Reviews

New Age Economics

Reviewed by Jacqueline R. Kasun

ENVIRONMENTAL AND NATURAL RESOURCES ECONOMICS: Theory, Policy, and the Sustainable Society
by Steven C. Hackett
M.E. Sharpe, 1998, 327 pp.

Deforestation, rising sea levels, greenhouse gas emissions, global warming, "the potential for catastrophic change in the global climate…inundation of…low-lying areas… desertification of…grain-producing areas…mass hunger… rapid loss of biodiversity," threats to the "habitats of many of the world's species of animals and plants (pp.12-13), disappearance of wetlands, acid rain that "may be responsible for as many as 50,000 deaths in the United States each year" (pp. 175-6)—in horrifying detail, Steven C. Hackett describes our state of environmental collapse. But he also offers hope to the readers of his new college textbook in economics. He not only names the causes of these looming disasters but shows the way out.

The immediate causes are "population growth and increases in … consumption," "disproportionate consumption… by the rich" (p.13), capitalism (p. 243), private property (p. 26), and trade (p. 225). The ultimate causes are more philosophical—"utilitarianism," which he attributes to religious delving into natural law and the nefarious influence of Jeremy Bentham, and "mainstream economics." The way out, therefore, is to control human fecundity and to transform economics into "sustainable economics" or "ecological economics" and to adopt the biospheric vision in the spirit of deep ecology.

Thus we will dedicate ourselves to "sustainable development," which is the idyll (or idol) of the World Bank, the organizers of the 1992 "Earth Summit" in Rio de Janeiro, the UN Population Fund, the UN Environment Programme, President Clinton's Council for Sustainable Development, and an assorted host of other contemporary world planners.

Those who want to know how economics is faring these days at the college level should read this textbook. Contemporary students, of course, will not be surprised at this repetition of what they have already learned in elementary and secondary schools and from Peter Jennings and Ted Turner. Those of us who took Econ 1 in our student days and thought we learned that economics is about supply and demand in markets, however, may be in for a surprise.

As for the market, it may be efficient in certain limited—very limited—circumstances but it is plagued by "market failures" (p. 40). Not only that, but it tends to "*reinforce* self-interested behavior" (p. 29). Indeed, students who study economics tend to be less honest and more selfish than other students (p. 28). There is no hint of Adam Smith's perception that the market uses self-interest to induce human beings to serve one another.

After a brief glance at John Locke, Hackett, who teaches sustainable economics at Humboldt State University in California, concludes that private property is highly suspect. "It is clear that systems centered around private property…can conflict with the common good" (p. 26), whoever decides what that is. He quotes Rousseau on its malevolent consequences: "competition and rivalry…and always the hidden desire to profit at the expense of others" (p. 26).

Those who recall the arguments of Econ 1 in favor of voluntary free trade—how it must make both parties better off or they would not do it, whether they are at the swap meet or in the world rice market—will be bemused by Hackett's denunciations. "International trade...may allow rich countries to import pollution-intensive, resource-intensive, and endangered-species products they do not wish to produce themselves and to export their toxics and trash [p. 225]."

Also, "rich-country consumption is linked through the market process to serf wages and dirty production technologies in the poor countries. The process of economic growth and rising consumption has been accompanied by the evolution of multinational corporations [p. 219]."

There are, nevertheless, points in favor of trade: "specialization and trade can increase the material welfare of the traders..." (p. 225). And the clincher: "As incomes increase, people have less incentive to have large families" (p. 226). Anything, even trade, to counteract "overpopulation." We should, therefore, probably not outlaw trade altogether.

But it must be strictly limited. He quotes two other enemies of trade: "Daly and Cobb argue that…free trade tends to erode livable wages, the

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bargaining power of unions, and environmental and other standards of communities….” Worse yet, quoting Chichilnisky, the “‘tragedy of the commons’” is worsened by trade and transmitted to the entire world economy” (p. 226-7).

Among the causes of the world environmental crisis, Hackett cites the highly uneven distribution of world income (p. 13), as if income bore no relationship to productivity. But people in Calcutta, suffocating under their kleptocratic bureaucracy, are not desperately poor because Americans are free to work and earn comfortable incomes. “Hate the rich” messages have never helped the world's poor or the natural environment and will not now.

Also unworthy of an economist, he claims, after quoting arguments that environmental cleanup causes job loss, that “environmentally friendlier technologies often enhance employment” (p. 11). This is true, but an economist, of all people, should understand and teach that the object of economic activity is not merely to keep people busy but to create useful output. Hackett's “keep 'em busy” and “hate the rich” themes are reminiscent of other world planners. Apologists for the failed Soviet economy argued for years that it maintained full employment, without acknowledging that it produced an abysmal level of output along with unexcelled rates of pollution and environmental destruction and an almost complete lack of human freedom.

