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THE THREE ECONOMIES

Rethinking the connections between society, ecology, and money



By
Professor Zygmunt J.B. Plater
Illustration by D.B. Johnson

How does one evaluate the public value and impact of things that do not have a price or cost, and then integrate them into the fabric of our system of social governance?

This conundrum has been a fundamental question of public law generally and, in particular, of environmental law over the decades of its remarkable development since Rachel Carson's *Silent Spring* in the early 1960s. The trouble is that human nature, and the corporate mechanisms that reflect it, have created an immensely dynamic economy based upon maximizing the interests of individual actors, with no intrinsic motivation to serve public civic objectives. Indeed, the motivation of the marketplace is understandably to pay as little of the true social costs of resource consumption or waste disposal as possible, passing these externalized costs unaccounted into the diffuse public commons and the natural environment.

Along with the most dynamic economy the world has ever seen — with burgeoning technological goodies and the Dow Jones at 8950 (at press time) — we also get, from the logic of marketplace cost externalization: pollution, loss of natural resources and amenities, and an increasingly problematic quality of life.

Nature is important to human quality of life, however, even if the economic mechanisms of the marketplace normally do not acknowledge it. In several fascinating new economic accounting projects from outside the realm of corporate finance, Robert Costanza and Herman Daly have estimated that the value of “natural capital” services supplied free or at token cost to human enterprises each year — in water supply, waste assimilation, production process resources, etc. — amounts conservatively to \$16 trillion to \$54 trillion per year. Our society's environmental “natural capital” is threatened with disruption, pol-

lution overload, and dissipation by thoughtless human actions, but its true value is hard to protect and sustain because Nature does not present the bill, at least in dollar invoice terms. Traditional economics resists acknowledging this strategic economic vulnerability, as it does traditional social cost externalizations like pollution.

The marketplace economy is systematically blind to many important elements of reality; for the most part it deals only with services and things that can be bought and sold. The cash register economy does not deal well with natural or social values and goods that don't have a present chargeable demand value, or have greatly discounted market values or none at all. It takes for granted many natural and public values that are priceless. It generates waste and externalities. These problems are massive and real, and need to be part of a societal accounting. The marketplace, however, is the dominant force in modern political life and intensely resists the imposition of a civic accounting of social costs through environmental laws.

How can we achieve an integration of important societal concerns that lie beyond the marketplace, including the intricacies of nature, into the processes of daily life and civic governance? In response to recent attempts in the Supreme Court and the 104th Congress to override public interest regulations by requiring broad property rights compensation, the country's preeminent environmental law teacher, Professor Joseph Sax of the University of California at Berkeley's Boalt Hall School of Law, argued that there are "two economies." The economy of nature, Sax asserted, exists concurrently with the human marketplace economy. Many public laws are designed to protect the complexity of nature, an intricate system of systems lying beyond material economics.

Sax and other proponents of two economies have provided no compelling explanation to skeptics like the Supreme Court's Antonin Scalia why human economics must acknowledge nature's economics.

