Sustainability and the Economics of Embedded Values

Madhavi Venkatesan, Bridgewater State College

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Bridgewater State University

Abstract
Economic theory, models, and analysis are central to a discussion of how individuals interact not only with one another but also with the environment. Further, the implicit inclusion of economics in the daily behavior of individuals and nations strongly influences the observations of global sustainability, including economic equity and social and environmental justice issues.

Unfortunately, economics has been limited to an assessment of an arm’s length market model with no evaluation the implicit and endogenizing values defining rational agent behavior. In this respect, economic modeling has been simplified to account for “process efficiency,” which through the most recent period has been evaluated as cost minimization relative to revenue (or utility) maximization. Costs articulated in this standardized manner have excluded items that were not readily quantifiable or were created as a result of natural resource utilization, degradation, or replenishment. For example, in viewing the environment, common assets such as water, air, and land were not included in production assessments; furthermore, damages resulting to any of these common elements have, for the most part, not been articulated unless indirectly addressed as being a part of social and governmental regulation. Given these omissions and arguably attributable to the same, anthropomorphic environmental impacts related to production and consumption, inclusive of profit and utility maximization have been significant. However, though the value of the environment has not been an articulated or explicit factor, this is not consistent with the environment not being of value.

As a generalized modeling tool it is assumed that what individual economic agents value is what is embedded within the market mechanism that produces economic outcomes. However, limited or myopic decision patterns, along with delegation of implicit values to producers and ancillary marketing and advertising functions may not be consistent with long-term social values.

Delegation of Responsible Consumption: Manufactured Demand
Everything in our economy is targeted to our ability to consume, from increasing employment, to low interest rates, to built obsolescence of the goods we purchase. We have been encouraged to go shopping more to keep our economy growing by even our presidents.

Given that GDP was established and gained global traction over 70 years ago, our value for consumption has been inherited and modified over a few generations. We have been taught that we have insatiable appetites to consume and have perpetuated the consumption cycle, to maintain the era of consumerism!

Reflex consumption is the problem.
Over time, through globalization, commercialization and the increasing busyness of life, consumers have become increasingly distanced from the production process of the good they are consuming.

What does this mean?
Consumers are no longer knowledgeable about the impact that their consumption demand has on the degradation, exploitation and depletion of planetary resources. Instead what consumers are aware of is price. Fundamentally, consumers have focused on market price and have delegated the inclusion of value parameters including environmental and social costs to producers, but producers are incentivized to minimize cost and maximize return, a seemingly divergent incentive.

Is market price then indicative of the value of a good?
In most cases, market prices do not reflect the cost of a good.

Let’s look at a t-shirt manufactured in a developing country, the price of the t-shirt reflects only a portion of its true cost because it neglects social and environmental costs. The price neglects the costs of the exploited wage paid to the laborer the cut and sewed the shirt, the social cost resulting from his missing health care and the health and quality of life impact of the non-living wage, the carbon footprint related to transportation to the store; and the waste cost related to the landfilling of a shirt that cannot biodegrade because it is not natural.

In net, the cost of the consumption is only partially borne by the purchaser; other societies and the environment subsidize the price.

Coalescing Consumers: Revolution of Responsibility
How money is spent sends a very strong signal to producers of what will sell!

We have inherited a world where GDP is the targeted metric of economic progress and we have to a large extent unknowingly adopted consumerism based on market prices that do not include the cost of degradation, exploitation and depletion of planetary resources to promote GDP growth.

The value of consumption has led to behavior that in turn has established an economic outcome. The economic outcome is targeted to GDP and due to the myopic intergenerational cumulative behavior, we have continued to consume into our current state, where we are actively witnessing the outcome of our focus on consumption:

In terms of waste this includes plastic bags in our trees, plastic in on oceans, methane production in landfills, airborne pollutants from our incineration, In terms of our ability to sustain future consumption, this includes: depletion of natural resources, extinction of species, commoditization of life including plants, animals and human organ trafficking, and now the lack of the most basic components for life, clean air and water.

The time for the reconciliation between the values we have inherited and the values that will promote a viable future is now!

The economic model is not the problem, we are! The economy can only promote outcomes reflected in the values of economic agents! The solution is quite simple.

Awareness and increasing understanding of how the economic system operates and our place within it along with an understanding of the holistic impact of our consumption decisions is the first step. This is the mechanism needed to modify social values. This is what will ultimately result in a modified economic outcome, one where the cost of consumption is included in the price and where consumer demand includes holistic evaluation of degradation, exploitation and depletion of planetary resources.

Contact Information:
Madhavi Venkatesan, PhD  •  Bridgewater State University
mvenkatesan@bridgew.edu  •  508-531-1716

Embedded values lead to behaviors that can produce sustainable economic outcomes.