



“Summary of article by Jonathan M. Harris: Global Institutions and Ecological Crisis” in Frontier Issues in Economic Thought, Volume 1: A Survey of Ecological Economics. Island Press: Washington DC, 1995. pp. 360-363

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The rapidly escalating environmental problems of today share a common characteristic: their global nature. This is immediately obvious with respect to issues such as global warming and the depletion of the ozone layer, but environmentalists are increasingly recognizing that many other problems once thought of as purely local concerns have a global dimension as well. Erosion, the degradation of soil productivity, groundwater pollution and depletion, desertification, deforestation, toxic agricultural runoff, acid precipitation, and the exponential rise in toxic industrial wastes, are all global issues in that, to one degree or another, every nation must contend with their specific consequences. In addition, they are global because the cumulative environmental impact of these crises is transnational. Reliance on market forces as a solution to these problems is not only an ineffective response to these threats, but one that can actually create incentives that militate against effective solutions. An institutional approach is required, and the requisite institutions must be global in scope in order to effectively confront the truly global scale of the crises.

### **THE OBSOLESCENCE OF PRESENT INTERNATIONAL INSTITUTIONS**

The existing international institutions (the UN, IMF, World Bank and GATT) are all firmly rooted in a particular historic era. They were shaped by the emerging post-war Keynesian consensus, and represent an attempt to institutionalize this policy framework at an international level. In the Keynesian vision, economic growth requires government guidance and activist policies to circumvent the cyclical instabilities that plagued the pre-war economies. The task assigned to these international agencies was to promote global economic expansion and to avoid the protectionism and worldwide deflation of the 1930s. The remarkable expansion of growth and trade in the early postwar era, as well as the dramatic reconstruction of Europe and Japan, seemed to fulfill the Keynesian vision and justify the faith many had placed in these institutions.

However, with the growing international economic stresses of the 1970s and 80s, theorists and policy makers have moved away from the Keynesian perspective. Recent theory has sought to minimize the role and effectiveness of government policy. Meanwhile, in practice the primary policy response of the IMF to the debt crisis has been deflationary and contractionary rather than expansionary. Turning the legacy of Keynes upside down is doubtless applauded by many economists today, as Keynesian policy prescriptions have been repeatedly blamed for the worldwide inflationary conditions of the 1970s. In this view, the harsh monetarist policies that produced the recession of the early 1980s were a necessary corrective, an approach that would be validated by the ensuing surge of vigorous supply-side growth. However, while growth did

resume in some areas, it was driven by the unplanned burst of consumer demand in the United States, supported by its trillion dollar credit line. Not only did this growth do little to help the developing nations, but it led as well to major structural trade imbalances and stagnation or decline for many nations.

Under these conditions, the role of the World Bank, the IMF and GATT has shifted from guiding and shaping world economic development to struggling to manage problems and alleviate the symptoms of stress. However, the policy tools of these institutions are inadequate for this new task. The IMF lacks the authority to impose the necessary macroeconomic fiscal and trade policies on the United States, Germany and Japan. At the same time, it has imposed austerity programs on Latin America and Africa that have made the 1980s a lost decade for these debtor nations. The World Bank's long-term development goals are frustrated by the overwhelming debt burden, so the Bank too has adopted short-term policies. GATT negotiations have focused on limiting the trade-restricting and neomercantilist policies being adopted by nations as they try to pay off debt or gain market share. It is becoming increasingly clear that these existing economic institutions will not provide an adequate basis for sustainable world development into the 21st century. This reality becomes starker when we factor in the global ecological crisis.

## **A REVITALIZED KEYNESIAN VISION**

The failure of the world economic institutions is not the failure of the Keynesian vision that inspired them. Indeed, in terms of the goals set in 1944 they have been spectacularly successful. The new problems faced today arise in part from their success in meeting their original goals of reconstruction and growth of the northern economies. They also stem from the failure to fully include the LDC's in world growth, and from environmental issues unforeseen by the original architects of the postwar world order. A renewed global Keynesianism is needed that both focuses on the unsolved problems of the LDCs and that is integrated with an analysis of the ecological basis of economic activity.

