

Heterodox Economics Newsletter

GREEN ECONOMICS: CONFRONTING THE ECOLOGICAL CRISIS, Robin Hahnel, M.E. Sharpe, 2011; ISBN: 978-0-7656-2796-4, 258 pages.

Reviewed by Scott L.B. McConnell, University of Missouri–Kansas City

As the effects of global climate change begin to be realized throughout the world by increasingly unpredictable and severe weather patterns, the development of a feasible international governance mechanism for ameliorating future effects and avoiding potentially catastrophic outcomes becomes a more urgent and pressing policy issue. The neoclassical response to environmental issues has been largely through an extension of the pricing mechanism to the natural environment, but with a reluctant recognition of Pigouvian externalities and non-Pareto optimum outcomes (Pigou 1912). This constitutes much of the work of what has long gone under the heading of Environmental Economics. The result of this effort has largely been to show, via the Coase Theorem, that the market mechanism will allow us to live in the best of all possible worlds. Recent catastrophes such as the Deepwater Horizon oil spill, Hurricane Katrina, and more prevalent and intense wildfire seasons in the Western U.S. have shown that market prices fail to factor in realistic future potentialities. While following in the footsteps of the efficient markets hypothesis, substantive rationality and profit maximization, neoclassical Environmental Economics proves itself to be intellectually bankrupt when attempting to deal with the problems of the real world.

As we continue to experience a political economic climate defined by both social and environmental crises, it has become increasingly apparent that heterodox economics must join the fray over the issues of resource depletion and environmental pollution. The mainstream economics literature is not even equipped to deal with issues regarding production, consumption and technological change through time, so we cannot expect it to deal in a serious way with the complex issues concerning the relations between socioeconomic processes and the natural environment. There is a definite role to be played by heterodox economics regarding these issues. Recent work by notable heterodox authors attempts to bridge the theoretical link between more traditional heterodox theory and the concerns brought to light by Ecological Economics (Foster 2002; Greenwood and Holt 2010; Holt, Pressman and Spash 2009; Kovel 2007). In their study of environmental issues, ecological economists attempt to deal with such inherent complexities as time, uncertainty, and technological change.

Robin Hahnel, in his most recent contribution entitled *Green Economics: Confronting the Ecological Crises*, thoughtfully dissects the inner-workings of many of the most well-known neoclassical theoretical positions over the environment. He writes from the methodological perspective of Ecological Economics, but with a deft understanding of mainstream theory. My only critique of the work is that his provocative analysis is without any meaningful consideration of more heterodox approaches to policy. He chooses to go the route of internal critiques to the theory, assuming such neoclassical maxims as profit maximization, which disconnects the social agency of those that are in control of the business enterprise. However, an internal critique is often times more

Heterodox Economics Newsletter

powerful than an external critique, so this should not necessarily be seen as a detriment to the work. This book is meant for mainstream and heterodox readers alike, cultivating a rich understanding of contemporary issues that is useful for any student of economics. Much of this work confirms many of the inherent problems of neoclassical theory; previously confronted by heterodoxy regarding production theory, theories of the market, and macroeconomic fallacies of composition.

Hahnel discusses the recent drive for “green consumerism” by noting that these efforts are not entirely in vain, but do not expect the redirection of purchasing power to organic food and LED light bulbs to save the day. Notions of cost-minimization and the Jevons Paradox create difficulties for techno-centric solutions to energy use and pollution control. According to Hahnel, as long as the market is structured around competition, there will always be strong incentives to find ways to reduce costs or raise prices on “green” goods, thereby reducing the incentive to purchase them. I would also add that the long-term distributional inequities of a market economy develop in such a way so that the real value of the wage is insufficient to provide a healthy subsistence for working class families. This is why green consumerism is largely seen as a luxury good and not available to the majority of the working classes. Also, green consumerism tends to take neoclassical notions of consumer sovereignty as given and does not explore Institutionalist notions of endogenous preferences and cumulative causation.

From a neoclassical perspective, the role of Environmental Economics is to internalize externalities through market based incentives in order to bring the market back into equilibrium. This notion of market correction stems from the belief that the marginal private costs are not the same as the marginal social costs and that there must be some way to determine the difference in these cost schedules. Incentive-based regulation such as Environmental Tax Reform and Marketable Permit Systems are suggested to correct these market imperfections. From a heterodox perspective, however, externalities are not a misallocation at all, but rather a necessary ingredient in a market economy. Many heterodox authors alternatively see the business enterprise as “externalizing the internalities” in order to capture market share and promote growth (Kapp 1950; Veblen 1904). Hahnel questions the Ecological Economics contention that a “sustainable throughput” economy is necessarily a no-growth economy, but the notion of scarcity as a socially-determinable outcome is not approached in this work.

To conclude, I highly recommend this recent work by Robin Hahnel as an excellent starting point in the exploration of contemporary environmental issues. This book covers a broad range of topics, exploring and critiquing mainstream Environmental Economics, while showing where mainstream theory has been successful and where it has failed. The lengthy treatment of the history and institutional detail over the global climate negotiations and the Kyoto Treaty is worth the price of admission. This work will hopefully inspire more heterodox theorists to take up the study of heterodox environmental economics to provide a more grounded theoretical approach to the study of the environment. Following in the footsteps of heterodox authors such as Kapp (1950) and Swaney (1991), it will be the role of the heterodox practitioner to focus not only on environmental policy, but on social environmental policy and a re-envisioning of a more sustainable post-Capitalist society.

Heterodox Economics Newsletter

References

- Foster, John Bellamy. *Ecology against Capitalism*, New York, NY: Monthly Review Press, 2002.
- Greenwood, Daphne T.; and Richard P.F. Holt. *Local Economic Development in the 21st Century: Quality of Life and Sustainability*, Armonk, NY: M.E. Sharpe, 2010.
- Holt, Richard P.F.; Steven Pressman, and Clive. L. Spash. *Post Keynesian and Ecological Economics: Confronting Environmental Issues*, Northampton, MA: Edward Elgar, 2009.
- Kapp, William. *Social Costs of Business Enterprise*, 2nd edition, New York, NY: Asia Publishing House, 1950.
- Kovel, Joel. *The Enemy of Nature: The End of Capitalism or the End of the World?*, 2nd edition, New York, NY: Zed Books, 2007.
- Pigou, Arthur C. *Wealth and Welfare*, London, UK: Macmillan, 1912.
- Swaney, James A. "Julian Simon versus the Ehrlichs: An Institutionalist Perspective," *Journal of Economic Issues*, 25 (June 1991): 499-509.
- Veblen, Thorstein. *The Theory of Business Enterprise*, New York, NY: C. Scribner's Sons, 1904.