Economists usually make allowances for uncertainty and for the lapse of time when they try to estimate the impact of future events (such as the yield of a mine or the possibility of “global warming”). But not Hackett. He claims that many of the numerous distinguished scientists who dispute his doomsday scenario are in the pay of the “coal, oil, and other interests” (p. 192). He argues against the usual discounting and, as if the future environmental nightmares he envisions were upon us here and now, he pleads for immediate action. Do it now. “Preservation has option value...” (p. 110) “…there is no good ethical argument for using a pure rate of time preference other than zero...,” quoting Azar and Sterner (p. 241).

Hackett's admiring references to the “deep ecology” of Herman Daly and Bill Devall are worthy of note. He describes Daly's proposal for limiting births by government-issued, transferable birth licenses, and he quotes Devall's call for “a substantial decrease of the human population.” (Bill Devall, *Simple in Means, Rich in Ends*, Salt Lake City: Peregrine Smith, 1988.) True, he only quotes other authors, but his emphasis on the evils caused by the “continued growth of human population” (p. 12) makes his meaning clear.

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Hackett says, “Daly and Cobb... illustrate the difference between the mainstream of contemporary economic thought and the emerging sustainability economics.” (p. 207). They do, indeed. In their *For the Common Good: Redirecting the Economy towards Community, the Environment and a Sustainable Future* (Green Print: Merlin Press, 1990), the two authors call for a conversion of “half or more” of the land area of the United States to unsettled wilderness inhabited by wild animals (p. 255); a giant forced reduction in trade and a change to self-sufficiency at not only the national level but at local levels also (pp. 229-235, 269-272); complete population control with births limited by government licensing to levels consistent with a stationary or, better yet, declining population (pp. 244, 246); and the abolition of private land ownership (pp. 256-259).

Beyond that, they call for government controls to reduce output to “sustainable biophysical limits” (p. 143); the resettlement of large numbers of the population in rural areas (pp. 264, 311) (remember Pol Pot); taxes on income, land use, energy, consumer purchases, gifts, inheritance, pollution, and the extraction of raw materials, so as to reduce both output and inequality (pp. 318-329); the abolition of direct elections, except for local officials, who would in turn elect higher officers of the government (p. 177); and the prohibition of the movement of private wealth (pp. 221, 233).

After some years at the World Bank, Daly now helps a like-minded soul, Robert Costanza, direct the International Society for Ecological Economics, which publishes the journal *Ecological Economics*, cited by Hackett (p. 209).

To combat the pernicious influences of mainline economics with its emphasis on free markets and private property and individual rights and trade, Hackett suggests “the sustainability ethic,” which “holds the interdependent health and well-being of human communities and earth's ecology over time as the basis of value” rather than “individualism” (p. 209). But, obviously, some individuals are going to be making these value decisions. Who?

There is an ominous ring to these phrases and to his promise that the new system will require not only voluntary compliance secured through “group discussion and communication” (p. 81) (ever hear of Chinese neighborhood committees?) but also “interventions in the form of regulations, taxes, subsidies, and direct funding of clean technology research and development” (p. 277). Careful reading of his book makes it clear that the sustainable paradise will be under the tight control of an enlightened ecological elite and that the rest of us will have much less freedom and will be much poorer and less numerous than we are today. As we make tofu on our solar cookers (pp. 276, 300) in our "sustainable local communities," our leaders will jet from one international environmental conference to another, as they now do, while planning our lives.

This is not to argue that "running down the natural environment" is a desirable thing. And the environmental movement itself is a sign that people throughout the world are determined that the industrial and post-industrial ages shall not destroy Nature. With strong popular support, for example, the National Wilderness Preservation System in the United States has expanded from 9 million acres in 1964 to 104 million acres in 1994. This is an area twice as large as New England and New Jersey. But we have now a massive drive for control by a worldwide environmental elite, rationalized by intellectuals such as Steven Hackett, that threatens the bases of civilized life.

Global Warming Is Good for You

Reviewed by S. Fred Singer

THE IMPACT OF CLIMATE CHANGE ON THE UNITED STATES ECONOMY
by Robert O. Mendelsohn and James E. Neumann (editors)
(Cambridge University Press, Cambridge, 1999) 320 pages

The influence of this book on climate policy may well be more important than the influence of climate change itself on human affairs. But until one reaches the concluding chapter there is little indication of the bombshell contained in this volume involving the efforts of twenty-six economists: namely, that the economic effects of global warming are positive and beneficial rather than negative and damaging. The dust jacket and preface merely claim that the book "improves our understanding of key issues raised in the influential Intergovernmental Panel on Climate Change (ipcc) reports." What an understatement!

