

Principles for Economic Sustainability: Summary

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This is a summary of John Ikerd's Principles of Economic Sustainability. It was developed based on attendance a 5-day workshop taught by John and John's Essentials of Economic Sustainability book.

The purpose of an economy is “to meet the impersonal and instrumental needs of people as individuals” (Ikerd, 2012, p. 51). These needs include physical necessities of food, shelter, clothing, health care. Humans also have emotional, spiritual and social needs which are different from economic needs, even though they may be affected by economic relationships. Economic sustainability is the meeting the *economic* needs of the present without diminishing the *economic* needs of the future.

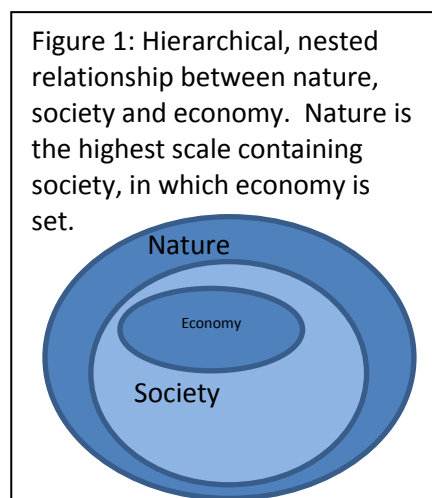
Our current economic system is not sustainable. It does not effectively provide for the economic needs of most people. Not only does it not work for those of the present, it is exploiting and destroying the ecological and social assets and relationships upon which we (and the economy ultimately) depend and must depend in the future.

Economic relationships are different from social or ethical relationships. They are individual, instrumental (they are a means of acquiring something of value to a particular individual) and impersonal (they can be transferred – a shirt can be sold or traded to someone else). Real people do not make entirely economic decisions. Most decisions made by real people are social, ethical and economic. However, corporations do make purely economic decisions because corporations are not real people. Ultimately, all economic value comes from

nature by means of society. Therefore to sustain economies, we have to protect the productive capacity of nature and society.

Economic value alone is inadequate to ensure economic sustainability. There is a need to bring in ecological and social values to make effective decisions. Because of its individual and instrumental nature, economic value prioritizes the present and heavily discounts future value. So, some relationships necessary for economic sustainability (again, going back to all economic value ultimately comes from nature through people) are not economic, but ecological, social and ethical. The ecological, social and ethical relationships are necessary for us to be able to project and to protect the productivity and value of social and ecological resources past the short term and to maintain those things that keep us happy – e.g., social relationships – but do not have economic value. Some social and ethical values have economic value as well and thus can be internalized into economy. However, there are many things that are non-economic and thus cannot and should not be assigned economic value – such as personal relationships, stewardship of clean water, and photosynthesis. Again, social values are inherently personal, and thus non-economic, and ethical values are non-instrumental, and thus non-economic. Therefore, efforts like Natural Capitalism and Ecological Economics are necessary, but not sufficient to capture the full range of human values and needs. We need to re-place economy in relation to the rest of nature and society. Economic value cannot be the primary decision-making item as economic value cannot represent the full range of human values.

An ecological (or real-world) view of the economy places the economy in a hierarchy in which the economy is set within society and society is set within the rest of nature. Within such a nested hierarchy, the purpose is derived at next



highest level of organization, lower levels define possibilities. For example, if we think of the human being as a nested system, the purpose for the heart is defined in relation to the body as a whole, and the heart affects the potential of the body (beating fast provides the potential to exert extra energy, quitting stops the function of the body). So, the purpose of society is derived from nature and the purpose of the economy is derived from society. The possibilities of society are affected by the economy and possibilities of nature are affected by society. Ikerd asserts that the essential mission of sustainable economy is to enhance the quality of life. The sustainable economy must be managed and regulated in ways that creates and regenerates the resources necessary to enhance the social and ecological qualities essential to sustaining the economy as well as a desirable quality of human life.

