

## **Happiness, environmental protection and market economy**

**Sándor Kerekes**

Professor, Corvinus University of Budapest, Department of Environmental Economics and Technology

E-mail: [sandor.kerekes@uni-corvinus.hu](mailto:sandor.kerekes@uni-corvinus.hu)

The manufacturing sector is leaving the West for Asia's low wages and good working culture. Europe would be better off keeping these manufacturing activities, slowing down wage inflation and what is more, letting a young, cheaper workforce from the East settle down within their borders. This would aid in preserving the diverse economic structure which has been characteristic for Europe. Beside the economic growth there are two more concepts which have turned into the "holy cows" of economics during the last fifty years. One is the need to constantly improve labor productivity and the other is increasing competitiveness of nations. The high labor productivity of some countries, induces severe unemployment in the globalized world. In the other hand it is high time we understood that it is not competition, but cooperation that brings more happiness to humanity. Should we still opt for "happiness" and "sanity", it is quite obvious that we all should, in economists' terms, define our individual welfare functions corresponding to our own set of values, staying free from the influence of media, advertisements and fashion. The cornerstone to all this is the intelligent citizen who prefers local goods and services.

**Keywords:** labor productivity, quality of life

**JEL-codes:** P48

### **1. „Development” trends threatening the biosphere**

The past hundred years have witnessed an increase in pretty much everything which should not have necessarily grown and a decline in a couple of things which should rather have increased in order for humanity to have a happier life on Earth. Some elements, like nitrogen, cadmium and lead now circulate at an accelerated rate in the biosphere. Wildlife extinction rates have skyrocketed to thousand times their natural value. Synthetic compounds are polluting our waters and the air – and one could go on endlessly about the unfavourable effects of economic development. Due to buildings and roads occupying an ever-growing portion of the Earth's surface, the assimilation potential of the biosphere has declined by approximately 20 percent during the last hundred years. There has been a drastic decrease in biodiversity too, as we tend to recklessly ignore other co-existing biomes' essential living conditions in favour of our own interests. In order for the Earth to safely support its soaring human population, at least photosynthesis should increase. In 1800, the Earth's human population totalled somewhat below one billion, in 1900 it was less than two billion, while the year 2010 might see this figure reach seven billion. It is growing by two hundred thousand people per day and according to current expectations, two thirds of them are doomed to permanent starvation.

In his famous essay from 1798, Malthus (1803/1989) suggested that food supply would not be able to meet the growing population's needs, as while population would increase in a geometric progression, food production would increase only by an arithmetic progression. Malthus warned the then population of less than one billion people in due time about these threats, yet while having set off some scientific debates, there was no apparent political

impact – just as usual. Many became Malthusians but many more turned anti-Malthusians and hardly anything has been done to prevent these risks. The theory was almost immediately declared invalid by optimistic anti-Malthusians (Liska 1974) for, amongst others, ignoring scientific and technological development. Malthus' thoughts did have a significant, though indirect, effect on the last two hundred years, as Darwin's theory of evolution – undoubtedly the most debated theory in the history of mankind – was actually based on Malthus' ideas. The Malthusian theory was relatively easy to confute as real figures did not turn out to be as frightening as he predicted 200 years ago, but concerning the trends, his forecast was rather correct. Some 170 years later, the estimates of the shrinking natural resources from the world model of the Club of Rome were not accurate enough in terms of timing to awaken the world, either. By that time though, it was apparent that the days of resource scarcity were soon to come. Maybe a bit later than it was estimated by the Meadows model, but certainly during the next fifty years, the oil age is about to come rather close to an end and we have got hundred years at most to revert to the energy of the Sun. This will not mean the end of the world, but something will come to an end indeed.

