribution of wealth would tend to have beneficial effects on the composition of output.

(c) A sufficient response to looming ecological crises will probably have to include some important value shifts throughout the world. Activities that consume large amounts of raw materials and energy, whether in leisure or in production, will have to be devalued relative to those that are relatively non-polluting and non-destructive. Given human psychology, it seems unlikely that this will be possible unless the life-styles of the richest portion of humankind are the first to change. Improved economic distribution should be highly compatible with this.

(d) Finally, to repeat a point made earlier, many observers agree that what appear as conflicts between the dictates of economics, on the one hand, and those of ecology, on the other, diminish when a long rather than a short time-frame is adopted. The only way to find economic solutions today which are not ecological disasters tomorrow is to attune economic solutions to a more sophisticated, long-term understanding of individual, group, national, and global welfare. For this to be possible it is necessary that the level of sophistication of the human race - the incidence of an ability to see long-range and subtle interactions of cause and effect - be considerably increased. For that, the only hope is a vast increase in the level and quality of education of all peoples. (See Thomas Homer-Dixon, 1992.)

Fortunately, people all over the world recognize education as having a very high value; for most poor families, once the basic necessities are met (and, for many, even before they are all met), the highest priority is to get an education for at least one member of the family. Improved economic distribution can therefore be expected to be strongly correlated with rising effective demand for improved education. A massive shift of global and national resources into education has a number of attractions. It can be done in a way that improves distribution. It is a relatively clean and green kind of production - a kind of demand shift that could raise GDP while improving the environmental consequences of

growth. And it is also the best hope for achieving solutions to ecological crises somewhere short of disaster.

6. Conclusion: Looking Beyond Civil Society, to Government and Business

6.1. Economic Theory and Recent Events

At this point a cynic might remark that theory alone rarely changes the world. We could respond by pointing to the dramatic reorganization of the world's economies that occurred during the 1980s, when self-interest and competitiveness were elevated by economic theorists (and others) as the major accepted goals in public and business life, and corporate and government behavior fell into line. The values adopted in that period should not be seen as the only possible expressions of human nature and economic necessity. Economic behavior, up until that time, had been relatively more responsive to other social norms; and ethical regimes that have existed throughout most of the past could exist again in the future. All the same, we would not claim that the Reagan/Thatcher theorists were entirely responsible for the changes of the 1980s; many of those theorists were given attention because they said what those in power wanted to hear. The point is that the right theory, at the right time, can help to organize and focus change.

The events of the last decade of the twentieth century have brought a growing number of social scientists to reexamine the "Washington consensus" of the 1980s and '90s, along with other assumptions and methodologies that had in many places (both North and South) established a nearly monopolistic dominance of thought about economics and society. (See Stiglitz, 2000.) Recognition of the environmental unsustainability of past approaches to development, and of the economic instability of the world's current financial structure, represents a powerful breakthrough - indeed, it offers the prospect of a paradigm-shift - in how it is possible to conceptualize and formulate social science.

Academic understanding and theory may have an important role to play in changes in thought and action that will foster SAEJAS development. However, pure theory will have to be combined with strategic thinking to make such change both deep and enduring. This paper will conclude with one example of the kind of interaction between ideas and action that seems especially needed.

6.2. Starting with Less Restrictive Psychological Assumptions

I will begin, as other economists do, with a statement about human psychology. This will be richer than the "rationality postulate" of neoclassical economics; but it will not be offered as "all you need to know about human motivation." Accepting the strong motive of self-interest, let us add that other motives are often operative as well. Important among

them are some characteristics that evolution has given to our species, as social animals: these include a strong tendency to conform with accepted norms, a desire to be respected, and a willingness to cooperate.

Business leaders are like other people: some small number of them are sociopaths, who cannot tune in to the feelings or opinions of others; but most lie within the normal spectrum of responsiveness to norms, expectations and peer pressure. If their peers sneer at public opinion, creating a climate in which peer respect goes to the individual who succeeds best in externalizing costs onto the helpless, this may override broader social norms. It is unfortunate that neoclassical economic theory has defined rationality in business as nothing other than profit-maximizing, with a strong emphasis on the short term. This message, received by those who take economics courses in college or business school, has probably added to the forces fostering a climate of cut-throat competition in which employers find excuses to ignore the effects of their decisions on workers and other stakeholders.

