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Course: Business Strategies for Sustainable Development*

## **Understanding Sustainability Economics**

**Peter Söderbaum,**

Professor emeritus , ecological economics

E-mail: [peter.soderbaum@mdh.se](mailto:peter.soderbaum@mdh.se)

Web: <http://www.mdh.se/hst/personal/foa/psm01>

Literature: *Understanding Sustainability Economics. Towards Pluralism in Economics*, Earthscan, London 2008

**In public debate these days 'economic crisis' is more or less equal to financial crisis.** It is about the debts of Greece as a nation, about Portugal. It is about the EURO zone, the role of Germany, France, Italy, Spain etc.

This financial crisis is certainly important. But there is also **an 'economic crisis' that is primarily non-financial and non-monetary.** The latter crisis is also about assets, debts, resources. We may speak about 'debts to future generations' for example in relation to climate change, loss of biodiversity, ecosystem services, natural resources, accumulation of radioactive waste and so on

Both kinds of crisis certainly deserve attention. **Depending upon information, knowledge and ideological orientation each one of us may make judgments about which one of the two crises is more important**

## **“Sustainable development” (SD) as a contested concept: Different interpretations of SD**

- Business as usual (BAU) for example monetary profits (“sustainable profits”) in business and economic growth (“sustainable growth”)
- Ecological Modernization. Improvements through modification of institutional arrangements (Environmental Management Systems, Business codes of conduct)
- Radical change of political economic system

SD can of course also be understood in other terms for example as “non-degradation of the natural resource base”

The two kinds of crises are interrelated. Some attempts to deal with the first mentioned crisis may aggravate the second crisis i.e. make it worse and vice versa

A problem, as I see it, is that mainstream economics textbooks deal almost exclusively with prices and the monetary dimension

**“Sustainability economics”** or **ecological economics** is an attempt to broaden and change perspectives in relation to economics

**Present development patterns are largely unsustainable in environmental terms**

When attempting to change development patterns to make them more sustainable I think that democracy and pluralism are two key considerations

➤ Democracy is a meta-ideology i.e. something that we all should agree about: How can democracy be strengthened?

➤ Pluralism means that we should consider mainstream perspectives as well as competing perspectives with respect to:

- Theories of science
- Paradigms in economics
- Ideologies and ideological orientations

## THEORY OF SCIENCE

Positivism is the dominant idea of science. In mainstream (neoclassical ) economics textbooks reference is made to positivism as "the scientific method" (Mankiw 2008) suggesting that there is only one idea about good science. Positivism is about standing outside **OBJECTIVELY** observing various phenomena. Positivism is based on an idea of science as being separate and separable from politics.

But values and ideology are always with us in research and education.

Economics is always **POLITICAL ECONOMICS**. We also need various approaches to good science focusing on the **SUBJECTIVITY** and **POLITICAL ROLE** of single actors:

- Hermeneutics (about interpretation)
- Narratives (the stories told)
- Social constructionism (all our languages, including scientific languages are somehow socially constructed for specific purposes by human beings in their interactions)

We will refer to **ACTOR STUDIES** and **CASE STUDIES** where subjectivity is taken seriously

## PARADIGM (THEORETICAL PERSPECTIVE) IN ECONOMICS

Neoclassical economics is dominant at University departments of economics and in public debate. Textbooks, for example Gregory Mankiw's *Principles of Economics* are standardized globally

But complementary or competing perspectives, such as institutional economics, feminist economics, social economics, (non-neoclassical versions of) ecological economics are gaining ground

I have my sympathies with institutional economics and more precisely institutional environmental (or ecological) economics. In my opinion the monopoly of neoclassical theory at university departments of economics is a big problem if we aim at sustainable development

## PARADIGM IN ECONOMICS (CONTINUED)

	Neoclassical theory	Institutional theory
Individual	Economic Man	Political Economic Person (PEP)
Organization	Profit-maximizing firm	Political Economic Organization (PEO)
Market	The forces of supply and demand	PEPs and PEOs as market actors
Decision-making	Optimization	Matching, pattern recognition
Welfare, national level	Gross Domestic Product: CBA	Ideologically open ideas of welfare: Positional Analysis (PA)

Neoclassical theory: No other institutions than markets; no other actors than consumers and firms

Institutional theory: Many kinds of institutions, many roles for individuals, many kinds of organizations in the economy

