Economic Reflections on the New Agrarian Network[1]

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Discussions of the group dubbed "The New Agrarian Network" at Paicines Ranch included an issue that I have found to be quite common in discussions related to sustainability. There seems to be a wide-spread perception that economic incentives would be adequate to ensure sustainability if we could just make our market economy work more *efficiently*. Others believe we also need to "get the prices right" by *internalizing* the social and ecological *externalities* of economic activities. While both of these strategies are necessary for economic sustainability, they are not sufficient. The inherent danger in focusing on market-based strategies is that we risk allowing the *necessary* to become an obstacle to the *sufficient*. In other words, we will simply slow the rate at which we continue moving in the wrong direction – until it's too late to change course.

First, the strategies of efficiency and internalizing externalities are based on the understanding that it would be more economical in the "long run" to continually renew and regenerate natural and human resources that ultimately must sustain the economy. As a general statement, this is true. All economic value is derived from nature by way of society. There is no place to get anything of value except from nature – earth, water, air, and energy. Once we move beyond self-sufficiency, we become dependent on society as well to help us transform the things of nature into things that have economic value. As long as we barter with people we know *personally*, we can maintain a social economy. However, as our economic relationships become more complex and *impersonal*, we need a monetary or currency-based economy to facilitate our transactions. The "long-run" sustainability of today's economy is inherently dependent on our commitment to sustaining the productivity of nature and society.

The fundamental problem is that today's impersonal market economies place an economic premium on the present over the future. The promise of receiving a smaller economic return next week or next month may be far more valuable than the promise of receiving a larger return deferred until next year or next decade. This is why many consumers willingly pay interest when they borrow money and others expect interest when they loan them money. This is why investors give priority to investments that promise quicker returns over those for which returns will be deferred further into the future. At an interest rate of 7%, a given amount of money ten-

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years in the future is worth only half as much as the same amount of money today… because money invested at a compounded interest rate of 7% will double in value in ten-years.

With respect to investing for “long run” sustainability, a given monetary benefit or cost expected 100-years in the future has less than $1/1000^{th}$ as much economic value as the same amount of money received today. Obviously, such investments cannot compete successfully with investments promising positive returns next week, next year, or even next decade. At a typical corporate rate of return of 15%, values of investments double every five years, which discounts expected future returns even more severely. This is why many corporate planning horizons only extend five-to-seven years into the future.

Admittedly, as the resources of nature – minerals, water, air, energy – become depleted or degraded, they become more *scarce* and thus more economically valuable. More *efficient* markets would be capable of reflecting these increasing economic values more effectively, thus providing an economic incentive to conserve, ration, and find renewable substitutes. But the things of nature often become ecologically scarce long before they become economically scarce, the best current example perhaps being global climate change. By the time protecting the global climate becomes economically valuable to investors it may well be too late to reverse the process. Likewise, if we wait for the degradation of civil society to become economically valuable, society at that time may lack the collective civil capacity to restore it.

Second, with respect to internalizing externalities, there may be economic value associated with doing things for the common good of society and humanity. In economic jargon, “social capital” reduces economic “transactions costs.” It's easier and often less costly to do business with people we trust. Businesses can also “do well” financially by “doing good” because some people will pay premiums for ethically or socially-responsibly produced products. However, as philosophers throughout human history have known, the economic value of social and ethical relationships are almost insignificant in comparison to the social and ethical values that give quality, purpose, and meaning to human life.

The kinds of relationships needed to ensure long-run economic sustainability are purely social or ethical and thus have no economic value. There is simply no economic value in doing anything for the sole benefit of someone else or for society as a whole, certainly not for the benefit of those of future generations. Internalizing externalities simply assigns a dollar-and-cent cost to those things that have economic value. If we are to create a sustainable economy we must make social and ethical investments that have no economic value. Sustainability is about intergenerational equity: Meeting the needs of both present and future generations. The needs of future generations are never given anything approaching equal consideration when decisions are based solely or even primarily on economic value.

In general, those who are concerned about sustainability need to understand that economic relationships are fundamentally different from social and ethical relationships. *Economic* relationships are individual, impersonal, and instrumental. Economic value is *individual* in that it accrues to individuals and not to families, communities, or societies as wholes. An economy is nothing more or less than a collection of individual economic enterprises and organizations. An economic relationship is *instrumental* because it is a means to a further end, specifically, to gaining something of greater economic value. This is the reason it makes no economic sense to invest in anything if the payoff is deferred until after you are dead and why the economy gives priority to the present over the future. Finally, an economic relationship is *impersonal* because if we can't buy, sell, or trade something, it has no economic value.

Social relationships also are *instrumental* in that they depend on reciprocity or expectations of receiving something in return. Unlike economic relationships, the expectations from a social relationship may not be specific with respect to what, when, or where. Regardless, if we expect to have a friend we must be a friend. The value of social relationships is not economic, because social relationships are inherently *personal* in nature. A social relationship with one person is fundamentally different from a social relationship with another person, even if both are friends, family members, or neighbors. Social relationships cannot be exchanged or traded to another person. Thus, social value is *interpersonal* rather than purely individual.

Perhaps most important with respect to sustainability, social values naturally evolve into ethical values. Ethical values are a particular culture's interpretation of morality, the basic principles or laws of nature that govern all relationships. A societal or community ethic is a code of conduct that applies to all people in all situations. A cultural ethic evolves over time from a society's collective experiences from personal social relationships. As social relationships become less personal, people begin to understand the personal values they receive as individuals arise not just from their personal connections but from all of the interconnectedness within their families, communities, societies, and humanity as a whole. This is the process by which personal social values evolve to impersonal ethical values.

Ethical relationships are *communal*, *non-instrumental*, and *impersonal*. Actions that are purely ethical in nature are *not an instrument* or means of acquiring some further ends. The ethical act is its own reward; the benefits are immediate. Ethical relationships produce nothing of economic value to be exchanged or traded to anyone else. Ethical relationships are clearly non-economic. Unlike social relationships, purely ethical relationships show no preference for specific individuals or persons – they are *not personally* discriminatory. Ethical relationships are *communal* in that what is ethically right or wrong in a relationship with one person is right or wrong in relationships other people, including all other people of both present and future generations.

The social and ethical values that sustain positive relationships within families, communities, and societies evolve into ethical commitments of responsibility, equity, and justice for those of future generations. Since ethical values are impersonal, they can also be extended to relationships with non-persons – to earth, air, water, forests, lakes, streams, rocks, or other species. Stewardship of nature is an ethic that evolves out of direct human relationships with nature. Social values of trust, kindness, and courage evolve into commitments to treat nature in ways that are honest, fair, responsible, respectful, and compassionate toward those of future generations. Concerns for the whole of society and the future of humanity are neither economic nor purely social in nature but are fundamentally ethical.

Economies guided solely or even primarily by economic incentives are not now and cannot be sustainable, regardless of claims of economists and others to the contrary. If all investment decisions are preconditioned on receiving something of economic value in return, the investments necessary to protect, renew, and regenerate the natural and human resources essential for economic sustainability will not be made. More efficient markets and facilitating institutions more accurately value scarce economic resources but will not ensure economic sustainability. Internalizing externalities ensure that all economic values are reflected in market prices but cannot ensure the social or ethical investments necessary for sustainability.

The ecological health and productivity of nature and society can be sustained only by people expressing their social and ethical values through their individual and collective choices and actions. The New Agrarian Network provides a means by which investors can share in making the essential social and ethical investments in society and humanity by helping farmers gain access to the land and capital they need to make an economic living while farming sustainably.