

The Economisation of Nature and its Services

The path to salvation or the wrong track?

A Green House Gas by Reinhard Loske

March 2021

Preface

“The Economics of Biodiversity”, the final report of the review commissioned by the UK government and led by Professor Sir Partha Dasgupta, received very widespread and largely positive coverage in the media when it was published recently on 2 February. It is perhaps the most powerful single statement to date of the principle widely known as the ‘economisation of nature and its services’, which many see as representing the conquest of capitalism by ecologism, and the deferential reception it received in the mainstream media even leads some to believe that the argument is over and the future of economics, and hence of politics, is bright green. But is that really the case? Professor Reinhard Loske argues that the idea that the ‘economisation of nature’ represents the one and only path to salvation should be viewed much more critically. Significantly, his response was published in the Frankfurter Allgemeine Zeitung, the voice of the German establishment. But this can perhaps be explained by the current political context: opinion polls suggest that after the September Bundestag elections, it is distinctly possible that Germany, by some margin the biggest economy in Europe, may find itself with a Green Chancellor in succession to Angela Merkel.

Ray Cunningham

Popular wisdom has it that anything that costs nothing is worth nothing. Admittedly, the opposite wisdom is also very frequently encountered, namely that money can't buy the really important things in life because they have an intrinsic value that is inalienable. It was Albert Einstein who succinctly stated that 'the best things are not those that money can buy'.

This is obviously an area of ambivalence familiar to most people. Attempts to resolve the tension between everyday economic pragmatism and fundamental convictions in one direction or the other are met with scepticism by many of our contemporaries. On the one hand, it is often said that those who neglect economic realities are ultimately building castles in the air and fomenting illusions. Conversely, the one-sided view taken by the economics profession in particular is met with the accusation that its members know the price of everything but the value of nothing, as Oscar Wilde famously put it.

For some time now, this conflict has also affected sustainability and climate policy, and has yet to be decided. The question is whether the economisation of nature, i.e. setting a value on it through pricing, will lead to more effective conservation and more sustainable use, or whether the opposite is actually more likely, i.e. the economic optimisation of the exploitation of nature.

So what are the interpretations and policy proposals that can be found in the mainstream of economics with regard to the issue of sustainability today - or at least in that part of it that shows any ecological awareness at all? A few broad lines of argument may serve to illustrate the general tendency:

- Nature must be understood as *natural capital*. For example, the economic value of a forest is measured not only in cubic metres of wood, but also in terms of its

contribution to air pollution control, water storage, erosion prevention and human recreation and as a CO₂ sink.

- Cost-free services that are provided by nature, i.e. gifts such as clean water, fresh air, biodiversity and the pollination of plants by insects, must be understood as *ecosystem services* and allocated a price.
- Whether a landscape is worthy of conservation should not be based solely on criteria such as biodiversity or aesthetics, but should be assessed via an analysis of the *willingness to pay* of the 'landscape consumers', and/or evaluated by means of a *cost-benefit analysis*.
- Climate change results primarily from the fact that the external costs of the fossil energy system are passed on to society at large. It can therefore only be countered by a consistent strategy of *cost internalisation* (CO₂ pricing).
- However, ambitious national climate protection efforts can only be successful at the global level if all countries in the world act in the same or a similar way, because otherwise *anti-competitive practices, inefficiencies and free-rider behaviour* will result.

In this intellectual edifice, economic aspects are not just one (undoubtedly important!) aspect of the engagement with ecological issues. Rather, an economic perspective shapes and structures the entire view of the world.

Viewed through this lens, the issue of sustainability is reduced to dimensions such as natural capital and ecosystem services, cost-benefit and willingness-to-pay analyses, commodification and internalisation strategies; in short, to what can be measured, quantified, monetised, compared and evaluated. Anything that eludes this way of thinking is systematically ignored, and intentionally so: from the inherent rights of nature to the dependence of human existence upon it, and from the cultural, historical or religious influences on societies and individuals to the challenges of political or social justice.

