

[Why won't the environmentalists learn any economics?](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 21 October 2012

Today's example comes from Canada but I get hugely and vastly irritated by very much the same thing over here. Quite simply the blind refusal of many in the environmentalist movement to understand what it is that economists are trying to tell them. Mike Moffatt (both an economist and a Green, so something of an unusual mixture) tells of his experience [here](#) [3]. Taking David Suzuki to task for his illiteracy [here](#) [4].

?But if you ask the economists, in that equation where do you put the ozone layer? Where do you put the deep underground aquifers of fossil water? Where do you put topsoil or biodiversity? Their answer is ?oh, those are externalities?. Well then you might as well be on Mars, that economy is not based in anything like the real world,? Dr. Suzuki goes on to say. Dr. Suzuki?s remarks on externalities were clarified in an interview given to the magazine *Common Ground*: ?I won?t go into a long critique, but currently nature and nature?s services ? cleansing, filtering water, creating the atmosphere, taking carbon out of the air, putting oxygen back in, preventing erosion, pollinating flowering plants ? perform dozens of services to keep the planet happening. But economists call this an ?externality.? What that means is ?We don?t give a shit.? It?s not economic. Because they?re so impressed with humans, human productivity and human creativity is at the heart of this economic system. Well, you can?t have an economy if you don?t have nature and nature?s services, but economics ignores that. And that?s an unbelievably egregious error.?

As Moffatt goes on to point out the idea that economists ignore externalities is a nonsense given how much attention is paid to them. Moffatt is also a lot politer with Suzuki's view than I would be or am. For Suzuki has got the point entirely bass backwards. Economists do not say that externalities are not important because they're not included in the price system. Quite the opposite: the statement is that we've a serious problem because externalities are important things which are not included in the price system. And it's a serious problem because we do use the price system to calculate what to do and leaving important things out of such calculations is a serious problem.

Which is why all the discussion about externalities revolves around how do we get externalities included in our decision making process? We could use regulation, yes, and at times that is indeed the appropriate way to do it. See Coase's Nobel winning work for when this is so. With other such problems it might be that tweaking the price system is the appropriate solution: see Coase again, or Pigou (come on, that's from the 1920s, you'd sorta expect people to have picked up on it by now) or even M'Lord Stern and his review on climate change. Assuming it's all happening then the solution is to tweak the price system by imposing a carbon tax. And then we're done, dusted and problem solved.

That other people place different values upon the environment than I do worries me not in the slightest. It is precisely such differences of opinions about value that make a market. What does annoy me intensely is that almost all of the environmental problems that are currently being complained about have indeed been studied by economists. And they've found solutions to them as well. Just about any and every environmental problem is either about externalities or common access to a resource. In many ways these are just the flip side of exactly the same problem. But we do indeed know how to solve each of them and both of them. Hardin on ownership or regulation, Pigou on tax or regulation, both mediated through Coase

on transactions costs (with a decent assist from Ostrom on communal ownership). There, that's it: far from economics ignoring matters environmental economics has solved the damn problems.

So why won't the environmentalists listen?

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