Krishnan, Rajaram. "Overview Essay: International Economic Relations, Development, and the Environment" Part VI, Frontier Issues in Economic Thought, Volume 1: A Survey of Ecological Economics. Island Press: Washington, D.C. 1995. pp.285-294.

"International Economic Relations, Development, and the Environment" by Rajaram Krishnan

INTRODUCTION

Global environmental problems demand global solutions. This is because irrespective of the root of any particular problem the consequences are felt by many. In our present political system no single nation or group of nations can impose direct penalties on perpetrators of environmental degradation. Even if we assume that such penalties might be imposed, in a number of cases where the causes of environmental degradation are indirect and complex we cannot point to a single actor or source as the cause of the problem.

This section deals with issues related to international economic relations, development and the environment. The articles selected for inclusion in this section attempt to bring into focus perspectives which run counter to the dominant attitudes - "free trade is best" and "let the markets work" - in international economic relations. These philosophical underpinnings and dominant attitudes, long advocated by the World Bank and the IMF, have been strengthened by the recent collapse of planned economies and the apparent triumph of the free market alternative in Eastern Europe. However, a reconsideration of these views is imperative given the disastrous results with respect to poverty alleviation in an absolute sense, widening income inequality in a relative sense, and the direct relationship between global environmental degradation and the dominant policy regimes.

This essay lays out the major issues related to how international economic and policy relations have been thought of in the development literature, and how they should be modified in the context of the ecological crisis that affects the globe. Such a discussion must be informed by, and must take into account, the very different perspectives which people hold depending on their class and national origins. The differing groups do not lend themselves to simple dichotomies such as North and South, rich and poor, urban and rural, or anthropocentric and biocentric. This is not to suggest that these differences are unimportant, but that no simple stereotypes can be formed. A history of the nature, costs, and benefits of international economic relations in the post colonial world will be very different depending on who the narrator is. There will be no consensus on what the causes of environmental problems are or on an ideal international policy package to address the environmental crisis that all face. The differences arise because of different interpretations of history, differences in where environmental problems fall in the larger scheme of problems, in the perceived benefits and opportunity costs of meeting the environmental challenges, and as a result of the varied cultural and social backgrounds that people bring to the problem.

The complexity of such dichotomies notwithstanding, there is one essential difference between the rich countries of the world and the poor ones where issues regarding the environment are concerned. To the rich, the environmental problem stands as a constraint to ensuring for the future the affluence that is today taken for granted. Arguably the environmental problem is the most serious threat and should be the primary policy concern of these countries. For the poor countries of the world, on the other hand, the environmental problem, while serious, is secondary to the problem of poverty. Even though poverty and environmental degradation feed on each other in a vicious cycle of cause and effect, if asked which one problem they would rather have solved first, political reality if nothing else will point towards poverty. This fundamental difference is bound to result in differences in policy prescriptions between the rich and the poor.

The rest of this essay is divided into three subsections. Part I discusses what Wilber and Jameson[1] label the "orthodox" paradigm in development. Given its widespread influence in the practice of development policy it could well be called the mainstream or dominant paradigm. Part II discusses a critique of the orthodox paradigm - the dependency school - which was influential in the 1960s and 70s. Part III discusses the articles included in this section. The conclusion outlines the need for a reformulation of development theory and international economic relations in the context of global environmental problems.

INTERNATIONAL ECONOMIC ORDER - THE "ORTHODOX" PARADIGM

Until recently international economic relations were governed by the realpolitik of the Cold War. The race between the East and the West dictated political and economic realities. Both sides were determined to establish that their respective ideologies and methods were not only better, but the best path for humankind. However, the common thread in the policy prescriptions of the East and the West was the propagation of economic growth. The desire for growth, so dominant in directing domestic economic policies of the East and the West, has also been central to the organizational structure of international economic relations. This section will analyze the philosophical underpinnings of the international economic order influenced by the ideology of the West. The primary intellectual foundations for this perspective can be traced back to European liberalism of the late 18th and 19th centuries.

The international economic order, with its emphasis on "free" trade and "open" markets, works on the premise that goods and services should be produced on the basis of comparative advantage for worldwide consumption. While there is widespread disagreement in the theoretical literature on the "free trade is best" doctrine,[2] its hold as a working concept ideologically and in policy is strong. Influential institutions, especially the World Bank and the IMF, have by and large advocated a rather doctrinaire line of getting the prices right and opening up markets to integrate the global economy. These policies are aimed at improving the global economic system based on the efficiency criterion.