The neoclassical response to this observation would be a shrug: no one is expected to do anything other than maximize self-interest - or, where self-interest is coincident with profits, to maximize profits. (That coincidence is not as wide-spread as is generally assumed; but this is not the place to elaborate this point.) An alternative response is to look at the broader set of human motivations, to see where are the leverage points for change towards a healthier relationship between business and its social and physical environment. With this as the intent, it is not hard to find a number of contemporary intellectual trends that can be aligned to create pressure towards better outcomes.

6.3. Three Useful New Emphases in the Social Sciences

One such trend is the development of the concept of *stakeholders* - individuals who, in addition to the stockholders, have a legitimate interest in the activities of a business, because they are affected, for better or worse, by its actions. Recognition of the importance of externalities helps to explain and put into context the interest of the stakeholders: when a business externalizes costs or benefits, the stakeholders may be defined as those who suffer or benefit from the externalities.

Political science contributes towards this collection of ideas a literature on the topics of *legitimacy* and *transparency*. Legitimacy is a subtle matter, operating outside of law or other obvious force. It is broadly related to common norms such as fairness; for example, the idea that stakeholders have a "legitimate" interest in the actions of a business relates to the common belief that it is not fair for someone to suffer for actions taken by an unrelated party who benefits from those actions. The concept is especially relevant to businesses because they are in many ways cooperative endeavors, requiring internal cooperation among the co-producers, as well as external cooperation with suppliers, distributors, etc. Cooperation is not efficiently extracted through coercion; it works best when it is voluntarily offered. This will only happen when all concerned perceive the business, and its particular decisions, as legitimate.

The topic of transparency is receiving new attention as it is recognized that stakeholders will give or withhold legitimacy depending on their knowledge of what a business is doing. If, for example, a business can hide from public knowledge its discharge of toxic wastes, it will not have to face public disapproval or withdrawal of legitimacy.

Financial fraud and abuse during the 1920s led the Congress of the United States of America to create the Securities and Exchange Commission (SEC), charged to require firms to disclose the information needed by potential and actual investors. The need today is to go beyond disclosure to stockholders, giving all stakeholders the information they require in order to make informed choices about their relationships with individual businesses. These stakeholders include consumers, employees, environmentalists, suppliers, lenders and the communities that are host to businesses - as well as shareholders..

6.4. A Vision of Transparency in Business

Ralph Estes, formerly a senior accountant with Arthur Anderson & Co., and now professor of business administration at George Washington University, has long called for the creation of a reporting system that would provide such information.¹¹ His basic observation is that

...corporate managers make their decisions against the yardstick of the present narrow and deficient definition of profit. Although other standards may from time to time be announced, the bottom line is the only continuous and consistent performance standard to which managers are held accountable.... Change the performance evaluation system and you change behavior. (Estes, 1996, p. 203)

The list of possible subjects for corporate reporting that will be laid out in this section is Estes' very broad one. Perhaps some of the elements on this wish-list will never be reported; but in fact, just during the last decade or two, progress has begun to be made on an impressive number of them.

Estes notes that many governments require labeling and other means of informing consumers about foods, toxic substances, and a variety of other products and services. He proposes that these data and more can be built into a reporting system that would not replace labeling requirements but that (especially with increasing use of the World Wide Web) would enable consumers to make safe and informed market choices. Going beyond the question, "how will this product affect me?" some customer behavior would also be affected by information on the product's environmental impact (in production as well as in use or disposal), as well as facts about employment conditions.

Employees themselves need better information on which to make career and work choices, including data on a company's past history of layoffs, plant closings, employee grievances and employment stability; its health and safety record; its record in equal

employment; the opportunities it offers for training and promotion; its pension program; how technology is affecting workers, and what plans it has for the future.

