

## ECONOMIC THEORY AND THE ROAD TO SUSTAINABLE DEVELOPMENT

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First, I'd like to thank Professor Wiessner and my friend Professor Phillips and their colleagues at Saint Thomas Law School. It's an honor and privilege to be here. I'd also like to thank Haydee and all the other support personnel whose contributions to this event and events like this make these sorts of activities possible.

Now for something totally different, or perhaps not. I would like to change the focus of our discussion. We've been looking at the activities of indigenous people in the United States and, to some extent, Canada. And we've been looking at economic development in terms of the last decade or perhaps the next decade as well.

I'd like to expand our focus beyond North America to the world and to include not only indigenous peoples, but also to include all poor people. I'd also like to change our time frame from the last decade, and the next couple of decades, to the next century and beyond.

When I talk about development and economic development, the term "development" is always in parenthesis because I'm not quite sure what "development" means and I think development is used sometimes as a stick to beat people down and to suggest to some people that they are less than others.<sup>1</sup> I know that the term is

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<sup>1</sup> For example, see Ruth E. Gordon & Jon H. Sylvester, *Deconstructing Development*, 22 WIS. INT'L L.J. 1, 4-5 (2004).

Rather, we challenge and interrogate the very concept of development. Development is a set of practices and beliefs that are part of the Western political and cultural imagination, despite being presented as universal, natural and inevitable. The development paradigm comprises a pervasive and largely

used to describe something that is legitimate and reasonable, a goal we expect other peoples to achieve, but it frequently appears to describe an additional set of burdens.

So, I'd like to use the metaphor of "the road trip" when I talk about economic development. I'm thinking of the road trip from the American perspective. There are two parents in the front of the car, there are two children in the back of the car, and they are going somewhere.

In this metaphor they're going to a place called "sustainable economic development."<sup>2</sup> They've been on this trip for a while, they're trying to find sustainable economic development, and they're not quite getting there. They get lost, they get delayed, they think it's here, they think it's there, but they still can't quite reach it. So, they decide to stop and ask for some help — to ask for directions. They come to a fork in the road and they see some "wise people." They know these are wise people because they're wearing signs that say—wise people—and they all have "Ph.D." behind their names.

So here are the wise people, so the family stopped and asked them, "How do we get to sustainable development?" And the wise people said, "Oh, we can certainly tell you that. If you look over there to that hill, you see that path that seems to go in a circle, that's sustainability. The family nodded, they saw the circular path. The wise people continued, "But if you look over there on the next hill, you see a path that seems to go up and down vertically, that's development." Again the family nodded, observing what the wise

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unquestioned set of interlocking ideological assumptions that must be exposed and then questioned. It presumes a universal and superior way of ordering society, and that all societies are to advance toward the same goal. Local and indigenous cultures, economies, self-concepts, and ways of existing are largely without value in this discourse (notwithstanding recent attempts at "local participation"), for the entire development project is premised on its subjects "developing" into something else - and that something else is the West.

<sup>2</sup> Sustainable development is often defined as "development that meets the needs of the present without compromising the ability of the future generations to meet their own needs." WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT, *OUR COMMON FUTURE* 43 (1987).

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people described. But the family was visibly confused and said,

“But sustainability is over there,” pointing to the first hill, “and development is over there,” pointing to the second hill, “but we want to get to sustainable economic development.” And the wise people say, “Oh, well, we can help you.” They turn around and pick up a large cloth bag. The passengers say, “What is that?” The wise people respond, “This is our economic tool kit. We’ll reach in this bag and we’ll get some things out that will help you to bridge the distance between sustainability and development and bring them together.”

By this time the kids are becoming very impatient. They’ve gotten out of the car and they look at the bag and they say, “But that bag doesn’t say economic tool kit, that bag says bag of tricks.” The wise people become somewhat indignant and say, “Well some of the disgruntled people came out one night and they wrote that on our bag, but it’s really our economic tool kit.”

The wise people remove some documents from the bag and hand them to the passengers. The documents are full of charts, formulas and diagrams. The wise people say, “If you apply these formulas you will bring sustainability and development into contiguity and you will reach sustainable economic development—but you have to believe.”