## **2. Oil age, world trade and globalization**

Most probably, the first victim to the passing of the oil age will be the primary determinant of the social-economical development of the past five decades: globalization. Between 1950 and 2004 world trade and trade in industrial goods expanded at an annual rate of 5.9 percent and 7.2 percent, respectively (Hummels 2007). This growth was higher than that of the global GDP during the same period. The reduction of transportation costs is widely, though not quite universally, considered one of the major driving forces behind world trade expansion. Obviously, there must have been other drivers as well, and what is more, some authors even doubt that transportation costs have indeed significantly decreased (Hummels 1999) – yet our world would be certainly different if it was not for the drastic drop in logistics costs. In 1956 Malcolm McLean patented the ISO Shipping Container. Dockworkers promptly began to strike because of losing their jobs. Their aversion is well illustrated by what Freddy Fields, a top official of the International Longshoremen's Association said about McLean's first container ship when it was about to leave the Port of Newark: "I'd like to sink that sonofabitch". Ever since, people in the US refer to McLean as the man „who made America". As a result, shipping costs per ton plummeted to a fraction of the earlier value (sometimes by 99 percent).

Cheap shipping is what makes Europeans drink Australian or Chilean or South-African wine and it is also the reason why the manufacturing sector moved from Europe to Asia. The fact that the past decade saw the entire manufacturing industry move to Asia guarantees a monopolistic position to the latter one, as opposed to Europe or the USA. The manufacturing sector is leaving the West for Asia's low wages and good work culture. In the eyes of the aging and decreasing European population, getting rid of physical work which they came to look upon as „inferior" might even seem desirable. But intellectual activities are starting to leave the developed West as well – just think of the software development industry in India.

Europe would be better off keeping these manufacturing activities, slowing down wage inflation and what is more, letting young, cheaper workforce from the East settle down, thereby fostering a kind of cultural assimilation in line with Europe's democratic traditions. This would aid in preserving the diverse economic structure which has been characteristic for Europe and which has guaranteed the stability of its economy and avoiding high unemployment rate. One of the most serious threats of globalization is that it might lead to an excessive degree of international division of labour. Along with the unquestionable

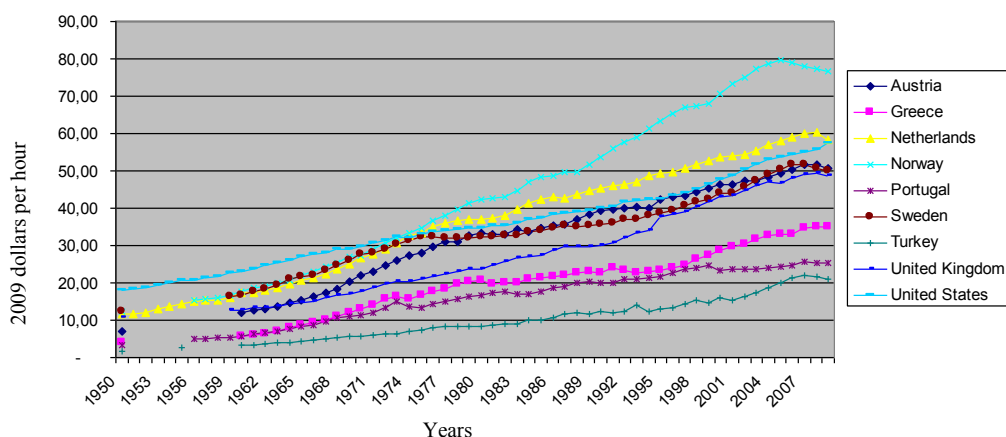
advantages of mass production come its drawbacks too. European states are turning into quasi-monocultures which makes both their economies and societies very vulnerable. Diverse systems always tend to be sustainable, while homogeneous systems, monocultures are rather vulnerable and unstable. Europe's citizens usually mourn over losing the manufacturing activities and the jobs they meant, but when faced with the other alternative being an even stronger wave of migration from these regions to Europe and America, we begin to doubt whether this is the right solution or whether there is any solution at all to this problem. We should at least start thinking about a solution, at last.