How could it happen that this kind of 'economisation' has penetrated ecological discourse and environmental policy to such a degree over the past three decades or so? In discussing this question, it is important to distinguish between two approaches: **one which is driven by vested interests and seeks to capture the discipline of economics to monetize nature as a whole, and one which seeks rather to promote the acceptance of a politics of sustainability by using supportive economic arguments.**

What I am here describing as a strategy of capture is the attempt of predominantly neoclassically oriented economists and economic interest groups to smoothly integrate the environmental question into their categorical system and thus to secure the primacy of economics over politics. It is as if an orchestra that had consistently played celebratory hymns to efficiency and growth, profit and competition were now to carry on doing so in the green context as well - and on all available channels. If ecological problems can no longer always be totally dismissed - which nevertheless still happens regularly among certain factions of this school of thought (see the downplaying of the climate crisis and of the finite nature of resources) - they must be handled within the parameters of the market system and its 'rational' logic.

By contrast, the strategy of promoting the acceptance of ecological politics seeks to demonstrate, with the help of economic arguments, that sustainable development is ultimately also the path that promises greater economic success. The aim is to use the established and still prevailing idiom: the use of nature as a factor of *co-productivity* should be priced appropriately. This is why a lot of energy is expended on identifying the *external costs* of the prevailing economic development model, on revealing *uneconomic growth*, on establishing '*ecologically true prices*', or on outlining the benefits of *green growth*, *green markets* and *green technology*. This line of argument can be aptly described as an *ecological modernisation strategy* or a *Green New Deal*.

Let us move on to a more in-depth consideration and analysis of both groups of actors and their arguments.

Neoliberalism: The state as disruptor, and climate policy as the pretence of knowledge

In its endeavour to remove environmental issues from the political process and to subject them only to economic calculations, neoclassical economics can draw on a rich intellectual heritage and numerous prominent economists. Foremost among them are Ludwig von Mises (1881-1973), Friedrich August von Hayek (1899-1992) and Gary Becker (1930-2014).

Mises' work was characterised by a deep scepticism towards the state and politics as well as the firm conviction that only free markets and competition were capable of creating prosperity and stability. He therefore saw functioning markets rather than democratic elections and state rules as the key factor in sound decision-making in a society. One of his core theses was that the market is a democracy in which every penny represents a vote; the democratic electoral system, he thought, could be seen in fact as an inadequate attempt to emulate the market system in political life. On the market, unlike in politics, no vote is wasted.¹

Hayek, probably Mises' most important disciple and one of the leading theorists of liberalism of the 20th century, saw in the political (and in his view often ideological) determination of non-economic goals a 'Pretence of Knowledge'. He was convinced that the political arrogance evident in claiming to know better than the competitive 'discovery processes' of the markets would sooner or later lead down the 'Road to Serfdom' and end in totalitarianism.² Throughout his life, Hayek therefore saw it as his great task to push back against the influence of politics on the economy, a task to which he devoted a great deal of energy.

Becker, who was awarded the 'Nobel Prize' in Economics in 1992 for his extension of microeconomic theories to large areas of human behaviour and human cooperation, and who was primarily concerned with questions regarding the formation of 'human capital', saw the economisation of as many areas of life as possible as the best way to develop society in a rational and liberal direction. Even if some of his texts, for example on the economics of human partnerships, were criticised for overstepping boundaries, his basic approach has

¹ Mises, Ludwig von: Nationalökonomie. Theorie des Handelns und Wirtschaftens. Genf 1940

² Hayek, Friedrich August von: The Road to Serfdom. University of Chicago Press. Chicago 1944

found its way into politics on a very broad front.³ Becker can therefore also be seen indirectly as one of the intellectual precursors of the idea of *natural capital*.