A sustainable economy is guided and constrained by ecological, social, and economic principles. Ikerd includes holism, diversity and interdependence as core ecological principles. Though essential, these not meant to be an exhaustive set of principles. He proposes the social principles of trust, kindness and courage as being essential for social sustainability. He explains how the economic principles of scarcity, efficiency, and sovereignty are essential for economic sustainability. Since the economy is a subset of nature and society a subset of nature, the most fundamental economic and social principles also are principles or laws on nature. Since everything is interconnected within the global ecosystem of which societies and economies are part, the core principles of economics are also principles of social and ecological relationships, the core social principles are also principles of economies and ecosystems, and core ecological principle are also principles of sustainable economies and societies.

Table 1. Ikerd's Principles for Economic Sustainability		
Ecological	Social	Economic
Holism	Trust	Scarcity
Diversity	Kindness	Efficiency
Interdependence	Courage	Sovereignty

Sustainable economies must be understood and managed as living systems. As such they are holistic, dynamic, individualistic, and purposeful. They must be guided by principles of resourcefulness, resilience and regeneration which characterize healthy, living ecosystems.

Markets and governments play essential roles in sustainable economies. Governments are the means by which we reflect our ethical and social principles in making collective decisions that affect and protect the common good, including the long-run economy. Markets are the means by which we express our instrumental, impersonal values in meeting our individual needs and preferences. Markets facilitate individual choices that collectively ration, reward and allocate resources; facilitate trade; provide incentives for innovation; and provide opportunities for profits. In sustainable economies, markets can be an efficient means of ensuring mutually beneficial trade. For sustainable economies, governments must ensure individual and social autonomy and equity, maintain competitive markets, and create and maintain stable values of currency. Government is an expression of culture in that it reflects the ethical or moral values of the society which forms it. The ethical values of a society, as reflected through government, must be used to restrain economic exploitation of nature and society and to invest economic surplus created by individuals in maintaining and building ecological and social assets and capacity necessary to sustain an economy over the long run.

Ultimately, economic growth is not sustainable. As Ikerd identifies, the usefulness of nature and society in creating things of economic value is ultimately a matter of energy. Everything of economic value requires energy to make and energy to use – our houses, cars, clothes, food. The human capital embodied in labor, creativity, and entrepreneurship require biological energy to use and social energy to create. According to the laws on thermodynamics, energy can neither be created nor destroyed, but each time energy is used or reused, it loses some of its usefulness and thus loses some of its potential economic value. Whenever energy is used, it becomes less concentrated and less organized and as a consequence becomes less useful. This is the physical law of entropy. Growth during the industrial era was supported by cheap fossil energy and a pool of readily available resources. However, remaining energy and resources will be less abundance and more expensive. The only sustainable source of energy is the daily inflow of solar energy. Ultimately, a sustainable economy relies wholly on incoming solar energy. Solar energy is abundant but is less concentrated and organized than fossil energy and thus has less economic value.

Moving forward, a sustainable economy will be in a steady state, in which the economic throughput of materials is in balance with the capacity of nature (extraction is less than or equal to growth of renewable resources and waste can be assimilated and used productively). Within a steady state economy there is still economic development through increasing efficiency of resource use and increasing quality of life. There will always be those gaining and those losing in a steady state economy, so there is opportunity for individual economic advancement. The overall level of economic activity –meaning growth or decline –will be limited to the level of sustainable throughput of useful solar energy.

The choice of a sustainable economy for the future over the unsustainable economy of today depends on an understanding that economic growth is not necessary to sustain the continuing improvements in the overall quality of life within a given society or the quality of human life on earth. Humans are individual, social, and ethical beings. We need the material things of life that economies can provide. And, we need social relationships that have no economic value to meet our needs as members of families, communities, and societies. We also need ethical relationships to give our lives purpose and meaning. And, we need to be in relationship to the rest of nature which physically, emotionally, spiritually (and ultimately economically) sustains us as fully human beings. The economic, social, ecological and ethical principles of economic sustainability are identical to the essential principles of a desirable quality of life. Economic growth is not essential for growth in quality of life. The challenge to create a sustainable economy is a challenge to create a desirable quality of life – without growth.

References

Ikerd, J. (2012). *The essentials of economic sustainability*. Sterling, VA: Kumerian Press.