The passengers were delighted. They took the formulas and prepared to return to their car when they noticed a number of derelict vehicles on the road before them. Some of these cars were old and rusted out. Some of the cars had laundry hanging on them, some the cars had little patches of gardens nearby, and in some of the cars the elders and the children were fighting each other. So, the passengers turned to the wise people and said, “Who are those people? Why are they stuck on this path?” The wise people said, “Well, those are people who also are looking for sustainable economic development.”

The passengers were shocked and they said, “Well didn’t you tell them how to get there? Didn’t you give them the formulas?” The wise people answered, “Yes, we did.” The passengers shouted, “Well, what was the problem?” And the wise people said, “Unfortunately, they didn’t believe.”

I'm not here to suggest that sustainable economic development is another one of the myths promulgated by mainstream economic theory. Instead, I simply want to ask the question: Can we, the poor states of the world, the poor societies of the world, get there from here with the tools *they* want us to use?

To begin to answer this question, I want to talk a little bit about economics, economic theory, traditional economics, and the economics practiced successfully by some indigenous people, and of course, the concept of economic development.

In the United States and therefore, unfortunately, in most of the rest of the world, economics is believed to be a social science primarily concerned with the distribution and analysis of the production, the distribution, and the consumption of goods. In this view, the economy is reduced to a mere artifact of the market and market processes. However, most of us know that such a construction of the economy is neither real nor true. Economics is not an explanation of markets and market processes; rather markets are an instrumentality used by economic systems. They're not the only instruments, they're not the best ones, and certainly they're not the first ones that economic systems have used.

Economics, properly understood, predates the development of complex impersonal markets mediated by artificial mediums of exchange. It predates the notion of commodity exchange, or barter and it predates distributions based on fealties or kinship.

Economics, properly understood, is the way a society provides for the physical and material need for its people. Economics only became an "objective" science when it sought to abandon moral responsibility for society and society's members. Economics could not remain a moral enterprise if its goal, as it has become in most of the world today, is simply the pursuit of "more."

However, that is what economics has become. At most American colleges and universities the study of economics focuses almost exclusively on neoclassical economic theory which forms the foundation for what is thought of as mainstream economics in the

U.S.<sup>3</sup>

However, most students of economics will leave their academic work with the view that mainstream economic theory is much more than it actually is. Most of them will never fully appreciate the observation that economics is merely a discipline—it's not a science.<sup>4</sup>

Moreover, the fact that it is a discipline, based on highly questionable if not improbable assumptions, is rarely discussed as a basis for questioning the interventions prescribed by economics theory. Moreover, the view shared by many outside the neoclassical mainstream that neoclassical economics, the economics that the Board of Governors of the Federal Reserve System practices, should properly be viewed as an ideologically based system whose principal function appears to be the legitimization and perpetuation of the current distribution of assets, resources, and opportunities. In fact, the only thing the implementation of neoclassical economic policy instruments appears to accomplish is to guarantee that the rich remain rich, or become richer, and that the well-being of everybody else becomes subservient to that goal.

The perversity of neoclassical theory is that it portrays itself as "Economics," the only legitimate understanding of the economy and the only hope for those who are seeking to improve their financial well-being, whether individuals, communities, nations, societies.

In fact, this new globalized economic system, which is being forced on the people of the world, frequently without their knowledge or consent, is largely the product of neoclassical theory, designed, as almost all neoclassical policy instruments are, to use our labor, our resources, and our futures in ways that do not improve our lives, but in ways that support the current distribution of assets,

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<sup>3</sup> Charles R.P. Pouncy, *Contemporary Financial Innovation: Orthodoxy and Alternatives*, 51 SMU L. REV. 505, 539-43 (1998).

<sup>4</sup> See E. Ray Canterberry & Robert J. Burkhardt, *What Do We Mean By Asking Whether Economics is a Science?*, in *WHY ECONOMICS IS NOT YET A SCIENCE* 15-22 (Alfred S. Eichner ed., 1983); see generally ALFRED S. EICHNER, *WHY ECONOMICS IS NOT YET A SCIENCE* 4 (1983).

resources, and opportunities—a distribution in which corporations and the people who own financial claims to the assets of corporations take from everybody else and keep it.

So, what does this have to do with sustainable development? Neoclassical theory argues that the level of industrialization and production in the developed world can be obtained by all societies if they follow the right economic policies. Economic growth is theorized as a function of the rates of savings, investment, and technological change that take place in a society. With appropriate increases in these variables, development is inevitable.<sup>5</sup>

However, we know that changes in rates of savings, in rates of investments, in rates of technology, both require and produce changes in society, changes in the way people organize their lives and what they value and desire, and changes in where and how they live.