### 3. Labour productivity and competitiveness, or happiness?

Thinking on new ideas however, is hard, as our brain is occupied by all the well-known theories and everyday clichés. Practically speaking, there is only one thing on which Hungarian Ministers of Finance from the past twenty years agree (at least this is what a former radio interview suggests): the value-added tax rate shall not be increased as the poor, those having to spend all their income, would be hit more heavily than the rich. Consequently, they are taxing personal incomes which in turn leads to employment problems, as not even the middle class is able to afford some rather elementary services. Intellectual parents do haircuts in the family, paint their homes themselves and there are only a very few who can afford to dine at a restaurant with their families etc. High income taxes and charges are largely responsible for that. There are two more concepts which turned into „holy cows” of economics during the last fifty years. One is the need for constantly improving labour productivity and the other is competitiveness. „The very essence of capitalism is not the free market, not laissez-faire, but innovation, the constant improvement of labour productivity” - as Edmund S. Phelps, Nobel Laureate in Economics in 2006, put it in an interview for the Hungarian weekly Figyelő in 2009.

As shown on figure 1, the last sixty years witnessed a marked growth in labour productivity and the higher the increase, the more successful the given country is considered to be. From amongst the countries listed, Norway and the Netherlands are clearly in the lead, while Turkey and Portugal are „bringing up the rear”.

Figure 1. Changes in labour productivity for selected countries, 1950-2009



Source: The Conference Board (2010)

The „cost” of improved labour productivity is an increase in unemployment. An obvious counterargument might be that people are leaving the countries with low labour productivity (e.g. Turkey) to look for jobs in those with higher labour productivity (for instance Germany) and not the other way round. Thus, at least apparently, increased labour productivity does not

induce unemployment. The truth is, however, that it does not simply generate unemployment but rather makes millions of people unnecessary for the economy. According to the laws of market economy, today's Germany, for instance, would be able to supply the entire European market with manufactured goods. Using the conditional form here, though, is not perfectly reasonable, as this has already been the case in some areas. The „artificial” food products of the extremely productive Dutch are practically crowding out from the market the products being produced under natural (sustainable) conditions.

The high labour productivity of some countries, therefore, does induce severe unemployment in the globalized world, even though not necessarily in that very area.

What concerns Europe after 2005, figure 1 does indicate some promising signs. Labour productivity began to sink, even in Norway. It is rather sad, however, that only a very few of us economists are pleased about this – though we should be, as such changes could enhance humanity's chances for a better world. I do know that this decrease was not due to European politicians or societies recognizing that we are going the wrong way. The cause was the force of the recession, but the force of reason would induce a decrease, as well.

Michael Porter's renowned book, the *Competitive Advantage of Nations* (Porter 1990) is essential reading in business schools all over the world. It is a vital piece of literature and to businessmen, its validity was confirmed by the world economic system – at least up until the turn of the millennium. Humanity as a whole, however, has not necessarily gained too much from the business world following Porter's ideas. The logic of „what is unviable will perish” or „what is uncompetitive will disappear” is not very compatible with the values of human civilization. And these values are rather universal, the various religions tend not to differ too much in this aspect. May an economy exist with values which fundamentally differ from the values of the society it is embedded in? To me, the obvious answer is: only temporarily. It is high time we understood that it is not competition, but cooperation that brings more happiness to humanity. Even game theory might be used to prove this, by applying the logic of the prisoner's dilemma. Still, people keep forgetting it, even those who otherwise admire the achievements of Neumann and Morgenstern (Neumann 1965). Seventy years ago, John von Neumann's team knew, 120 years ago Ruskin knew and even the previously cited Malthus did know why mankind is destined to live on Earth. Malthus' 1803 essay, which gained far more attention than the first one, also included in its title the recently rediscovered topic of human happiness („Effects on Human Happiness”). Thus he was not interested in how the others should be overcome but in the happiness of humanity as a whole. The distinguished 19<sup>th</sup> century British scientist Ruskin was engaged in the same topic: „There is no wealth but life. Life, including all its powers of love, of joy and of admiration. That country is the richest which nourishes the greatest number of noble and happy human beings; that man is richest, who, having perfected the functions of his own life to the utmost, has also the widest helpful influence, both personal, and by means of his possessions, over the life of others” (Craig 2006).