Communities, competing against one another to attract businesses, often offer expensive tax breaks, zoning exemptions, free utility line extensions, industrial development bonds, and more. Corporations increasingly expect to be courted by communities for the sake of the jobs and income they offer. The value of these offers could be better assessed if communities had access to the kind of employment records just outlined. Also useful would be knowledge of a company's past record of legal and regulatory actions, and claims brought against them.

Estes concludes that a fully effective reporting system should help customers decide what to purchase, from what company; it should help workers decide where to work, and, once there, what rights to demand or what abuses to protest; it should help communities balance the costs and benefits associated with attracting a given company, so that they will be better able to judge what concessions, if any, are worth making; and it should give society at large the information necessary in order to decide which corporations deserve to keep the corporate charter that permits them to exist, as contributors to (at the very least, as neutral toward) the public weal.

Transparency provides information - the missing piece, needed to empower stakeholders to play their proper role in a well-functioning market, to reward those companies that create real benefits to society, and to move toward making corporations bear the cost of the negative externalities they generate. Owners - that is, stockholders - would also benefit from a reporting system that would indicate which companies are more, and less, likely to thrive in an environment that holds firms accountable for their social and environmental impacts.

6.5. Turning the Vision into Reality

The recent appearance of a social report from RoyalDutch/Shell is a harbinger of the future. It provides details on general business principles, performance according to those principles, and even a report from the company's external auditors, KPMG and PricewaterhouseCoopers. Along with financial measures, such as return on average capital employed, the report covers topics like child labor and bribes, customer value, employee rights, and environmental impact. (Epstein and Birchard, 1999, p. 140.)

Firms that "invest" in social welfare are still a small minority, but a growing public awareness of a company's social impact is increasingly felt by multinational corporations, and seems to be eroding the norm, championed by Milton Friedman (1962), that the only business of business is to maximize profits. However, businesspeople are at least as susceptible as the rest of the population to fads and fashions of thought; a normative change such as this will not endure any longer than the last fad, unless there is an institutional change to lock it in place. The change that could do this would be a set of

reporting standards - supported by law as well as by public opinion - which would close the loop between the social impacts of corporations and public awareness of those impacts.

Since 1996 Denmark has required that over 3,000 companies produce "green accounts," while French law has mandated social reports since 1977. (Epstein and Birchard, 1999, p. 235.) Related initiatives that have been organized by business associations include, among others, the International Organization of Standards' "ISO 14000," the European Eco-Management and Audit Scheme (EMAS), and the U.S.-based Council on Economic Priorities' social accountability standards, "SA 8000."¹²

In the area of corporate environmental impacts, "(a)ccording to a study by the institute for Environmental Management and the accounting firm KPMG, 35% of the world's 250 largest corporations now issue environmental reports."¹³ More than 50 non-profit organizations and other civil society groups throughout the world have devised reporting standards in recent years.

Other civil society organizations have formed to pressure corporations to report on their impacts on workers and other stakeholders.¹⁴ As an example in the area of labor practices, a coalition called the Fair Labor Association (FLA) brings together concerned institutions in the U.S., including apparel makers, U.S. colleges and universities, the Lawyers' Committee, and representatives of the Clinton administration. As reported by Thomas Friedman,

The apparel companies and human rights groups have agreed on a minimum standard for worker conditions in their factories [both in the U.S. and abroad], including child labor and working hours. They also agreed on a uniform system of monitoring that will involve independent external monitors who are allowed to make surprise visits to factories. The monitors will be accredited by the FLA and could range from church groups to Price-Waterhouse. The FLA will issue an annual report on each company's compliance, which will be broadcast on the Internet and, it is hoped, published by Consumer Reports.

