



Mainstream Economics Versus Sustainable Development

G 8 Summit 2005: Africa Debt Relief – Curing the Symptom Instead of the Disease

By Kerstin Bernecker¹

Obsolescence of our unsustainable development paths and its consequences

At the latest since the 1992 Earth Summit on Environment and Development in Rio it was world wide recognized that “our” development paths are contradictory to sustainable development and that they need to be changed radically and consequently is obsolete²: Our economies – and related “development” – is based on fossil energy. This form of energy was accumulated before the ages of mankind in millions of years and is now blown into the atmosphere within a few decades. Before these resources will be used up, we will have changed

our environment, especially the atmosphere in a way which will make life for humans increasingly difficult on this planet.

In all socio-economic surveys of the author which cover most parts of the world (more than 20 countries in Africa, East Asia and Central America) during the last 25 years, people expressed the following personal wishes: having 1st a car and 2nd a TV (in former times a radio).

“Our” development paths, “our” economies. means to say: those of the so called “developed” world. And this means approximately all development paths because this “developed” world was exporting their approach to the rest of the world on all levels and all “channels”: via a world economic system (World Bank, IMF, GATT/WTO, bilateral “development” co-operation,...), via a world institutional system (UN), via media – and with weapons (latest example: Iraq war). The few attempts of some countries to take other development paths could eventually not withstand the pressure and the seducing comfort of the before mentioned ones.

The result of this export was, however, devastating: many “developing” countries were reached only by part of this

¹ Kerstin Bernecker (economist, physicist) is an independant consultant, working since 25 years mainly in developing countries (but also Germany, Switzerland, Japan...). She is specialized as advisor and facilitator on the conflict areas “man-nature/environment” and since a few years on Agenda-21 processes. In the household of Kerstin Bernecker energy comes from a local solar plant and a thermal power plant run with vegetable oil. She uses public transport, bicycle and an electro-car. KBernecker@aol.com.

² UN: Earth Summit – AGENDA 21 – The United Nations Programme of Action from Rio, New York 1992, referred to as “Rio-AGENDA-21”.

approach, their genuine development was blocked³ and they experienced a completely imbalanced development (without sufficient social development, education, with related enormous population growth). They were pushed into monetary and export oriented economies with permanently deteriorating terms of trade⁴ as well as into credit taking on all levels (from government level down to the small farmer). Money was flowing and related corruption⁵ was flourishing. The overuse of, natural resource, the rural exodus and the development of inhuman mega cities were some of the negative consequences, summing up to another form of unsustainable development.

A physicist used to compare the money flow to the “developing” countries to a river with its water diverted to the desert. What happens to the water then there? – It simply disappears – as money does in a poor, only partially monetarised society.

The result was stated in Chapter 1 of the Rio-AGENDA 21:

“Humanity stands at a defining moment in history. We are confronted with a perpetuation of disparities between and within nations, a worsening of poverty, hunger, ill health and illiteracy, and the continuing deterioration of the ecosystems on which we depend for our well-being. However, integration of environment and development concerns and greater attention...”

³ Der Spiegel 27/2005, p. 106: Interview with James Shikwati (expert, economist, Kenya); Hamburg 2005.

⁴ Bernecker, K.: Die Bedeutung von internationalem Handel und Handelshemmnissen für Entwicklungs-länder, in: Entwicklungspolitik, Hrsg.: Hauff, M.v. et al., Stuttgart 1984.

⁵ Transparency International: National Integrity Systems – The TI Source Book, 3rd Edition, 1999, Berlin 1999.

⁶ The Kyoto protocol foresees the reduction of green house emissions of the industrialised nations of an average of 5% (until 2012, based on 1990). This corresponds to a reduction of the emission of 1 billion tons of CO² equivalents. At present, the emission registers an increase of 3 billion tons!– See, e.g.: Umweltbundesamt (German Federal Environmental Agency): Die Zukunft in unseren Händen – 21 Thesen zur Klimaschutzpolitik für das 21. Jahrhundert (The Future in our hands – 21 statements for a policy of climate protection for the 21st century), Berlin 2005.

⁷ See, e.g.: Barber, W.J.: A History of Economic Thought, New York 1979.

Since 1992, when the above was written, the situation has aggravated significantly. The disparities have increased and wars over resources are common nowadays. Although the contradiction between our unsustainable development and the requirements for sustainable development were very evident since Rio, very little has happened. The basic structures and the basic approaches regarding development were not changed – despite minor palliative and half hearted actions such as the Kyoto protocol⁶, (minor compared to the real scope of the problem and the required action). In fact, the majority of the countries as well as the individual inhabitants of this planet continued their unsustainable approaches, probably each and every one assuming, that just he/she does not matter in this global concert!

“...more help to Africa...is causing damage to our countries since 40 years. If the industrialised nations want to help Africa really, they should cancel by now this terrible help. Those countries which have received most of development aid are worst off...”

Huge bureaucracies are being financed, corruption and complacency are encouraged, Africans are being brought up to become beggars and to be dependent. ..Development aid is hampering the local markets and a spirit of entrepreneurship – which we would need so urgently. Development aid is one of the causes of the problems of Africa, - though this may sound absurd. If it is abolished, the normal African would not notice even. Only the bureaucrats would be shocked. That is why they say without development aid the end of the world comes...” (Interview with James Shikwati, Der Spiegel, 27/2005)

Obsolescence of “mainstream economics” and its consequences?