A history of development economics since the 1950s reveals this bias towards a growth oriented strategy. In the 1950s, surplus labor models associated with Sir Arthur Lewis and the "vicious cycle of poverty" concept suggested that investment shortfalls were the bane of developing countries. The argument went that developing countries were caught in a vicious cycle where low investment led to low output and employment (read as low growth) led to low savings led to low investment, etc. The relevant policy was therefore to boost investment and encourage growth. Investment in developing countries was to be made available in the form of aid and favorable loans, and by the transfer of technology from the West. On the international front it was argued that open markets were best for development.

The evidence in support of these policies was seen in the success of Western Europe after the end of World War II, and the success of the "Gang of Four" (Hong Kong, Singapore, South Korea and Taiwan) economies. Unfortunately such evidence is misleading. At the domestic level it was naive to believe that what was right for Western Europe was right for the newly independent countries of the Third World. The success of the "Gang of Four," while remarkable, cannot be attributed to a policy of open and free markets, but rather to a planned policy of export led growth. Furthermore, doubts have been expressed as to whether the success of these countries can be universally replicated.[3] In the 1960s and 70s, a realization that the policies pursued had a very small effect on poverty alleviation led to a modification of development theory and strategy. "Growth with equity" and "basic needs" put direct poverty alleviation at the center of development strategy. Growth was not abandoned, but poverty alleviation was added. The problem with these policies was that the processes that accompanied growth worked against poverty alleviation. Put simply, the policies were schizophrenic. Also the power of forces, both domestic and international, that work against redistributional policies was underestimated.

INTERNATIONAL ECONOMIC ORDER - THE DEPENDENCY SCHOOL

An important school of development thought whose influence has waned, but whose relevance has not, is the dependency school. The dependency school rejected the theories of linear progress from underdevelopment to development as espoused by W.W. Rostow. It had its origins in Latin American and is best expressed in the words of one of its leading proponents: "Studies of dependency continue a live tradition of Latin American thought, reinvigorated in the 1960s by the proposition of themes and problems defined in a theoretical-methodological field not only distinct from what inspired Keynesian and structuralist-functionalist analyses (the theory of modernization, and of the stages of development that would repeat the history of industrialized countries), but radically distinct with respect to its inherent critical component."[4] The dependency school attempted to explain the process of development of some nations and underdevelopment of others as part of the same process. Development and underdevelopment are two sides of the same coin, one responsible for the other. The processes that caused these dual outcomes were a result of the international economic system and the arrangements within it which are cultivated to ensure the spread of capitalism worldwide.

The term "dependency" is used to suggest that the nature of international economic relations is configured in a manner such that "most important decisions about development strategies - decisions about prices, investment patterns, government macroeconomic policies, etc. - are made by individuals, firms and institutions external to the country."[5] The dependent economy becomes integrated into a larger trading system and plays to the demands of the world economy, especially those of the developed economies. The developed countries of the world constitute the center and the developing countries constitute the periphery. The development of the periphery is dependent on the center, and the center "exploits" the periphery in its development.

As can be expected, there has been strong criticism, and indeed a dismissal, of dependency theory by the proponents of the orthodox school. Marxian analysts have also objected to the dependency school on a number of fronts. They see it as emphasizing nationalistic issues at the cost of class issues in explaining international exploitation.[6] While there is validity to a number of the critiques of the dependency school, there is an important aspect of the dependency analysis that bears on an analysis of environmental issues in the context of international economic relations. The nature of international economic relations has had an adverse impact on ecological systems, which has benefited some nations and classes while simultaneously hurting others. Domestic and international economic arrangements patterned after 19th century liberalism can in some circumstances be seen as zero-sum games, with some participants gaining at the cost of others because of impacts on the environment, rather than as arrangements which benefit all participants. However, unlike the dependency school argument, the gains and losses from environmental degradation do not cut across national lines, but are a function of nation-class lines.

INTRODUCING THE ENVIRONMENT - GUIDE TO SELECTED ARTICLES

The above two parts have outlined the major themes which the economic development literature has put forth to understand the positive and normative aspects of international economic relations. Interesting from today's perspective is an absence of any direct discussion of environmental consequences and feedback effects. This is understandable since environmental problems were not on the radar screen when the theories were initially formulated. The articles in this section attempt to fill in this gap. The selected articles do not have any single message, but represent different perspectives which are important for a reassessment of international economic relations given global economic concerns.