If a company meets the standards, it will be allowed to attach a special FLA label on its clothes, so for the first time consumers will have creditable information to differentiate between brands, to buy those that support workers' rights and shun those that don't.¹⁵

An Example: The Global Reporting Initiative

The most inclusive effort of this sort is the Global Reporting Initiative (GRI), organized by the Coalition for Environmentally Responsible Economies (CERES), in concert with UNEP, the World Business Council for Sustainable Development, the Association of Chartered Certified Accountants, the Stockholm Environment Institute, and Imperial College. The last mentioned, located in London, was host to a meeting in March, 1999,

that was organized to harmonize the reporting standards which had been devised by so many different groups. The resulting GRI

seeks to establish a common framework for corporate sustainability reporting that will result in credible, consistent, and comparable reporting. It also seeks to elevate enterprise-level sustainable development reporting to the level of general acceptance and practice now accorded financial reporting, and to develop and advocate greater stakeholder awareness and use of such reports.¹⁶

Encouragingly, a significant number of the world's largest and most powerful corporations have taken a positive interest in this process. Within a few months after the standards were announced CERES had more volunteers than it could handle, of companies willing to follow the reporting requirements of the draft GRI, which will be continually revised in years to come as experience accumulates regarding its efficacy for the public weal as well as its impact on adopting firms.¹⁷

Why should corporations be willing to expose themselves in this way? There are probably a variety of answers, depending on the firm and its decision-makers. In some cases the CEO genuinely cares about his or her firm's effect on the world. As some sign onto the GRI for reasons like this, others may follow because they fear to look bad if they hang back.

From the descriptions of both the FLA, a U.S. organization, and the GRI, an international initiative, it is evident that a number of players need to be involved in any movement to better align corporate goals with social goals. In addition to governments, "watchdog" NGOs, groups specializing in reporting and accounting standards, and advocacy groups for stakeholders (including workers, consumers, suppliers, lenders, investors, communities and the environment), there is also a critical role to be played by enterprises in what is called the "aftermarket" for corporate information. Their job is to translate corporate reports into forms that all stakeholders can understand and use. The aftermarket is already well-populated with independent enterprises that assemble, transmit, summarize and criticize information on pollution, workplace safety, and other indicators of social responsibility. It includes entities like Dow Jones, Moody's, Standard & Poor's and Value Line, which digest SEC filings for public use. Not surprisingly (because this offers them a major new line of business) a number of such organizations are keenly interested in, and supportive of, the GRI.

While financial accounting standards focus on the accountability of a firm to its stockholders, the standards upheld by the GRI take an additional step - one that is coming to seem logical and obvious - of creating the transparency that will allow other stakeholders also to require accountability. The importance of financial accounting standards (such as those of the Financial Accounting Standards Board - FASB - in the US) is by now taken for granted, and governments throughout the world are under pressure to support and enforce such standards, or to create them if they are not already in place. When the necessity for sustainability accounting is equally taken for granted, a major step will have been taken towards aligning the goals business - one of the most

powerful forces in the world - with the goals of civil society. This is the core element of what it means to civilize an economy.

The mechanism that will spur corporations to internalize externalities and care about their social impacts is a complex chain, in which governments mandate transparency; corporations respond by reporting on their own impacts; the "aftermarket" of non-profit and for-profit institutions analyze and report on the accuracy and completeness of the corporations' reports; and a broad group of stakeholders reacts in ways that affect the corporation's ability to function and to thrive.¹⁸ Such a chain of actions and reactions has a radical potential to change the motivations and the behavior of the huge corporations that play a dominant role in the world today.¹⁹

6.7. Theory Needs to Catch Up with Reality

The earlier discussion of the defining goals of sustainable development proposed that the goals of civil society include **improved overall human wellbeing and enhanced choice sets for the people of the present and the future, with special attention to improving the situation of those who now have the least wellbeing and the poorest choice-sets.** The emphasis on the future ensures that, embedded here is also the goal of **maintaining a healthy environment.**²⁰

By contrast, the goals of contemporary market economies appear to be the maximization of consumption, not for the wellbeing that this will confer, but in order to absorb the products that are being produced, so as to pay the producers - including both poor workers and rich owners. This has it backwards. Consumption should not be a final goal, but a means to an end; and the end should not be the perpetuation of the system as we know it, but the improvement of human wellbeing and ecosystem health.

This article has emphasized the necessity for social science theories to recognize these priorities. Illustrations have been given of how government and business can and should be pressured to play their proper role, of serving the third sector, civil society. Governments can often follow the lead of civil society, affecting the regulatory environment for business so as to aid socially responsible firms and make social irresponsibility unprofitable.