The original ipcc report, "Economic and Social Dimensions of Climate Change," assembled in 1995, relied on the earlier published judgments of five authors, which were based on a small set of comprehensive sectoral studies. They concluded that a doubling of the levels of atmospheric greenhouse gases would result in global damages of 1.5 to 2 percent of GDP. (Damages in the United States were estimated at 1 to 2 percent of U.S. GDP.) These early studies by Nordhaus (1991), Cline (1992), Fankhauser (1995), Tol (1995), and Titus (1992) gave total U.S. losses, in 1990 dollars, ranging from \$55 billion to \$140 billion, including both market and non-market effects. But the apparent agreement on a large negative effect masks widely varying sector-by-sector estimates of the losses: agriculture, \$1.1 billion to \$17.5 billion; energy, \$1.1 billion to \$10 billion; sea level damage, \$5.7 billion to \$12.2 billion; timber, \$0.7 billion to \$43.6 billion; and water resources \$7 billion to \$15.6 billion. Further, all of their estimates of non-market effects are uniformly negative and, in many cases, greater than market effects.

The Impact of Climate Change on the United States Economy comes to strikingly different conclusions about the economic effects of global warming, even assuming a doubling of greenhouse gases leading to a warming of 2.5°C. The improved methodology of these new studies considers, among other things, the possibility of adaptation. The new studies also rely on natural climate experiments, by observing energy expenditures, leisure activities, etc., in towns that experience varying temperature changes. Capital-intensive sectors, such as coastal structures and timber, are modeled dynamically. The various sectoral studies were designed to be more consistent and to respond to a broader range of climate projections. And they are more comprehensive, including commercial fishing for the first time.

When all is said and done, the new studies yield large positive effects for agriculture and smaller positive effects for timber and recreation. Estimates for the remaining sectors are still negative, but considerably less negative than the previous ipcc estimates. On balance, warming is found to *increase* U.S. gdp by about 0.2 percent.

The reversal of the earlier estimates is startling, but it should not be entirely unexpected to those who have been following the economic literature of recent years. Individual research papers have indeed shown a large positive effect of warming on agriculture, arising from longer growing seasons, warmer nights, increased precipitation, and a higher level of carbon dioxide to hasten plant growth. The editors of the book were not yet aware that modest warming would retard the rise in sea level rise rather than accelerate it. That fact reinforces the clear implication of their research, which is that global warming is good for us, that is will improve our economic wellbeing as well as our health. Similar conclusions apply not only to other industrialized nations but also to the rest of the world, including island nations that fear a rising sea level.

Will these new results lead politicians to blunt or even reverse the drive to limit carbon dioxide emissions and curtail energy use, or will it be politics as usual? Similarly, will the new results chasten economists who have been engaged in cost-benefit analyses of global warming—a phenomenon with positive economic effects—when the costs of mitigating it are between 1 and 2 percent of gdp?

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Reviews

QUICK LOOKS

by Peter VanDoren

Macroeconomic Essentials for Media Interpretation
by Peter Kennedy
(M.I.T. Press, 1997) 384 pages

Peter kennedy makes the dismal science of economics more accessible to the uninitiated. In a previous book, now in its third edition, he tackled the difficult task of helping undergraduates understand statistical methods in economics. In this book he attempts to do the same for macroeconomics. Fiscal and monetary policy, inflation, and economic growth are all explained in a very accessible way. Kennedy not only defines the gnp deflator and the Consumer Price Index, he also tells the reader how they are calculated and how to use them to convert prices in any particular year to current-year equivalents. If every journalist who covers the economy would read this book and *Memos to the President* by Charles Schultze, fewer silly things would be written.

Macro Markets: Creating Institutions for Managing Society's Largest Economic Risks
by Robert J. Shiller
(Oxford University Press, 1993)
254 pages

Insurance companies have long offered policies to cover risks associated with home ownership and the theft of property. But the industry has not devised policies to cover two major sources of unpleasant economic shocks: fluctuations in the value of homes and fluctuations in income earned in the labor market. Professor Shiller, an economist at Yale, argues that certain technical impediments inhibit the development of such risk-sharing arrangements as indices that could be the basis for the settlement of futures contracts and options. In effect we need the housing value and labor income equivalents of the S&P 500. Professor Shiller outlines some of the technical innovations that must occur before markets will bear the risks now commonly left to government.

The Genie out of the Bottle
by M. A. Adelman
(M.I.T. Press, 1995) 350 pages

Professor adelman of m.i.t. has written the definitive economic history of the petroleum industry. Chapter 2 acquaints the reader with the fundamental economics of oil supply. The remaining chapters take us from the early days of the oil industry to the early 1990s. Professor Adelman's writing style is refreshingly blunt, unlike the more common on-the-one-hand, on-the-other-hand prose of the two-handed economist. An example: "So-called strategic trade theory is old hat for oil. Consuming countries have invoked economies of scale and learning curves to promote domestic energy sources. They 'pick winners' who turn out to be losers and keep subsidizing them to maintain jobs and cover up mistakes [pp. 7-8]."