A reformulation of the nature of international economic relations must begin at the top. The article by Robert Goodland and Herman Daly, "Ten Reasons Why Northern Income Growth is Not the Solution to Southern Poverty," argues that the present set of arrangements where the growth of the North is seen as important for markets of the South is fallacious. They argue that Northern growth and its off-shoot, consumption, result in the North appropriating a disproportionate share of natural resources, and squeezing the South. It is interesting that the opposite argument, that the South should develop so as to create markets for Northern goods, has also been made by proponents of the "grow to consume, consume to grow school." While Goodland and Daly do not make the argument explicitly in this article, the end of economic activity cannot be growth and consumption, but must be development. Growth can in fact retard development due to its impact on the environment. An important empirical question is how extensive the environmental costs of growth are, and who pays for them.

One way in which the rich have attempted to help the poor grow is through aid. The article by David C. Korten calls into question the underlying growth-oriented philosophy on which these aid programs are premised. Korten argues that the policies pursued result in environmental degradation and an extraction of ecological surplus, and perpetuate poverty in the South. Aid as it is presently construed is thus counter-productive, benefiting the North and the rich in the South, and hurting the environment and therefore the poor who depend on the environment.

The two articles discussed above clearly have elements of the dependency analysis in them. The general themes are that while the welfare of the rich depends on the use of environmental resources, exploitation of these resources makes matters worse for the poor, who depend on them for their livelihood. The dual nature of the process, described in the dependency argument as resulting in simultaneous development and underdevelopment, corresponds to an analysis of the environment aiding in the creation of wealth, while environmental degradation perpetuates poverty. Future research should concentrate on further analyzing this dual process at the micro level and attempting to establish such effects empirically. Otherwise this line of analysis risks being dismissed on the grounds that it lacks analytical and empirical rigor.

The most powerful "instrument" in the ideology of the orthodox school at the international level is the doctrine of free trade. There is a voluminous debate between the proponents and opponents of free trade. However, it is only now that connections between trade and the environment are being analyzed. While a lot of work remains to be done, the articles by Jagdish Bhagwati (a distinguished and renowned proponent of the free trade doctrine) and Herman Daly (one of the founders of the sub-discipline of ecological economics) ably present the two sides of the trade and environment debate. One major difference between the two perspectives is the nature of the question that is posed. While Bhagwati dismisses the notion that growth can have a detrimental effect on the environment, to Daly trade and increased growth may be inherently wealth-reducing rather than wealth-enhancing in a global sense. In addition, the ecological economics perspective is interested in the distributional aspects of trade, because such effects have an impact on levels of poverty, the deepening of which has an adverse impact on the environment.

A systematic overview of trade theory and its application to social and environmental issues is provided by Paul Ekins. He stresses that the ecological critique of the standard trade model is not a recent development, but in fact has significant roots in the development of trade theory. A number of mainstream economists, from Samuelson to Krugman, have pointed out that the optimistic conclusions of free trade advocates are strongly dependent on unrealistic assumptions. In many instances, expanding trade can have negative effects both on resource-dependent developing economies and on the environment. Ekins argues that the goal of environmentally sustainable trade may be significantly different from the goal of free trade, and that GATT agreements or the new World Trade Organization rules must reflect this.

The next three articles we consider are by Jayanta Bandyopadhyay and Vandana Shiva, Martin W. Lewis, and Ramachandra Guha. They address the issue of alternatives to the present structure of international economic relations. The article by Bandyopadhyay and Shiva discusses the development of ecology movements which have micro foundations but which result in macro changes. They describe how the dominant ideology, with growth as its centerpiece, has destroyed the economy of nature upon which a vast number of the poor depend, and stress that trade-offs between development and the environment are false. Since the poor depend upon the environment, an important element of poverty alleviation is to protect the environment. A point made by Bandyopadhyay and Shiva, in common with radical environmentalists in the North, is that market capitalism works against both poverty alleviation and environmental sustainability and should be rejected in the process of development.

Martin Lewis critiques this position in his article, arguing that it is not modernization and industrialization that is the problem, but how these are pursued. In addition, Lewis introduces the population growth variable into the analysis. The vicious cycle of poverty and population worsens the existing vicious cycle of poverty and environmental problems. He argues that urbanization and industrialization can be achieved in environmentally positive ways, and that population growth is one of, but not the primary problem for development policy. A policy response to these three problems simultaneously calls for a thorough understanding of the interrelated causes and feedback effects.