Social science theory has a role to play in all of this, but it does not operate in a vacuum. (The work of Adam Smith is a good example of theory developing in the wake of the contemporary circumstances.) The circumstances of today demand a new kind of theory which will probably need to develop along the lines described for participatory science, with attention to designing methodologies in such a way that the basis for their conclusions can be understood, argued over, and applied by non-specialists. (This would contrast with the current tendency to make social science methodologies mysterious and inaccessible to those outside the profession.) Appropriate social science theory must take account of the reality of global interconnectedness. Sustainable development (especially

when understood as SAEJAS development) incorporates and fosters the ethics that translate this reality into everyday action.

With regard to economics, in particular, no smaller changes than these will be sufficient to correct the imbalance that has haunted this discipline from its inception. Even when it was born, as part of "moral philosophy," Adam Smith's theory subordinated considerations of equity to considerations of efficiency. The outstanding effort to correct this - Marxist economics - cannot be considered a success. That sobering example indicates the size of the task. The multiple "messes" confronting humanity indicate the urgency of the need. Recent thought in the social sciences - emphasizing ideas about participation, stakeholders, externalities, legitimacy, and transparency - give suggestions for how to proceed, and offer a number of the pieces of the puzzle that needs to be put together.

If we are lucky and clever, the human race will be able to continue pursuing development - an inevitably redefined form of development - from the platform of the current high level of material affluence. An alternative possibility is that we may have to think about development from a lower level of achievement, after a serious ecological/economic collapse. Unless the future is even bleaker, and the collapse is so great that the idea of progress simply disappears, we can look forward to a future in which economic development has become synonymous with sustainable development; for unsustainable development, by its very definition, cannot continue indefinitely. The more appealing scenarios that can be imagined all require that we achieve the difficult, but not impossible, task that has been outlined in this paper: to civilize our economic theory, and, more important, our economic systems.

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NOTES

¹ This paper was originally prepared for the *Encyclopedia of Life Support Systems (EOLSS)* sponsored by the United Nations Educational, Scientific and Cultural Organization (UNESCO).

² Note that from the middle of this century on into the 1980s, mainstream Western (especially Anglophone), market-oriented economists defined themselves as "neoclassical;" connected to, but differentiated from, the classical economics tradition of Smith, Ricardo, Mill and Marshall. The popularity of this name has recently declined, while its proponents increasingly use more generalized labels such as "market-oriented economics". For clarity, however, I will continue to refer to the theory that is taught in mainstream economics departments, especially those with a strong U.S. influence, as "neoclassical."

³ An early use of the term, by G. F. Hegel, identified civil society with business; this usage is being replaced by the one cited in the text, which is the more useful meaning in this context (as in most others).

⁴ Work toward the Earth Charter is an obvious continuation - perhaps, if it is successful, a capstone of this process.

⁵ A well known definition of the precautionary principle was spelled out in a January 1998 meeting of scientists, lawyers, policy makers and environmentalists at Wingspread, the headquarters of the Johnson Foundation in Racine, Wisconsin. The Wingspread Statement on the Precautionary Principle summarizes it thus:

"When an activity raises threats of harm to the environment or human health, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically."

⁶ Other philosophers of science who have taken up this issue include Silvio Funtowitz and Jerome Ravetz, who have proposed the name "post-normal science" for the new mode that is needed. See, e.g., Funtowicz and Ravetz, 1993.

⁷ Note that "value-neutrality" is not intended to be synonymous with "objectivity." The latter word refers to an attempt to seek, and to see, reality as truthfully as possible, regardless of how it may conflict with or confirm one's values. Value-neutrality is a statement that one is operating without the influence of values - a pose that, as stated in the text, is an understandable reaction to some unconstructive uses of values, but that cannot honestly be maintained, by an individual or by a social science.

⁸ See Michael Porter in Goodwin, ed, 1996; see also Jacobs 1991.

⁹ See Neva R. Goodwin, "Development Connections: The Hedgerow Model" in Harris, ed., 2000.

