

The ethics gap

Eco-fundamentalists are especially prone to accuse economists of moral blindness. They are partly right, but not in the way they suppose

TIME and again, non-economists lodge the same objection to the use of economic modes of thinking in public policy: economics, exclusively concerned with desiccated quantities such as profit and loss, is both reckless and immoral. Not only is it no help in thinking about really important questions—such as global warming, say—it actually militates against getting the correct answer. Economics ignores the right of future generations to inherit a clean environment; it ignores small probabilities of catastrophic costs delayed far into the distance; it is blind to ethics and justice. And that is just for starters. The first thing you need to do if you want to think wisely about any really important question of public policy is forget all the economics you ever knew.

This column obviously has a vested interest in denying these claims—and it does hereby deny them. On one level, the attacks are confused. But on another, they are simply wrong.

Critics are confused about what economics tries to do. The science of economics, if it is a science, does not aim or purport to make ethical choices; it confines itself to clarifying certain aspects of what those choices entail, which ought to be a useful service. Often, one suspects, it is clarity, rather than economics as such, that anti-economists object to. Critics also tend to confuse economics as a discipline with capitalism as a social and economic system. They are different things. And it is odd, surely, for opponents of free enterprise to deplore economics, as they almost always do: Marx, you could argue, was a great economist.

On the other hand, it is plain wrong, not merely confused, to say that capitalism (as opposed to economics) is “value-free”. It is anything but. Capitalism exalts individual freedom and voluntary, rather than obligatory or customary, interaction among the members of society. It is difficult to have capitalism without freedom and almost impossible to have freedom without capitalism. Whether you agree with its values or not, capitalism is a system positively bulging with moral content.

Experience teaches that there is no hope whatever of persuading militant anti-economists of the virtues of the discipline, or of capitalism, for that matter. Every now and then, however, the self-defeating consequences of anti-economics

ECONOMICS FOCUS

may be worth pointing out. The failure of the global-warming talks in The Hague is a case in point.

There are many reasons for the continuing delay in turning the targets that were agreed to in Kyoto in 1997 into a workable programme of cuts in greenhouse-gas emissions. But one is the marked tendency of greens to cast the issue as a moral question rather than as an economic one. This is a mindset that has infected many governments. Pollution is sin, which implies that



polluters must be punished. It won't do for the United States, sinner-in-chief, to come up with ways of reducing global emissions of greenhouse gases that do not inconvenience it very much—such as investing in carbon “sinks” or buying emissions permits from other countries.

An economist welcomes such methods as a way of achieving a stated goal (fewer net emissions) at lowest cost. Eco-fundamentalists call it “unfair”: so did Europe's governments at the talks in The Hague. What's the point, they seem to ask, if the goal is achieved at little cost? The cost, the punishment, is the point.

It is very hard to see what is unfair if America buys emissions permits from other countries—given that the other

countries would not be selling if their governments did not feel that they too would benefit from the transaction. The continuing reluctance to engage to the greatest possible extent in flexible market-based ways of reducing emissions not only makes control of greenhouse gases vastly more expensive than it would otherwise be (a good thing, admittedly, in the view of many environmentalists). It also means that the volume of reductions that will actually be achieved in practice is much smaller, supposing any reduction at all will be achieved by the target date of 2008-12.

Another anti-economic aspect of the Kyoto protocol, in addition to its silence on trading, was its failure to put a cap on the costs of abatement: countries undertook to meet their targets regardless. But the costs of abatement are uncertain, just as are the costs of failing to abate. New information on either side of the equation ought to alter the effort countries make to curb emissions. The lack of any mechanism to put a ceiling on costs, should they turn out to be very large, is a political problem in the United States, where Senate ratification of any deal looks a remote prospect—but it is also an economic error. Again, in other words, economic incompetence and political paralysis go hand in hand.

Militant environmentalists have a point when they claim that economists put a low estimate on the harm from global warming and a high one on the likely costs of curbing emissions—but this falls into the category of shying away from clarity. The range of estimates is very wide, as you would expect given the uncertainties, but there is a weak consensus among researchers that the Kyoto proposals (especially in the absence of a trading regime and other cost-reducing arrangements) may have been a bit too stringent.

This was not because they ignored the “rights” of future generations. (Let's not stop to ask how people who do not exist can have rights. They will have interests in due course: that much is common ground.) And it is not because they ignored the small risks of very bad outcomes. It is mainly because the costs of rapid abatement are very high, and the damage from warming, great or small, will be long delayed—which means there will be time to phase in cleaner technologies gradually, so that capital is not scrapped prematurely. In effect, a slower start followed by a faster build-up later can get you to the same eventual benefit in terms of reduced emissions, but far more cheaply.

There they go again, those datted economists, assuming that a smaller cost is good, missing the point as always.