Keynesian interventionism goes beyond the limited neoclassical post-Keynesian vision that was derived from Hicks and systematized by Samuelson. In addition to demand-side fiscal and monetary policies, a thorough Keynesian analysis would include policies for income redistribution, greater social management of investment, market stabilization and managed trade. Resource management and environmental protection policies are also quite consistent with this framework. The present global crisis demands the use of this whole range of Keynesian policy tools, but with a special emphasis on environmental policies.

## **ECOLOGY, ENTROPY AND ECONOMIC THEORY**

Environmental analysis is still undeveloped in economic theory. Traditional cost-benefit analysis, though useful in some specific instances, is an inadequate tool for conceptualizing ecosphere disruptions that threaten the very basis of life on earth. There is, however, a body of work - unfamiliar to most economists - that endeavors to place the economic system within the context of the earth's biological and geophysical systems. This work analyzes economic activity as subject to the fundamental physical laws of entropy. According to this theory, much of our modern economic production uses up stocks of low-entropy matter, thus irreversibly decreasing

our wealth in terms of available resources, while generating high-entropy wastes. These effects cause an unacceptable strain on natural systems that may ultimately destroy their ecological stability. Traditional economists tend to assume that new technologies will overcome these problems and assure a continuous supply of resources for economic use. The entropy theory, in contrast, is based on the presumption that there are limits to growth. It asserts that economic systems must operate under the constraints of limited stocks of low-entropy resources, the limited capacity of biological systems to produce foods, and the limited capacity of the earth to absorb high-entropy waste products. "Ultimately the only sustainable world economic system is a steady state economy using the low entropy available from the solar flux."(118)

## **NEW INSTITUTIONS FOR GLOBAL DEVELOPMENT**

If we take the conclusions of entropy analysis seriously, economic policy must shift its focus from promoting economic growth to managing growth and maintaining sustainable forms of economic activity. Global institutions must then fulfill two sets of functions: the traditional Keynesian functions of employment creation, redistribution and stabilization; and the new functions of resource conservation, waste management, environmental protection, and planning for ecological sustainability. These institution should include:

- 1) an expanded International Financial Institution based on the present IMF but with greater powers of liquidity creation;
- 2) an institution similar to the World Bank, but with a vastly expanded capacity to focus on sustainability and environmental reclamation;
- 3) a Global Public Works Institution that would finance and operate health, education, literacy, waste management, population control, and environmental protection programs in developing nations;
- 4) a Global EPA with a mandate to conduct environmental monitoring;
- 5) a Global Resource Management Agency charged with the creation and management of world parks;
- 6) an International Research and Technology Transfer Institution to promote and disseminate ecologically sound technologies;
- 7) an International Trade Organization to deal with questions of managed trade; and
- 8) an International Peacekeeping Institution with more extensive powers than the present UN forces.

Such a global institutional structure is as sweeping and "unthinkable" in today's international politics as many of the New Deal reforms would have been in the US in the 1920s. It took the calamity of the Great Depression both to reveal that the existing status quo was inadequate and to produce the political conditions necessary for reform. Now we are again at a stage in history in which economic developments have overtaken the institutions that manage them. The historic precedent is the establishment of the present global institutions in the 1940s, with their strong Keynesian inspiration - a process that was facilitated by the hegemonic position of the United States. Is it possible to replicate this success in the more pluralistic and conflict ridden world of today? Given the urgency of the crisis, and the perils of delay, it is not impossible to imagine that the political leaders of the developed world may become willing to take the risks and

confront the ecological crisis. Measured against the severity of the problem, the political and economic barriers may not be as insuperable as conventional analysis would lead us to believe.