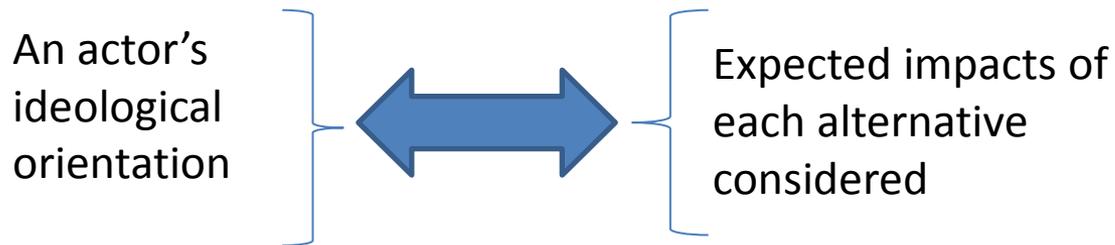
## IDEOLOGY

	Neo-liberalism	"Green" ideology
Main institutions	Market, business corporation	Also other institutions and organizations
Progress, national level	GDP	Sustainable development in multidimensional terms
Progress, organizational level	Profit maximization	Multidimensional idea of performance (CSR etc.)
Progress, individual	Income and private property	Multidimensional idea of progress
Role of government	Reduced through deregulation and privatization	Regulation and publicly administered organizations needed
Global interaction	Expansion for transnational corporations, no barriers for capital movements	Reduced power for transnational corporations, taxation of international capital movements. Subsidiarity principle for regulation and commodity production

## **Institutional economics I: Political Economic Person assumptions**

- Each individual is an actor guided by her ideological orientation
- The individual is understood in sociopsychological terms with concepts such as role, relationship, identity
- The individual is acting (behaving) not only in a market context but also in a non-market context
- Ideology and ideological orientation are understood as means-ends relationship. It is about "where you stand, where you want to go and how to get there"
- The concept of ideology has normally been used at a collective level, for example the ideology of a political party. But if there is ideology at the collective level something similar must exist also at the level of individuals

## Institutional Economics II: Decision-making as a "matching" process



- Ideological orientation as well as impacts (following each alternative) are normally fragmentary and uncertain
- In addition to "matching", we may refer to "appropriateness" or "pattern recognition"
- Analysis of optimal solutions in mathematical terms can be seen as special cases and are often inappropriate in democracies

## **Institutional economics III: Different models of organizations**

- Profit-maximizing firm (as part of neoclassical theory)
- Stakeholder model
- Network model
- Political Economic Organization (PEO) model

## **Institutional economics III: Different models of organizations (CONTINUED)**

The PEO-model builds on the other models but adds some features:

- The organization is guided by its mission or ideological orientation
- The PEO model is polycentric (having many centres) in the sense of making each individual with her ideological orientation visible
- Tensions and conflict are regarded as a normal thing and often constructive
- Issues of power, ethics and ideology enters the scene with concepts such as CSR, exploitation, fairness, accountability

**Neoclassical theory tends to downplay or avoid all these issues**

## Institutional economics IV: Different models of markets:

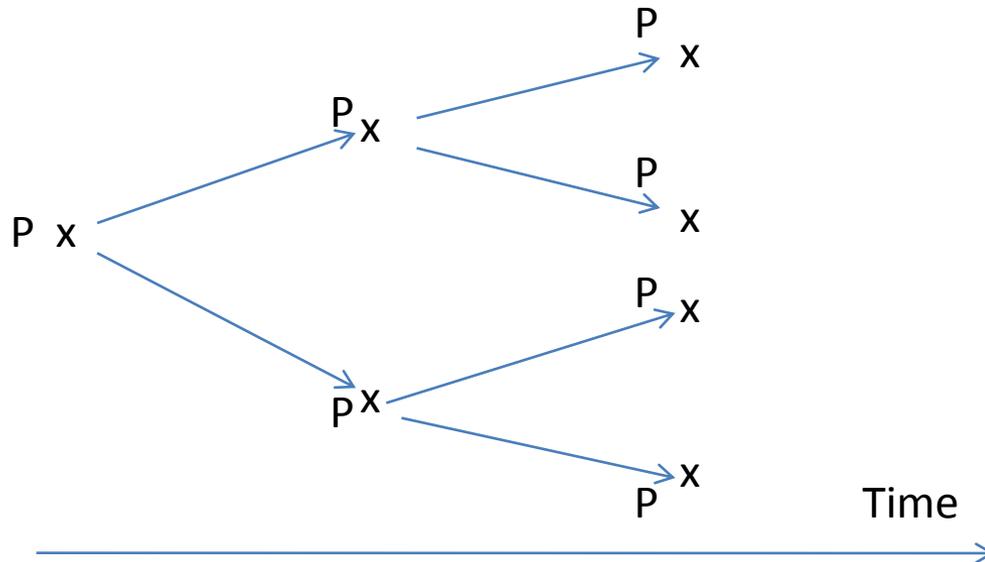
- Neoclassical market model in terms of supply and demand (of commodities and factors of production) as forces in a mechanistic sense. Competition between self-interested market actors is the natural state of affairs
- Social models of markets where actors, relationships and networks are made visible. Cooperation (not only competition) between actors
- Political model of markets where also the ideological orientation (mission) of market actors are made visible. Market behaviour (exploitation, fairness, human rights etc.) is something to be investigated rather than assumed to be given. Conditions of exchange (quality of product, price, time of delivery etc.) are negotiated by market actors rather than the result of forces in a mechanistic sense