It is hardly a coincidence that the Nobel Laureate cited earlier on competitiveness, Edmund S. Phelps, told Figyelő: „Well, I'm rather uncertain about competitiveness. I'm sorry, but I don't know what that is. It's about low wages, they say (...) Let's rather stick to economic dynamism! If the people in a country have a great desire for doing interesting jobs, for taking the initiative, if they have an awareness for performance, the feeling of “we did it”, then growth, productivity and employment will all be higher. Interesting work, willingness to initiate and performance awareness – that is it, I would say.” These thoughts, actually, are

more of a continuation than a denial of what Malthus, Ruskin or Polányi (1944) said about the purpose of human life.

Majority views are not necessarily true, as convincingly supported by the history of sciences. Today, those attributing no intrinsic value to labour productivity or competitiveness itself are in minority. If we happen to recall that it is only a minority view which supports world peace – well, then it is really time to feel sad.

#### **4. The role of the State**

Preserving a good condition of the environment necessitates a strong state. A weak state or in other words: an anti-interventionist state, a state governing along a liberal economic philosophy will necessarily lead to the long-run interest in a well-preserved environment being pushed to the background (Kiss 2000; Kocsis 2002). Weak sustainability would require the state to use its tax revenues to finance environmental investments in order to compensate for the environmental damages caused by the business sector and the population pursuing economic growth.

Today's Hungarian society, after having been liberated from the imposed consumption limits of the socialist era, and the majority of society is now characterized by a behaviour of excessive consumption and thus, unfortunately, is at a complete loss to react to any calls urging for a lower consumption. Some European states already boast a per capita GDP around EUR 42-43 thousand, the relative lag of Hungary is quite apparent. Under the given conditions, there is simply no „market” for any consumption-cutting initiatives, as the GDP of who we consider model countries is almost five times that of ours.

In a sustainable society, the welfare state takes care of those lagging behind and does not let social differences grow beyond a certain reasonable limit. The state of a sustainable society is an egalitarian state with some income redistribution. Redistribution means higher taxes and that is something better-off people are not very fond of. They would rather like to see unlimited potentials for self-actualization, to let differences grow freely according to people's abilities. This is one of the reasons for our societies breaking apart, for the worsening of resulting issues.

#### **5. What can an individual do?**

In light of the above, one might understand why a number of alternative thinkers suggest that environmental problems might only be solved along new paradigms. No elaborate theory has been developed yet, but some small communities have a couple of practical experiments underway. These small communities usually strive to build an economy where people produce and trade goods and services without using money as a medium of exchange. Money is only used in their relations with the real economy, it is, however, as good as excluded from their intra-community relations. The main point of this community-based philosophy is that by avoiding money – which would yield real interest and which is one of the most important drivers of the growth imperative – one could create an economy with full employment. Which, in turn, allows for a far more thrifty and simple way of life, without the dictates of material goods and money.

This model is of special significance to environmentalists as mutual exchange relations are always limited to small regions, which is the basic unit of the so-called bioregional economic model. Environmentalists consider globalization-driven long distance transportation and a quasi-fetish for comparative advantages to be amongst the most significant accelerators of

environmental destruction.

The bioregional model is not a “back to the nature” type of idea but an economic philosophy where economic actors focus on local resources and local needs in a non-hierarchical society. In a society based on regions, multi-cultural communities with a wide range of values might be formed, where members of the society are mutually dependent on each other. This is quite clearly the opposite of the model represented by the middle and senior managers of today’s large and medium enterprises and multi-national companies, taking their objective to increase shareholder value by all means as the unquestionable truth.