It may seem very surprising that economists who have not themselves directly addressed the economisation of nature, or only at the margins, are cited here as its intellectual fathers. But what is so enormously influential is not their own few statements on the subject matter itself, in this case ecology, but the so-called 'frames', or more accurately 'deep frames' they provide for the perception, elaboration and solution of societal challenges and problems. These enable the environmental problem to be either defined away as a non-problem or redefined as a (temporary) problem of economic efficiency.

Anyone who enters into an exchange of views or a dispute with the neoliberal protagonists of the economisation of the environmental question today can be fairly certain of the response they will receive. This will include that final proof of the existence of the environmental problem under discussion is not yet forthcoming, or is still clouded by too many uncertainties, which is why action should not be taken prematurely. That the problem, should it actually exist, is not due to fundamental constraints (such as resource limits, the limited capacity of natural sinks or limits to growth in general), and can in any event be solved through technical innovations. That economic and productivity growth is the best way to solve the problem in question, which is why 'bureaucratic impediments' to competition should be removed. That relative to the scale of the alleged problem, for example global climate change, the contribution of our own national economy is negligible, especially since other countries (such as China) have a much greater impact on the climate and contribute little or nothing to solving the problem. And that in general the damage that ecologically motivated interventions in the economic system might cause should be carefully considered. For this reason, taking the lead (or 'going it alone') is to be strongly discouraged.

Ecological Modernisation: sustainability as competitive advantage

It is important to distinguish clearly between this neoliberal line of argument and the arguments of those who, driven by genuine concern for the natural foundations of life, believe that the economy as it operates now should be harnessed for the purposes of sustainability. Hardly anyone has captured this viewpoint better than the conservative politician Josef Riegler, former Vice-Chancellor of the Republic of Austria and one of the pioneers of the ecological-social market economy. For him it is clear that 'people will do anything for money - even the right thing'.

Most ecologically motivated people understandably shy away from such a fundamental endorsement of monetary motivation. Nevertheless, a large proportion of the rhetorical tropes to be found in mainstream environmental policy debates today can be classed as belonging to this basic approach. There are calls for an 'efficiency revolution' and increased 'resource productivity', which can be achieved through 'ecologically true prices' and the resultant 'eco-innovations'. Huge 'export potential' is seen in renewable energy and eco-technology in general, and 'green competitive advantages in the global growth markets of the future' are touted. It is tirelessly argued that a failure to combat climate change will

³ Becker, Gary S.: The Economic Approach to Human Behavior. Chicago University Press. Chicago 1976

result in much higher costs than stringent climate protection - and will thus diminish the prospects for growth.⁴ And growing numbers of ecologically oriented researchers are busy trying to prove that the ongoing destruction of biodiversity carries substantial economic costs.⁵

So are these arguments for a green market economy wrong or right? In attempting to answer this question, it is necessary to draw distinctions that relate to aspects of political pragmatism, of the fundamental understanding of the economy and of the social order as a whole.

An argument only half-won?

Let us start with 'green' political pragmatism. This asks what is possible under the given scope and conditions for political action in order to achieve ecological goals. This inevitably brings the powerful economic sphere into focus. This should not be criticised, but welcomed. The fact that since the 1980s there has been a gradual turning away in the ecological debate from the blanket frontal opposition of 'the economy versus the environment' (or vice versa), and that instead the focus has shifted to the ecological structural transformation of the economy itself, can certainly be taken as progress. Whether it is the energy transition, the transport transition, the agricultural transition, the water transition, the resource transition, the chemicals transition or the circular economy, the basic message has always been that if we continue with business as usual, then we are threatened with collapse! There is another way! Indeed, there is a better way!

However, the discussion about the ecological restructuring of the economy, which in the 1970s was still predominantly critical of growth, consumption and industry, has taken a direction that is driven by a desire to be able to use for its own purposes the arguments employed by mainstream economics. Since the nineties at least, the slogans have been: 'Green targets can take you into the black!' 'Those at the forefront of green technology will be at the forefront of the global markets of the future!' 'Eco-efficiency increases competitiveness!' 'Carbon pricing drives innovation!'