Neoclassical theory is unconcerned with these changes because it's unconcerned with society. For neoclassical theory, the relevant unit of analysis is the individual, and it adheres to the improbable belief that you can understand the behaviors of society by simply aggregating all the behaviors of individuals. It's often observed that this is very much like trying to understand the behavior of an ant colony by studying the activities of one ant.

For neoclassical theory, what society wants is what the individual acting in her own self-interest wants and, in a contemporary capitalistic society, what an individual acting in her own self-interest wants is what the market tells her that she wants.

So, development becomes aimed at satisfying the needs of the market and its principle advocates, the corporations, by converting the world and everything in it into commodities, things to be consumed, and convincing the peoples of the world, or at least the peoples of the world with money, that their happiness is dependant on how much of the world's resources they're able to consume.

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<sup>5</sup> See Charles R.P. Pouncy, *Stock Markets in Sub-Saharan Africa: Western Legal Institutions as a Component of the Neo-Colonial Project*, 23 U. PA. J. INT'L ECON. L. 85, 93-95, (2002).

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So a developed economy is an economy like the U.S. that consumes far more of the world's resources than lie within its borders, and far more of the world's resources than its people actually need in order to enjoy a comfortable standard of living. So promoting economic development for everyone must necessarily result in a world that lacks the resources to enable everyone on the planet, or even half of the people on the planet to consume as much as the people in the U.S. currently do.

Many of us remember the study, "The Limits of Growth," that was financed by the Club of Rome that concluded that the combination of increase population and increased usage of non-renewable resources meant that we will start running out of things in the foreseeable future.<sup>6</sup> The study was published in 1972 and is full of dire predictions and, unfortunately, many of them are coming true. If current trends persist by 2070 there will be 9 billion people on the planet. If each of those people were to consume energy and natural resources at the rate people do in the developed economies, the annual output of natural resources and energy would have to increase by approximately eight times their current levels. That may not be as big a problem as it seems because by 2070, it's projected that many of the natural resources we depend upon will be gone forever. Current projections argue that all potentially recoverable oil, gas, shale oil, coal, and uranium will be depleted between 2040 and 2050, plus or minus ten to fifteen years.<sup>7</sup> In order to replace these energy resources with nuclear energy we will have to increase our nuclear output by seven hundred times.

The production of the average North American diet requires one half hectare of farm land per person. If the 9 billion people projected to be alive in 2070 were to have the typical North American diet, it would require 4.5 billion hectares to supply them. Unfortunately, there are only 1.5 billion hectares of arable land.

We're using water more quickly than the planet produces it.

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<sup>6</sup> DONELLA H. MEADOWS et al., *THE LIMITS TO GROWTH: A REPORT FOR THE CLUB OF ROME'S PROJECT ON THE PREDICAMENT OF MANKIND* (1974).

<sup>7</sup> See Ted Trainer, *Recognising the Limits to Growth: A Challenge to Political Economy*, 50 J. AUSTRAL. POL. ECON. 163, 164-65 (2002).

At today's levels if we were to use only the water that falls as rain we would be able to feed about a half billion people less than we actually do. So every year we are going into a water deficit, gradually depleting the water stored in lakes and rivers and, yes, global warming will result in more rain. But any benefits which that might lead to are going to be offset by the devastation of our coastal regions.

These are some of the issues of sustainability; the issues that force us to recognize that the earth does not have the resources to enable everyone on the planet to live the way people in the developed world do. For some people it's not a problem—"the poor people of the world are used to being poor. They neither want nor deserve to live like we do." However, the poor people of the world look at us and say, "You have a lot of our stuff! Through raw power, through corruption, through deception, you've taken our resources to create your unsustainable lives, and that's not fair."

So since the 60's and 70's neoclassical theory has talked about sustainability. This discourse recognizes that when resources are used to provide for current human needs and wants they become unavailable for future generations of humanity. That should sound familiar to most of us—the view that is a precept of most successful traditional economies—that in making decisions you must take into consideration everyone's interest, including the interest of people who are not sitting around the fire with us, people who may simply not be present and people who have yet to be born. Traditional economies take this perspective because they recognize that the things of the Earth are here for use to use and enjoy, but they do not belong to us.

