

Sustainable Capitalism

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“The idea that the markets are always right was mad.” This was the reaction of French Prime Minister Nicolas Sarkozy to the recent meltdown in global financial markets. He blamed the current financial crisis on a betrayal of the “spirit of capitalism.” He argued that capitalist economies should never have been allowed to function without strict government oversight and regulation. He was right. It remains to be seen whether capitalism can survive this betrayal.

Serious questions were raised during the 1930s regarding whether capitalism was fatally flawed. It had failed to recover on its own during a time of low employment and falling prices. Investors became so pessimistic they would not make the investments needed to create new jobs, regardless of how low interest rates fell. Without jobs, consumers had no money to buy things, thus justifying the investors' reluctance to produce things. The economy became caught in a downward spiral. Eventually, governments intervened by borrowing money and hiring workers when private investors were unwilling to do so. Capitalism survived but we have since repeated many of the past mistakes. Once again, capitalism is confronted with questions of sustainability.

However, today's questions of sustainability are far more fundamental than whether the government should regulate financial markets or provide jobs when private investors won't. The sustainability of capitalism, or any economic system, depends on its ability to meet the needs of the present without diminishing opportunities for the future. The inability of capitalism to meet the basic needs of millions of people today is a direct consequence of the widespread failure of capitalist economies to address this fundamental question in the past.

The environmental and social justice movements of the 1960s in the U.S. were sparked by a sense of the lack of sustainability of industrial economic development. The natural environment had been polluted and degraded by decades of economic extraction and exploitation. The social fabric of the nation had been torn by centuries of exploitation of racial minorities, as well poor people of all races. Industrial economies are very efficient in extracting economic value from nature and society, but they provide no incentives to protect and renew the resources they use up. Legislation was passed to protect the air and water from pollution and to prevent racial discrimination and ensure equal employment opportunities.

However, we soon discovered that protecting the environment and bringing disenfranchised people into the economic and political mainstream have economic costs. Rather than bear those costs, we retreated from reality during the early 1980s and have been in a state of denial ever since. Real economic development cannot be sustained without sustaining the productivity of nature and society. Today's economic chaos is a direct consequence of thirty-years of denial.

Some of the economic growth of the 1980s and 1990s was real, primarily that associated with new electronic technologies. However, much of the so called boom was a product of “irrational exuberance,” which fueled speculative price increases in the stock markets. When the “dot.com bubble” finally burst, the Wall Street bankers found ways to create the financial “house of cards” of the 2000s – another retreat from reality. We now know that virtually all of the economic

growth since 2000 was fueled by unethical financial practices that promoted irresponsible borrowing and spending. The house of cards has collapsed and no one knows how much is left of the real economy. We do know economic development based on fantasy is not sustainable.

The twin threats of fossil energy depletion and global climate change also are direct consequences of our thirty-year retreat from reality. Instead of developing renewable sources of energy – solar, wind, and water – we continued to rely on fossil energy. We are now at or near a peak in global oil production, and all future sources of energy will be less plentiful and more costly to extract and to use. Global climate change is a direct consequence of our fossil energy dependence. Greenhouse gasses are added to the atmosphere with each calorie of fossil energy we use. We can't use the remaining reserves of fossil energy, primarily coal, without risking an ecological catastrophe.

This thirty-year retreat also has had dire social consequences. At no time since the “gilded age” of the early 1900s has the gap between the wealthy and the rest of us been so great. The income of the top one-percent amounts to more than the total income of the bottom one-half of Americans, at least before the financial meltdown. In the words of Alan Greenspan, former Chairman of the Federal Reserve Board, “The income gap between the rich and the rest of the U.S. population has become so wide, and is growing so fast, that it might eventually threaten the stability of democratic capitalism itself.” A democracy based on exploitation is not sustainable.

In our relentless pursuit of economic wealth, we are destroying the foundation of our economy. All economic value comes from either the earth or society. The economy itself produces nothing of value; it simply facilitates our individual relationships with each other and with the earth. Human imagination and creativity is worth nothing without minerals, energy, and other resources from the earth. Imagine today's modern technological society without fossil energy and you get some idea of our dependence on the resources of nature. In addition, the people who create new technologies have been nurtured, civilized, educated, socialized, and organized by families and communities – by society. We have not made adequate investments in natural and human resources to meet the economic needs of the future; over time, the *future* became *today*.