This concern for access to the political arena was understandable, if only to ensure a chance of surviving in the 'competition' between economic arguments. And it was and still is by no means wrong to stress the advantages of ecological technology, 'ecologically true prices', green future markets and green jobs. On the contrary, it is simply true that sooner or later those who go against nature and who squander resources will end up on the losing side in economic terms. And it is also true that merely unmasking the incompatibility of capitalism and sustainability, as the political left is so fond of doing, does nothing to change the situation, but rather engenders feelings of impotence.

⁴ Stern, Nicholas: The Economics of Climate Change. The Stern Review, Cambridge University Press, Cambridge 2006 (Digital version: https://webarchive.nationalarchives.gov.uk/20100407172811/http://www.hm-treasury.gov.uk/stern_review_report.htm)

⁵ Dagupta, Partha: The Economics of Biodiversity. The Dagupta Review, UK Government, HM Treasury, London 2021 (Digital version: <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dagupta-review>)

The problem, however, lies in the one-sided rationale for this positive narrative of opportunities. It excludes too much (at least in terms of the public debate), such as the fact that the all-encompassing dynamic of economic growth and consumerism swallows up all the technical efficiency gains (the 'rebound effect'), which is why there is no overall reduction in environmental degradation. Nor does the concept of 'green markets' provide any answers to questions about social justice or the democratic control of economic power. In the context of the nature and scale of the socio-ecological challenges, it simply falls short of the mark and can be described at best as half-way to a solution, or an argument only half-won.⁶

It is therefore not surprising that around 2010 there was a revival of interest in the critique of growth, a discussion about the re-embedding of the economy in nature and society and about the fundamental principles of the economy. This had a lot to do with the financial market crisis of 2008, which brutally exposed the weak points of a capitalism that had run wild, but also with the continuing lack of success of international climate policy and the increasing social disparities in Western societies and in North-South relations.⁷

The restoration of plurality in economics

Over the last ten years or so, alternative economic concepts have been attracting increasing attention in which values such as self-interest, efficiency, return on investment, growth and competitiveness are robustly called into question: from the economy of the common good to the post-growth economy, from ecological economics to the solidarity economy, from the economy of the commons to Kate Raworth's 'doughnut economics', which takes into account both the 'planetary boundaries' and minimum social and democratic desiderata.

What all these concepts have in common is that they replace self-interest and competition with cooperation and participation, short-termism with sustainability, efficiency with resilience, growth with sufficiency, and profit with social benefit.

These pluralistic approaches have barely made any headway as yet into the teaching of economics in schools or universities or into vocational training. Certainly, there are educational institutions where one can study economics from different perspectives, not least because more and more students are asking for this, but in the mainstream of economics teaching, the old postulates are rigidly adhered to. Here, *homo oeconomicus*, whose essence consists of self-interest, optimisation thinking and an aversion to cooperation, still reigns. Abstractions and formalised model worlds dominate here. And here, people like to immunise themselves by means of questionable assumptions ('*ceteris paribus*': all other things being equal) against the intrusion of too much social or even political reality into the world of supposedly 'rational' economics.

⁶ For a fundamental critique of „Growthism“ see: Spash, Clive: (2020) Apologists for growth: passive revolutionaries in a passive revolution, Globalizations, DOI: [10.1080/14747731.2020.1824864](https://doi.org/10.1080/14747731.2020.1824864)

⁷ For a broader view on the history of post-growth thinking see: Loske, Reinhard: Post-growth thinking as a resource for a European union of sustainability, Centre for the Understanding of Sustainable Prosperity, CUSP Working Paper Series, No. 15, University of Surrey, November 2018 (Digital version: <https://www.cusp.ac.uk/themes/aetw/wp15/>)

Of course, some of the alternative economic concepts can be accused of being heavily normatively pre-loaded and of assuming an altruistic view of human nature which cannot simply be accepted as the rule. After all, not everyone is willing or able at all times to ask themselves in all their economic dealings whether or not they are serving the common good. The value of the information content and the steering effect provided by prices should therefore not be underestimated.

