



“Summary of article by Robert Goodland and Herman E. Daly: Ten Reasons Why Northern Income Growth is not the Solution to Southern Poverty” in Frontier Issues in Economic Thought, Volume 1: A Survey of Ecological Economics. Island Press: Washington DC, 1995. pp. 295-298

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There are two views on how poverty in Southern countries can be decreased. The traditional view argues that rich Northern countries should consume more in order to provide markets to support Southern growth. The alternative view argues that Northern countries should stabilize their resource consumption. This article discusses these two views and provides ten reasons why income growth in the North is not a solution to poverty in the South. It then makes recommendations on how the North can help the South.

TWO VIEWS: THE TRADITIONAL AND THE ALTERNATIVE

The traditional view argues that Northern income growth, resulting in Northern consumerism, is necessary to ensure that the South will not stagnate. The export of natural resources from the South to the North is seen as a source of income and growth for the South. It is suggested that the import earnings of rich elites in the South will then trickle down to the poor. In addition, the South can use the foreign exchange earned from these exports to import the latest consumer goods. This view assumes that the South is incapable of transforming these resources into necessities for its own people, and therefore must remain dependent on the North. One problem with this approach is that, because both environmental sink capacities and stocks of natural resources are finite, growth and use of these capacities in the North implies less room for growth in the South.

The alternative view argues that, in the context of a finite, inexpandible ecosystem, the North should stabilize its consumption patterns to free up resources and ecological space for the South. The North has overused both the source and the sink capacities of the global commons, thus limiting the options of the South. The solution to Southern poverty therefore lies in the North reducing its throughput, while the South directs its efforts towards producing necessities for the many poor, rather than luxuries for the few rich.

TEN REASONS

There are ten reasons why the alternative view is the solution to Southern poverty, rather than the traditional view. They are:

- 1) **GNP: A Flawed Measure of Human Well-Being:** GNP is a poor measure of human welfare and a poor guide for prudent economic development and environmental management. Despite

this, economic development takes GNP maximization seriously. Environmentally benign activities have a substantially smaller impact on GNP than environmentally harmful activities. For example, the clean-up costs in the aftermath of the *Exxon Valdez* oil spill increased GNP, but walking, biking, and use of mass transit contribute less to GNP than the use of automobiles. Preventive methods of environmental protection need not be an expensive choice that only the rich can afford, as is often suggested. However, clean-up of the detrimental environmental consequences of growth is expensive. In the case of the health of the environment, inexpensive prevention is better than expensive cure.

- 2) **Importance of Relative Incomes:** The proponents of the traditional view who advocate global income growth must acknowledge that one unwanted side effect of this growth is an increasing income disparity between the North and the South. The gains from income growth accrue much more to the North than to the South. Since relative income is more influential than absolute income when competing for finite resources, the poor will increasingly be excluded from domestic and international market economies.
- 3) **Differential Utility of Needs and Wants:** The utility gained from increases in income and consumption is much less in the North than in the South. Because levels of consumption are already high in the North, further increases are subject to sharply declining marginal utilities. In the South, on the other hand, increasing income still meets basic human needs with high marginal utilities. In addition, there are environmental costs associated with increasing incomes. Further income increases in the North could therefore actually result in decreasing welfare in absolute terms. If instead the North consumes less and saves more, while transferring resources to poverty-alleviation in the South, then utility in the South will increase with relatively low environmental costs.
- 4) **Misplaced Technological Optimism:** New technology is adopted to improve productivity and increase the material standard of living. However, considering population growth and the disparity in incomes between the poor countries and the USA, it will be exceedingly difficult for poor countries to catch up with the rich despite any technological improvements, even over the next forty years.
- 5) **The Value of Economic Self-Reliance:** Poverty alleviation in the South will more readily be achieved by promoting employment and self-reliance strategies in the South than by pursuing the traditional trickle-down approach. While obsolete technology in developing countries may initially result in waste, this problem can be solved by the export to the South of up-to-date technologies and industrial ecology strategies.
- 6) **Throughput Growth as a Source of Both Income Growth and of Environmental Damage:** Measured in terms of labor volume, one quarter of all economic activities account for 65% of GNP, and it is these same activities that are most detrimental to the environment. In addition, these activities increase the real income of the other 75% of the economy's labor volume, thus causing additional consumption. A small part of the economy in terms of labor volume is responsible for a large part both of GNP and of environmental degradation.

- 7) **Subsidized Resource Pricing:** The undervaluation of raw material exports from the South to the North means that the South is subsidizing the North through both government subsidies and the costs due to environmental externalities. International organizations should promote full-cost pricing that reflects the true economic costs.
- 8) **Inequitable Trading Systems:** At present, the world trading system favors the North at the cost of the South. Much Northern growth is based on depleting Southern resources at prices below the cost of sustainable exploitation. Individual countries must take world prices as given. However, a number of goods exported from the South face low elasticities of demand in world markets, so world prices may fall as all of these countries attempt to reach their production targets. This results in declining export revenue, adversely affecting imports to these poor countries.
- 9) **Dysfunctions of Imbalanced Trade:** The virtues of free trade have been overestimated, and this goal can conflict with the goal of "getting the prices right." Tariffs imposed to internalize costs should not be labeled "protectionism." In fact, ignoring the environmental costs associated with liquidating natural resources should be seen as a type of subsidy similar to "dumping." In addition, the environmental costs of repaying debts through raw material exports and natural resource liquidation should be recognized.
- 10) **The Insecurity of Inequality:** Increasing Northern incomes at the cost of Southern sustainability will lead to global insecurity. It will result in an increase in "environmental refugees" fleeing man-made disasters, poisoned water, air and soils, soil erosion and desertification. It is in the interest of the North to intervene to reduce income inequalities with the South and to work towards poverty alleviation.

RECOMMENDATIONS

The North and South should work together to achieve the goal of sustainability. The primary recommendations for how the North can help the South are:

- 1) The North should reduce its consumption to more sustainable levels. Most importantly, there should be a transition towards the use of renewable energy sources. This can be achieved with a combination of carbon or nonrenewable energy taxes and tradable pollution permits.
- 2) Northern countries should internalize the costs of disposal of toxics and other wastes, rather than passing them on to low-income countries.
- 3) The North should change current policies that harm the South, such as underpricing of Southern exports.
- 4) The North should review the debts of the South and conditionally write them off based on environmental progress. Loans and grants made for unsustainable purposes should be stopped. In addition, socially and ecologically beneficial technologies should be made more available to the South.

- 5) Grants should be provided through the World Bank and other international organizations to encourage environmental investments in the South, including grants to support investments that promote maintenance of the biophysical infrastructure.
- 6) The North should be directly involved in alleviating Southern poverty, rather than relying on the trickle-down approach.
- 7) The South should be encouraged to pursue policies of population stabilization, transition to renewable energy, human capital formation, job creation, and direct poverty alleviation.