Economic development in the past hundred years has shown that the economy operates more efficiently without governmental and other regulations imposed on it. It also became clear, however, that the market is incapable of solving some problems, like poverty, social differences and environmental destruction. Consequently, it is quite obvious that the market might very well not be the only or the exclusive thing mankind needs to live a happy life on Earth. The picture becomes crystal clear in Fromm’s (1956) striking summary of what global capitalism needs:

Modern capitalism needs men who cooperate smoothly and in large numbers; who want to consume more and more; and whose tastes are standardized and can be easily influenced and anticipated. It needs men who feel free and independent, not subject to any authority or principle or conscience – yet willing to be commanded, to do what is expected of them, to fit into the social machine without friction; who can be guided without force, led without leaders, prompted without aim – except the one to make good, to be on the move, to function, to go ahead. What is the outcome? Modern man is alienated from himself, from his fellow men, and from nature. He has been transformed into a commodity, experiences his life forces as an investment which must bring him the maximum profit obtainable under existing market conditions. The fulfilment of all instinctual needs is not a sufficient condition for happiness – not even for sanity.

Should we still opt for “happiness” and “sanity”, it is quite obvious that we all should, in economists’ terms, define our individual welfare functions corresponding to our own set of values, staying free from the influence of media, advertisements and fashion. What do we need, after all? Local supply systems, achieving full subsidiarity, establishing local institutions, strengthening local civilian communities, keeping alive local entrepreneurs. The cornerstone to all this is the intelligent citizen preferring local goods and services, who is “different” and who is “more” than what global capitalism demands from a “consumer”.

## References

- Craig, D. M. (2006): *John Ruskin and the Ethics of Consumption*. Charlottesville, VA: University of Virginia Press.
- Fromm, Erich (1956): *The Art of Loving*. Harper & Row
- Hummels, D. (1999): Have International Transportation Costs Declined?  
[http://www.aerohabitat.eu/uploads/media/11-01-2006 -  
D Hummels Transportation cost declines.pdf](http://www.aerohabitat.eu/uploads/media/11-01-2006_-_D_Hummels_Transportation_cost_declines.pdf), accessed December 12, 2010.
- Hummels, D. (2007): Transportation Costs and International Trade in the Second Era of Globalization. *The Journal of Economic Perspectives* 21(3): 131-154.
- Kiss, K. (2000): Új idők szennyei [Today’s pollutants]. In: Gadó, G. P. (ed.): *A természet romlása, a romlás természete [Nature’s deterioration and the nature of deterioration]* Budapest: Magyarország Föld Napja Alapítvány.
- Kocsis, T. (2002): Állam vagy Piac a környezetvédelemben? A környezetszennyezés-szabályozási mátrix [State or market in environmental protection? The pollution-regulation matrix]. *Közgazdasági Szemle [Economic Review]* 49(10): 889-892.
- Liska, T. (1974): *A környezetvédelem közgazdasági problémái [Economic problems of*

- environmental protection*], Manuscript. Budapest: Karl Marx University of Economic Sciences.
- Malthus, T. R. (1803): *An Essay on the Principle of Population, or, A View of its Past and Present Effects on Human Happiness, with an Inquiry into our Prospects Respecting the Future Removal or Mitigation of the Evils which it Occasions*, Second Edition. London: Johnson (Reprinted in 1989, Cambridge: Cambridge University Press)
- Neumann, J. (1965): *Válogatott előadások és tanulmányok [Selected lectures and papers]*, Budapest: KJK.
- Polanyi, K. (1944): *The Great Transformation*. Boston: Beacon Hill
- Porter, M. E. (1990): *The Competitive Advantage of Nations*. New York: The Free Press.
- The Conference Board (2010): *Total Economy Database*, January 2010, <http://www.conference-board.org/data/economydatabase/>, accessed December 12, 2010.