The basic problem is that economic value is inherently individualistic. It makes no economic sense to invest in anything for the sole benefit of someone else. Certainly, it makes sense to do things for other people if we expect something of greater economic value in return. That's why people provide jobs for other people and invest in other people's business enterprises. However, if the benefits are expected to accrue *solely* to someone else or to society in general, there is no economic reason to employ or invest.

In addition, it's impossible to realize anything of economic value after we are dead. Since life is inherently uncertain, we place an economic premium on the present relative to the future. This is the reason people willingly pay interest on loans, so they can have something today rather than save enough money to buy it later. At historical interest rates of around seven-percent, a dollar ten years from now is worth only fifty cents today, and anything 70-years in the future is worth less than a penny on the dollar today. There is no economic incentive to invest for the benefit of society today or to conserve natural resources for the benefit of future generations. A society driven by economic self-interest, which is increasingly the case, is simply not sustainable.

Capitalism was conceived during a time when the resources of nature seemed inexhaustible and society seemed invincible. We know now that both are finite and limited in their capacity to generate economic value. A sustainable economy must renew and regenerate as least as much as it extracts and exploits. We ultimately must confront the disquieting reality that an unbridled capitalist economy is not sustainable.

We can create a sustainable capitalist economy, but we must be willing to work together, through government, to protect society and nature from economic exploitation. We must be willing to “spread the wealth around” occasionally, not to punish the wealthy, but to maintain the stability and productivity of the society the wealthy depend on for their wealth. We must be willing to pay the higher costs of an economy based on renewal and regeneration rather than extraction and exploitation. And yes, the *economic* costs will be higher, but affordable and necessary.

Sustainable capitalism will require a fundamentally different way of thinking. As Albert Einstein once pointed out, “We cannot solve our problems with the same thinking we used when we created them.” The industrial paradigm of economic development that has dominated thinking for the past two centuries is based on a mechanistic view of the world. We humans are but cogs in a giant, complex machine. Sustainable economic development must be based on a paradigm that respects the fact that the world is actually a natural living ecosystem. We humans are integral connected with that living ecosystem – we depend on it, it depends on us.

Sustainability ultimately is a matter of energy. Everything that is of use to humanity – our houses, clothes, food – requires energy to make, energy to use, and in fact, is made of energy. All useful human activities – working, thinking, managing – also require energy. And equally important, the usefulness of human energy is a product of society. We are not born as productive mature adults but as helpless infants. We have to be nurtured, socialized, and educated by society before we are capable of being economically useful, and that requires *social* energy. The resources of nature and society for which we must extract economic value ultimately are energy resources.

According to the first law of thermodynamics, energy cannot be created or destroyed. However, the second law of thermodynamics – the law of entropy – states, whenever energy is used or reused some of its *usefulness* is lost. When energy is used, it is always transformed from more concentrated, organized forms to more dispersed, less concentrated forms, as when we burn fuel in an automobile or fuel our bodies with food. In fact, the usefulness of energy arises from its natural tendency to disperse. Each time energy is used and reused it becomes less concentrated and thus less useful until eventually it is “used up” – it reaches a state of entropy.

The only source of energy available to offset this inevitable tendency toward entropy is the daily inflow of solar energy. Thus, a truly sustainable economy must rely on solar energy to renew and regenerate the natural and human energy from which it derives its usefulness or productivity. The economy must function as a living organism, which in fact it is, rather than an inanimate mechanism. Living organisms have the capacity to capture and store solar energy to offset the usefulness of energy lost to entropy. They have the capacity to be useful to other species – to be productive – while devoting a significant portion of their energy to renewal and regeneration.

Living organisms can meet the needs of the present without diminishing the opportunities of the future. They have the capacity for sustainability.

We humans also are capable of capturing and storing solar energy, by using windmills, dams, and photovoltaic cells. We also have an inherent tendency to produce and reproduce, even when we have no economic incentive to do so. Otherwise, few of us would choose to raise children. To create a sustainable economy, we must reflect on and respect the basic nature of our human capacities and tendencies. Obviously, an individual life is not sustainable because every living thing eventually dies. But living communities clearly have the capacity to be productive while devoting a significant part of their life's energy to conceiving and nurturing future generations.