¹⁰ What has just been described is a classic aspect of what, starting with Thomas Kuhn, has been called a paradigm shift. It has been noted that sometimes the replacement of old with new ideas happens only as the holders of the old ideas die off, or at least quit their teaching posts. The situation in economics is more complicated, as it is often the recent graduates who are the most vigorously ideological. There is, however, a cadre of young economists - as well as sizable groups at older ages - who are disenchanted with what is being taught, and would be glad to be given a more humane discipline to believe in.

A critical aspect of the discussion to which this note is appended is the comment that change will happen "when an alternative, truer path is available." A reason why neoclassical economics has for so long failed to adapt in a large way to the fundamental criticisms leveled at it is that the discipline has succeeded in defining the terms in which an alternative must be offered. Challengers have, by and large, accepted the mainstream assumption that a science of economics must be axiomatized back to a single, simple starting point (if not the rationality postulate about human nature, then something equally simple); and that its methods must emphasize highly sophisticated mathematics (even though it is widely recognized that the quality of the available data often renders such methods meaningless). Moreover, the theoretical edifice that has been constructed by several generations of neoclassical economists appears so complete that anything less weighty can hardly enter into competition.

This is why, in my own efforts to contribute to an alternative paradigm, a major goal has been to bring out a textbook that is comparable to a neoclassical text in its coverage of the basic economic issues. The first edition of this textbook will be published in Russian (with co-authors, Thomas Weisskopf, Frank Ackerman, Oleg Ananyin, and

Kelvin Lancaster) in 2001, under the title *Microeconomics in Context*. An earlier book (Goodwin, 1991) laid the methodological groundwork for contextual economics.

¹¹ Other accountants who early on perceived the need to broaden standard financial accounting include Thomas Johnson and Robert Kaplan (1987).

¹² These business initiatives are described in detail in Bruyn, *op. cit.*

¹³ Ans Kolk, 2000, "Green Reporting;" *Harvard Business Review*, Jan-Feb.

¹⁴ For example, in the U.S.A. the Families and Work Institute rates company performance in three categories to produce a "family-friendly index." *Business Week* magazine also grades more than fifty major companies on "family-friendliness."

¹⁵ Thomas L. Friedman, 1999, "The New Human Rights;" *op-ed* piece in *The New York Times*, July 12.

¹⁶ Press release from UNEP Division of Technology, Industry and Economics, April, 1999.

¹⁷ For example, some reporting requirements are very time and labor intensive; these will only be retained if they contribute to the company's own understanding of its impact, as well as to the ability of outsiders to understand the company.

Among the 20 companies selected to test pilot the draft GRI standards were British Airways and Shell International (UK), Bristol-Myers Squibb, Ford Motors and GM (USA), ITT Flygt and Electrolux (Sweden), NEC Corporation and KST Hokkaido (Japan), SASOL (South Africa), Henkel (Germany), Excel Industries (India), and VanCity Savings Credit Union (Canada).

For more information on the GRI, see White, 1999, or contact CERES (the Coalition for Environmentally Responsible Economies), 11 Arlington St., 6th Floor, Boston, MA 02116-3411; www.ceres.org. The GRI website is www.globalreporting.org.

¹⁸ The forms of these reactions can include, for example, stockholder resolutions, worker actions, community decisions (on what kinds of supports or inducements to offer to a corporation), consumer preferences (e.g., for products with an eco-label) and consumer boycotts. (The last of these, normally requiring organization of an especially diffuse group, can be effective for only a few, very high-profile situations.)

¹⁹ An introduction to the literature on corporate responsibility, as discussed above, may be found in Goodwin, "Taming the Corporation" in Haris, ed., 2001

²⁰ The health of the environment is cited here as though it is a secondary goal - a means to the end of human wellbeing. It would not change the argument of this paper if we were to hold up human wellbeing and environmental integrity as a pair of equal final goals; or if we were to define a larger number of equally valid final goals; or if we were to accept the position of Herman Daly and others, that the single final goal is to please God, with support for human wellbeing and environmental health understood as especially important ways of fulfilling this requirement. Any of these positions is consistent with the point being made here: it is essential to recognize what our final goals are, and to orient economic systems - as well as legal, educational, and other systems - to the achievement of what really matters.

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