Furthermore, in view of the firm belief evidenced in some alternative concepts in the political governability of the economy, one may well ask whether they really take adequate account of the historical lessons learned from the failure of the various types of centrally planned economies and of governing economic councils of all kinds. It is no wonder, after all, that it was precisely under 'actually existing socialism' that progressive reformers were prone to advocate a 'symbiosis of planned and market economies', a mixture of macroeconomic planning, initiative at the enterprise level and personal freedoms.

And some of the protagonists of alternative concepts could also be confronted with the criticism that their ideas are not directed towards the big picture, at ordering the economy as a whole, but at niche aspects. After all, dealing with the major environmental crises will require rapid and far-reaching changes across the board, not endless experimentation in one's particular social milieu.

All this and more can be put to the alternatives to standard neoclassical economics as legitimate questioning. But in order for a fruitful discussion between the various strands of economic thought to take place, they would first have to be heard in all their plurality, in parliaments and the media, in schools and universities, workplaces and trade unions, neighbourhoods and community initiatives. The monoculture that prevails in economics today stands in the way of this imperative. It prevents fundamental reflection on the future of the economy, its organisation and its structure. This urgently needs to change. Because there is always an alternative (*pace* Margaret Thatcher).

With specific regard to the ecological question, this means that in the face of the climate crisis, the biodiversity crisis and the looming water and soil crises, no one should seriously believe that the economic system can remain largely as it is, with only a few 'green price tags' being put up here and there. 'Ecologically true prices' are a necessary but far from sufficient condition for the social-ecological transformation we are confronted with as a global society.

This is about bigger issues, about the re-embedding of the economy in nature and society, a new understanding of freedom and responsibility in the face of fixed planetary boundaries, global and intergenerational justice; in short, about visions and narratives of how we want to live in the future.⁸

⁸ Loske, Reinhard: Re-embedding the economy in nature and society. On the socio-ecological reorientation of the economy in times of COVID-19 and the climate crisis, Cusanus Hochschule für Gesellschaftsgestaltung, Working Paper Series No. 62, Bernkastel-Kues 2020 (Digital version: <https://www.econstor.eu/handle/10419/222291>)

There will be people who want to denounce this as a politicisation or ideologisation of the economy; let them do so. I believe it to be social wisdom. We like to say that the future is totally open in democracies. But in the context of the ecological (and other) crises, it will become less and less so if we don't finally start taking precautionary action.

Economic incentive measures can help us now and again in achieving these goals. The economisation of nature, on the other hand, is not what our society needs. It would be reductionist and in fact totalitarian in tendency; quite simply the wrong path.

Reinhard Loske is Professor of Sustainability at the Cusanus University in Bernkastel-Kues, of which he is the President. He is also a Senior Associate Fellow of the German Council on Foreign Relations in Berlin. His previous roles include being Senator for Environment, Construction, Transport and Europe of the Free Hanseatic City of Bremen, a Member of the German Bundestag, and head of the 'Sustainable Germany' research group at the Wuppertal Institute for Climate, Environment and Energy. His books include 'Greening the North: A Post-Industrial Blueprint for Ecology and Equity' (Zed Books 1998, with Wolfgang Sachs and Manfred Linz) and 'The Good Society without Growth. Why Green Growth is Not Enough' (Basilisken Presse 2013).

The German version of this text was published as: Loske, Reinhard: Kritik der politischen Ökonomie der Natur, Frankfurter Allgemeine Zeitung, „Die Gegenwart“, 4 January 2021: 6
(<https://www.faz.net/aktuell/politik/die-gegenwart/umweltschutz-kritik-der-politischen-oekonomie-der-natur-17128867.html>)