Tax Policy and the Economy
by James M. Poterba (editor)
(M.I.T. Press, volume 10, 1996)
151 pages, (M.I.T. Press, volume 11, 1997) 211 pages

Since the passage of fundamental tax reform in 1986, the National Bureau of Economic Research has held an annual conference to discuss recent research relevant to tax policy. The proceedings of those conferences give excellent summaries of current policy-relevant research.

In these volumes, Martin Feldstein argues that the increase in tax rates on the wealthy in 1993 had fairly substantial effects on their subsequent reported income, and Nada Eissa reports that tax rates have large effects on the labor supply of married women but not on men.

A paper on Medical Savings Accounts (msa) examines the persistence of medical expenses over time. msas are likely to be more successful if expenses are not correlated across years so that individuals can build up account balances. The authors find that expenses do not persist across years. David Bradford and Derek Max report that community rating of health insurance, the elimination of variance in premiums by age, would result in a one-time transfer to the currently old.

Economics of Income Redistribution
by Gordon Tullock
(Kluwer Academic Publishers, 2d edition, 1997) 222 pages

Professor tullock, long associated with James Buchanan in the "Public Choice School" of economics, has written a new edition of his classic examination of transfer programs run by governments. He writes refreshingly and does not mince words. The U.S. government spends enough on transfers to give about $20,000 to every person in the bottom 20 percent of the income distribution. Of course, very little of that money actually goes to the poor. Instead government makes large transfers to functional groups, like the aged, even if they are not poor. The bulk of transfers in the United States go to the politically influential and organized. The major motive for transfers is that the recipients of the money want it and have the political power to get it. The poor do not seem to get a very good return on their votes.

History of the Eighties: Lessons for the Future
Federal Deposit Insurance Corporation
(FDIC, 1997) 2 Volumes
572 and 118 pages

In these two volumes the research staff of the fdic present their "official" written-by-committee version of the banking crises of the 1980s. The history is dense with facts, charts, and analyses and is thus an extremely useful source of banking industry data. Why does the fdic care about the data? Because it would like to be able to predict the likelihood of bank failures and thus prevent them and thus keep the political system content. The analysts conclude that banks that have failed shared a common characteristic: a low ratio of assets to net worth. But because other banks with similar risk characteristics did not fail, it is difficult to predict failures far in advance on the basis of risk characteristics (p. 74).

A more promising line of attack is what the fdic calls the academic view: the belief that regulation is not the answer. Rather, incentives for depositors, owners, and managers should be structured to ensure that managers act in the interest of owners and depositors. And incentives should be transparent so that depositors can evaluate the likelihood that banks will act in depositors' interest.

Discrimination in Financial Services
by George J. Benston, W. Curt Hunter, and George W. Kaufman (editors)
(Kluwer Academic publishers, 1997)
236 pages

Do banks discriminate against black mortgage applicants? Careful research by Alice Munnell suggested that even after controlling for thirty-eight measures of creditworthiness and risk, nonwhite mortgage applicants were less likely to be approved. This book, a reprint of a special issue of the Journal of Financial Services Research examines new research on this explosive issue.

The book ends with three essays entitled "What Do We Know?", "What Do We Not Know?", and "How Should We Proceed?" These summaries very effectively capture the statistical issues as well as the policy issues. Does the statistical association between race and mortgage denial really indicate that lenders actually use race as a decision variable or is race a surrogate for omitted variables that are valid economic reasons for denial? If the market for home mortgages does not work, then no markets work because the home mortgage market is the textbook impersonal national market in which there is a standard product and no barriers to entry.

Managing Change in the Postal and Delivery Industries
by Michael A. Crew and Paul R. Kleindorfer (editors)
(Kluwer Academic publishers, 1997)
424 pages

This book is a collection of papers presented at the fourth biennial conference on Postal and Delivery Services, held in 1996. The papers examine economic issues at the heart of the debate about postal and delivery services. For example, it is commonly believed that postal services must be a monopoly so that profits from high-density, low-cost urban routes can subsidize high-cost rural routes. A paper by Halsi and Merewitz argues that all but the least dense rural routes are profitable at the current uniform rate (p. 239). A paper by Cote and Takis notes that the Swedish Post Office since 1993 has faced what was thought to be the worst possible scenario: a loss of the monopoly over first class service, but continuation of the obligation for universal service. Ironically, it has survived and one of its private competitors has filed for bankruptcy (p. 353).