This is filtered into economic thinking as a notion of sustainable economic development. But sustainability creates two economic problems. The first is what about the things you use up? You recognize that some things you're going to use, at some point they're not going to exist anymore, they're going to be gone.

Economic development is premised on increased rates of technological change that will necessitate increased rates of resource depletion. How do we, through the perspective of neoclassical

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economic theory, comply with the notion of sustainability, when our current need for economic development robs us of future resources? That's where the bag of tricks perspective of economic development enters into the analysis. Neoclassical theory requires a number of assumptions in order for its models to work.<sup>8</sup>

Neoclassical theory describes the economy as being in a state of equilibrium in which the forces of supply and demand interact to achieve optimal allocation of society's resources. The focus of neoclassical economics is on the decision making of entrepreneurs, households, and firms—individuals. It assumes that economic decision making is voluntary, informed, and rational, by which they mean utility maximizing, i.e., acting in your own self-interest.

The models used in neoclassical economics are, however, based on transactions that take place in an exchange economy, a barter economy; not an economy with sophisticated financial instruments, like paper money. In an exchange economy, goods are exchanged for other goods. Economic models based on exchange markets also assume gross substitution—that at some price one good will become an appropriate substitute for another good. Exchange transactions are envisioned as being costlessly reversible. If you go to the market today with a goat, and you get two chickens for the goat, tomorrow you can come back and bring back the two chickens and get back your goat.

In our markets transactions don't work that way. We recognize that each transaction changes the environment in such a way that the transaction cannot be reversed easily and certainly cannot be reversed costlessly. So when these assumptions meet the concept of sustainability strange things happen. Neoclassical theory says it's not a problem because if we deplete natural capital, what they refer to as our natural resources, we can always substitute, because there is gross substitutability, artificial capital—things that we have created. Again, we need only believe that technology is always going to be able to create artificial recourses to substitute for resources that no longer exist.

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<sup>8</sup> See *supra* note 3.

But biologists say, “Wait, that way doesn’t work because if we deplete some natural resources the entire systems around which they were built will disintegrate.” What technological innovation will be a substitute for a rain forest, or for plankton? But neoclassical economic theory has a response—we have to build in “resilience” as a factor in our equations. We have to take into consideration how long the natural system will take to bounce back from the injury we have inflicted upon it. So figure out how much of the rainforest we could “use” without destroying its ability to eventually bounce back and perform other functions the planet needs it to perform.<sup>9</sup>

The problem, with this view is its arrogance – the assumption that we are able to make those kinds of predictions. This leads me to the conclusion that the notion of sustainable economic development, as its being articulated by neoclassical economic theory, is a destination we can’t get to from here. Instead, I would encourage us to rely on traditional economic views, the kind of views espoused by the Honorable Billy Cypress in his talk today, in which we have economic sensibilities based not the acquisition of goods, not on markets deciding the value of everything, not on markets deciding who has a job and who has a house, but instead upon notions of reciprocity and on notions of redistribution.<sup>10</sup>

Reciprocity recognizes that there needs to be a balance between the societies that characterize themselves as developed and those that we view as not being “sufficiently developed.” That balance or that reciprocity means that we need to engage in processes of redistribution. We have to give back to those people a lot of the stuff that we took from them. And we can figure out how to do that in a way that benefits everybody. But that redistribution not going to be painless for the developed societies of the world. Nevertheless, we have to recognize that must accept that pain if we are, in fact, going to be faithful to the other goals of traditional economies, like

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<sup>9</sup> See Choy Yee Keong, *Sustainable Development – An Institutional Enclave*, 39 J. ECON. ISSUES 951, 952-52 (2005).

<sup>10</sup> See GEORGE DALTON, *PRIMITIVE, ARCHAIC AND MODERN ECONOMIES: ESSAYS OF KARL POLANYI* 7-11 (1971).

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minimizing to the greatest extent possible, inequality, and making sure that when we do the things that we do to live our lives we're not taking away the things that our children and our grandchildren will need to live their lives.

Sustainability is a notion that is present in every successful indigenous and traditional economy. But, it's a notion that we have distorted using our contemporary economic models. So I would encourage us, as people in a developing world, because the indigenous societies in the United States are people in a developing world, to construct our own economic perspectives and our own economic systems and recognize and teach our children that the economic structures that are in place are not there to help us, rather seek to integrate us into a market process that's designed to benefit others by taking much of what we have. Thank you.