Ramachandra Guha, like Lewis, critiques the radical deep ecology position, calling it irrelevant for an understanding of environmental policy in Third World countries. However, he finds common ground with Bandyopadhyay and Shiva in suggesting that environmental protection policy must emphasize issues of equity and social justice. The task before us is to figure out how this should be achieved. Equity and social justice are important elements in the call for "sustainable development" strategies. Effort should be concentrated on making the good intentions associated with this call into a coherent and workable strategy. If not, it will prove to be another fad in the development literature, like so many before it.

In their article "Environmental Conflict and Violent Change," Homer-Dixon, et al. add a political dimension to the economic and environmental interrelations. Garnering evidence from a number of different case studies, they demonstrate the connections between resource scarcities and inequities, and violent conflicts at the local and international level. This is an important point to make when dealing with global environmental policy. In a purely economic sense, to say nothing of other aspects of human suffering, the prevention of such conflicts in many cases would be cheaper than their expected costs. Economic policy analysts have often made recommendations on the grounds that they can do very little with the political. Such a limited perspective is inadequate given the interdisciplinary nature of the issues at hand.

The final article in this section deals with the international nature of responses to global environmental problems. Neva Goodwin's "Introduction to the Global Commons" introduces us to the prospects and possibilities for the creation of a humanitarian third sector to deal with the public goods aspects of problems facing the world. The nation state as the main unit of analysis and policy prescriptions is inadequate given the global nature of many of the problems that we face. When everybody's business is nobody's business within the nation state, governments step in. Who steps in and how when everybody's business is nobody's business at the global level? It is with these questions in mind that Goodwin presents a new vision of a "civic corps" working towards the solution of global problems. I anticipate that many bred on the philosophy of self-interest cast in its narrow dimensions will dismiss Goodwin's third sector as "pie in the sky." However, without working towards such a sector we may have neither pie nor sky to worry about. Clearly Goodwin's vision is only the first word, not the last, in developing a framework which can be truly international in its solutions.

CONCLUSION

Environmental concerns call for a change in the nature of international economic relations. The reason environmental problems are different from other problems associated with traditional development issues is that everybody is affected by them simultaneously. While the poor in

Third World counties were a concern for all, they did not directly affect the lives of the well to do. Macro environmental problems, such as global warming and the depletion of the ozone layer, have a public goods quality in that none of us can escape their effects. Even micro environmental problems, such as soil erosion and destruction of forests, adversely impact all, though at different levels.

The intimate interconnections between economic growth, population growth, environmental problems, poverty perpetuation and wealth creation call for a interdisciplinary, holistic paradigm shift in international economic analysis. Richard Norgaard's call for "methodological pluralism" is especially relevant in issues regarding trade, development and the environment. Here we must break through well entrenched stereotypes and dichotomies. For example, criticizing growth is not the same thing as rejecting the marketplace. However, not rejecting the marketplace does not mean accepting market solutions for all places at all times. Similarly we should consider issues of *power* and *intentions* in understanding international economic relations. The underlying philosophical spirit of the dependency paradigm will be a useful starting point. A simultaneous endorsement of the "market perspective" along with an endorsement of the "dependency school" may seem rather contradictory. I contend that there can be a useful synthesis of these apparently exclusive perspectives. We should focus on theoretical and causal explanations of poverty, rather than simply attempting to figure out how people can be made rich. The default position that peoples are poor because they did not do the things that make them rich is inadequate.

The articles in this section do not provide answers for the serious issues that face humankind. Rather they introduce the reader to different strands of thought which are relevant but do not find an expression in the mainstream discussions of trade, development and the environment.

Notes

1. Charles K. Wilber and Kenneth P. Jameson, "Paradigms of Economic Development and Beyond," in *Directions in Economic Development*, ed. Kenneth Jameson and Charles K. Wilber (Notre Dame, Indiana: University of Notre Dame Press, 1979), 1-41.
2. For a detailed discussion of this point see Paul Ekins, Carl Folke and Robert Costanza, "Trade, Environment and Development: The Issues in Perspective," *Ecological Economics*, 9 (January, 1994): 1-12.
3. See W. Cline, "Can the East Asian Model of Development Be Generalized?" *World Development* 10 (1982).
4. Fernando Henrique Cardoso, "The Consumption of Dependency Theory in the United States," *Latin American Research Review*, 12 (1977): 7 - 24.
5. Wilber and Jameson, 17-18.
6. James H. Weaver and Marguerite Berger, "The Marxist Critique of Dependency Theory: An Introduction," in *The Political Economy of Development and Underdevelopment*, 3rd edition, ed. Charles K. Wilber (New York: Random House, 1984), 45-64.