## Institutional economics V: Categories of indicators and impacts in economic analysis

	Flow (referring to periods of time)	Position (referring to points in time)
Monetary	a	b
Non-monetary	c	d

- Rather than the neoclassical monetary trade-off philosophy, it is recommended that monetary and non-monetary indicators (impacts) are kept separate
- Non-monetary change processes accentuate phenomena such as inertia, lock-in effects, path dependence, irreversibility
- Such non-monetary phenomena can be analyzed for example by using position trees

## Institutional economics V (CONTINUED): Position trees for impact analysis



- Positional thinking can be compared to a never-ending game of chess
- A move in a specific decision situation leads to a position that differs qualitatively from what would have been reached had some other alternative (move) been chosen
- While decision trees in game theory lead to specific pay-offs, the result here is a series of positions where each new position is a starting point for further moves

## **Institutional economics V (CONTINUED): Applications of decision trees**

- Impact analysis in decision situations at different levels (individual, organization, local community, national community, global community) as part of Positional Analysis (PA)
- Inertia and change in institutional processes

## Institutional analysis VI: Purpose of Positional Analysis (PA)

Since no agreement can be expected about values or ideology to be applied, the purpose of PA is one of **ILLUMINATING** an issue or decision situation with respect to:

- Historical background of decision situation and initial position
- Ideological orientations that appear relevant among stakeholders and other actors, politicians included
- Alternatives of choice that often match the ideological orientations identified
- Monetary and non-monetary impacts
- Conflicts of interest
- Uncertainties
- **CONDITIONAL CONCLUSIONS** in relation to each considered ideological orientation

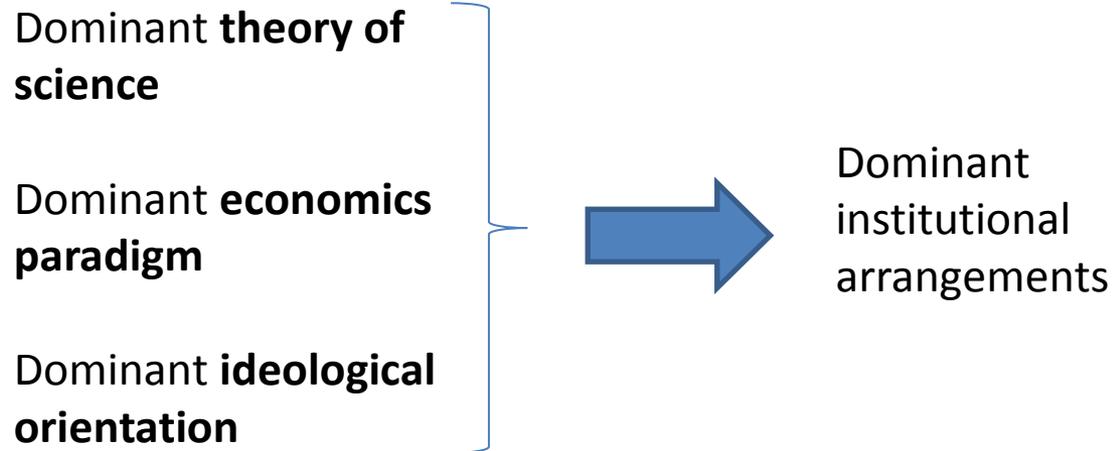
## Institutional economics VI (CONTINUED): Classification of approaches to decision-making

	Closed with respect to ethics and ideology	Open with respect to ethics and ideology
Highly aggregated	Neoclassical Cost-Benefit Analysis (CBA)	
Low degree of aggregation		Positional Analysis (PA)

It is also possible to classify approaches with respect to scope where Environmental Impact Assessment (EIA) exemplifies a narrow scope and CBA and PA a broader scope

# Institutional economics VII: Models to understand institutional change processes

Main model:



Those of us who more or less question existing institutional arrangements have to rely on and develop alternative perspectives in all three respects

## **Institutional economics VII (CONTINUED): Micro model of institutional change**

- Interpretation of a phenomenon by individuals as actors
- Manifestation of this interpretation in language, behaviour, action
- Increased acceptance of interpretation and manifestation to make them more legitimate

**Example:** the introduction and institutionalization of Environmental Management Systems (EMS), such as ISO 14 001

## **Conclusions:**

It is not enough to exclusively present neoclassical theory at university departments of economics. Competing theoretical perspectives have to be presented as part of pluralism

Values and ideological issues have to be dealt with in an open way. Economics has to be democratized

## Questions for discussion

1. How do you react to the kind of institutional theory and analysis presented? What are your questions and comments?
2. Emphasis in the course is at the business level while my lecture has been broader in scope. Do you think that a focus on business corporations is enough or should we try to broaden discussion to economics as a paradigm and the whole economy?