The above mentioned unsustainable development paths are theoretically “justified” by classical economic thought, by the “theory” of liberal market economies (capitalism, <neo>-liberalism).⁷ Economy is not a natural but a social science, and therefore, no natural laws are relevant in economics. Still the “laws” represent idealised models and not the complex socio-psychologically influenced reality and most people believe in economic science as they do in natural science. The basics of economic thought, however, were laid down during a period when environment and natural resources were not considered

to be scarce. One implicit basic assumption of classical economic thought is an infinite availability of natural resources and waste absorption capacity. I.e., it was not necessary to worry today about resources and waste absorption capacity of tomorrow.

Related to this, just one among a long list of examples is given to show that classical mainstream economics does not respond to the actual requirements: A major criterion – applied by all relevant development banks (World Bank, Asian, African Development Banks, KfW etc.) for the selection of (development) projects for investment is the internal rate of return⁸ (IRR) of the project and/or the net present worth (NPW) of the project.

Both, IRR and NPW, are economic/ financial evaluation approaches based on discounting future costs and benefits to the present⁹. One argument for discounting was to make future costs and benefits somehow comparable to the present. Other arguments were: “a bird in hand is worth two in the bush”¹⁰, expressing the “time preference” or the social time preference; related to that is also productivity of capital: if I invest today, I may reinvest the returns tomorrow.....



No! This time we go without human beings (BN 1/89)

What was earlier not considered as problem but became one recently and is exhaustively discussed in economic literature since nearly 20 years is the following: One effect of discounting is that the future has no importance. The relevance of future costs and benefits is decreasing with an increasing discount rate ($\dots/(1+r)^n$). I.e. the higher the discount rate, the greater will be the discrimination against future generations¹¹.

This example shows that classical economics does not fulfil the requirements of the situation of a limited space (our planet) with limited resources and limited waste absorption capacities – and responsibilities for

future generations. Since more than 20 years, attempts are ongoing to find solutions to respond to these requirements. Among others, even negative discount rates are being discussed – in order to give the future and the future generations an adequate value¹².

This issue concerns so far simply the methods and tools of the economists – and is completely ignored by the mainstream economists. Also development economy simply imposes the “homo oeconomicus”, including market liberalism and the uncritical present consumption of resources and ignores so the future.

⁸ This is the discount rate of the project cash flow which yields a net present worth of zero.

⁹ Discounting may be considered as the inverse application of interest rates: 1 Unit (U) in year 0 would accumulate to $U \times (1+r)$ in year 1, with r = interest rate in percent; to $U \times (1+r)^2$ in year 2 etc.; $U \times (1+r)^{20}$ in year 20.

Looking at discounting, this means: a net benefit (of the project) of 1 Unit in year 20 is considered to be worth $1 U / (1+r)^{20}$ in year 0; if the discount rate is 10%, i.e. $1 U / 1.1^{20} = 0.14 U$ worth

today. At higher discount rates, the difference between the future worth and the present worth is even more significant.

¹⁰ Gittinger, J.P.: *Economic Analysis of Agricultural Projects*, p. 304; Washington 1982.

¹¹ See e.g. Pearce, D.W. et al: *Economics of Natural Resources and the Environment*, New York 1990.

¹² Drepper, F.R. et al: *On the Role of Unpredictability in Environmental Economics*, Tilburg 1990.

Without giving further examples of the deficiencies of classical economics, the necessity of an integrated socio-ecological-economic system is underlined. In fact, environmental economists request a process of adaptation of economic development “towards zero consumption of fossil energy and other non-renewable resources in order to achieve forms of sustainable development...”^{13, 14}

Africa Debt Relief – Trying to cure the symptom instead of the disease

Linking the above considerations with the 2005 G8 summit, the discussion of the debt relief for Africa appears different to the “mainstream” discussion: Regarding this situation – ongoing unsustainable development promoted by the “developed” world and their economic thought – it is very evident that the debts accumulated by African countries are not an African problem: They are the result of classical economists, bankers, development experts, pushing developing countries to unsustainable development paths, to credit taking, to indebtedness and to selling out their future. The debts represent an indicator for a completely wrong development approach (unsustainable development path), and the debt relief is simply curing the symptom for a while.

Of course, a debt relief for these countries sounds helpful and even generous. Sad to say, it will not change anything for the populations and for the future of these countries, if not a basic change in the development approach, in the development paths will take place: Sustainable development with an adequate consideration of the future and the future generations is necessary, - otherwise there will be simply a change of figures on paper and after a debt relief, a readjusted situation for the “developed” countries to repeat once more their old mistakes.

Ideally, the countries concerned should be encouraged to develop adequate sustainable development paths, – which may be of relevance for the “developed” world, as well!

¹³ Maier-Rigaud, G.: *Die Herausbildung der Umweltökonomie, in: Die ökologische Herausforderung für die ökonomische Theorie; Hrsg.: Beckenbach, F., Marburg 1992.*

¹⁴ See also: Fuller, R. Buckminster: *Operating Manual for Spaceship Earth*, New York 1971.