Sustainability will require that we be willing to devote a significant portion of the earth's energy from our individual economic uses to renewal and regeneration. It will take energy to rebuild and redesign the windmills, dams, photovoltaic, and other solar collection systems needed to sustain future generations. And perhaps most important, it will take human energy to renew and regenerate the healthy families, communities, and civil societies needed to ensure that whatever energy is available in the future is put to constructive rather than destructive uses.

To ensure economic sustainability, we must balance our self-interest with our common-interests as members of society and our moral responsibility to the future of humanity. To ensure the common good, we must work together through government. Together, we must create a moral and just society within which our capitalistic economy can meet our individual needs without degrading either nature or society. Fortunately, this is completely consistent with the classical principles of both capitalism and democracy.

The *classical* economists, including Adam Smith, Thomas Malthus, David Ricardo, and John Stewart Mills, understood the necessity for social and ethical constraints on the economy. Adam Smith wrote in his 1776 classic, *Wealth of Nations*, “improvement in the circumstances of the lower ranks” should never be regarded as “an inconvenience to the society... what improves the circumstances of the greater part can never be regarded as an inconvenience to the whole.” He also wrote that *land*, meaning natural resources, “constitutes by far the greatest, the most important, and the most durable part of the wealth of every extensive country,” suggesting that the *public* must accept responsibility for protecting their common wealth. Classical economists understood an economy must function within the social and ethical bounds of an equitable and just society.

The framers of the U.S. Constitution understood that the primary function of government is to ensure an equitable and just society, not to promote economic development. The American Declaration of Independence states, “We hold these truths to be self-evident that all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among these are life, liberty, and the pursuit of happiness. That to secure these rights, governments are instituted among men.” The preamble to the U.S. Constitution lists the basic responsibilities of government to “establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty for ourselves and our posterity.”

Nowhere in our Constitution do we find “ensuring economic growth” identified as a primary responsibility of government. All we need to do to establish a sustainable capitalistic economy is to return to the classical values of capitalism and democracy. If we do so, we will work together through government to protect both nature and society from economic exploitation.

All people will be afforded sufficient food, housing, health care, and education, and a sufficiently clean and healthful environment to meet their physical and mental needs – not as a privilege but as a basic human right. The intent will not be simply to ensure the rights of individuals but to ensure the future integrity of society. Natural resources and the environment will be conserved and protected as necessary to afford those of future generations rights equal to our own. We will work together to ensure equity and justice for all, including those of future generations.

The resulting sustainable economy would not be socialist or communist, although it would require an active role for government in establishing and enforcing the bounds within which the capitalist economy is allowed to function. Within such bounds, competitive markets could guide the use of natural and human resources in the pursuit of individual self interests without diminishing the well-being of society or humanity. Without such boundaries, a capitalist economy is not sustainable.

Sustainability ultimately is a matter of ethics and morality; there is no other sense in which we have a responsibility for the future well-being of humanity. Certainly, we need to care about ourselves. We are material beings and we need to be concerned about our individual, economic well-being. However, we are also social beings; we need to care about other people for purely altruistic reasons. We need to love and be loved. We also are ethical and moral beings. We need to feel a sense of rightness and goodness to give our lives purpose and meaning.

Sustainability simply applies the Golden Rule both within and across generations, doing for those of future generations as we would have them do for us, if we were of their generation and they were of ours. Eventually, we must come to a common understanding that it is not a sacrifice to care for other people or to take care of the earth because these things make our lives better. In our pursuit of sustainability we are simply pursuing a more enlightened concept of self-interest.

This is not some radical, new idea. In the early 1800s, in his classic book, *Democracy in America*, Alex De Tocqueville, a Frenchman, referred to this as “self-interest rightly understood” and deemed it a necessity of democracy. He was right. Nearly 200-years later, another Frenchman said “The idea that the markets are always right was mad.” He also was right, but we have the means of ensuring that capitalist markets do work “right” – for the good of society and humanity as well as individuals. We can rescue capitalism from its betrayal, if we are willing to work together to ensure its sustainability.