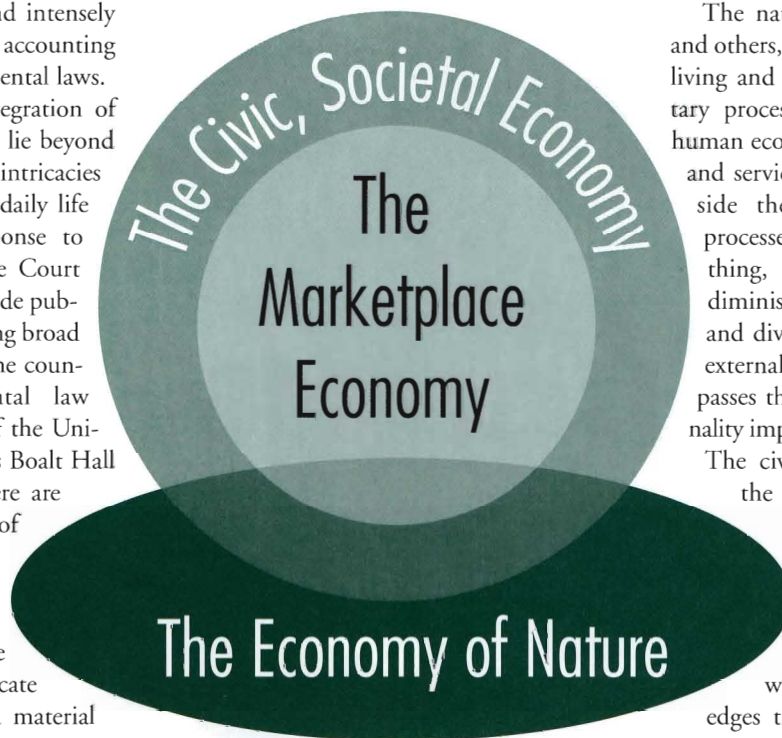
Defining the existence of two economies is helpful, but to make that link, and in order to construct a complete and comprehensive schematic structure, it seems important to hypothesize one additional "economy": When we talk about the problem of environmental social cost externalizations, a

theorem which has now become standard wisdom, aren't we really identifying a *third* economy? Social costs externalized by the market go somewhere, not into feckless space but into a larger social economy in which we live, a civic, societal economy.

So I propose that analytically we must recognize *three* economies — a marketplace economy, an economy of nature, and a civic, societal economy that incorporates the overarching economics of the public interest as well as the dynamics of the marketplace economy.

If one were to do a schematic rendering of the three economies, showing their separateness but fundamental interrelatedness, it might look something like this:

THE THREE ECONOMIES



Consider the situation when a land developer plans to build a lucrative project — a restaurant, shop, or fancy vacation residence — and needs to fill in an acre of coastal wetlands. Wetlands provide flood retention and storm-buffering functions, habitats for wildlife and fish including commercial fisheries-spawning areas, climatic stability, groundwater recharge functions, and more. Federal, state, or local regulations have been written to protect wetlands against development. The real estate value of

wetlands will tumble, however. The real estate lobby, therefore, has written legislation overriding such rules or requiring taxpayers to buy out property owners if regulations lower market values by 25 percent or more. Market-oriented judges also insert a similar logic into constitutional takings tests, like the one articulated by Justice Scalia in the 1992 Supreme Court decision, *Lucas v. South Carolina Coastal Commission*. This sets up a confrontation that cannot be realistically analyzed in terms of just one economy. It needs three: the market calculus, the natural system consequences, and the cumulative effect on the public.

The marketplace economy is the well-known mechanism of everyday economic and political behavior. It sits in the middle, dynamically churning out power, interlocking networks of motivations and institutions, property rights, production, politics, and wastes.

The natural economy, as noted by Sax and others, is the intricate system of systems, living and geophysical, that sustains planetary processes. It partly overlaps the two human economies, supplying vital resources and services to both, but in part lies outside them. The economy of nature processes everything, adapts to everything, (though often with altered and diminished qualities of ecosystem health and diversity), absorbs wastes and other externalities from the marketplace, and passes the effects of many of these externality impacts onward to the civic economy.

The civic, societal economy comprises the comprehensive total reality of resources, energy, inputs, outputs, qualities, and consequences that carries the life and welfare of a society from day to day and into the future, whether the marketplace acknowledges them or not.

The civic, societal economy contains the dynamic processes of the marketplace within its realm, but its terms and elements also extend much further beyond just those things that can be bought and sold. Externalized costs, for instance, go forth from marketplace actors and accumulate somewhere, even if they are invisible to the marketplace, and they have important consequences.

Costs externalized by marketplace enterprises — by factories, porkbarrel government agency projects and programs, or undertakings combining private and public

WHAT'S IN A NAME?

We must recognize three economies — a marketplace economy, an economy of nature, and a civic-societal economy that incorporates the overarching economics of the public interest.

THE MARKETPLACE ECONOMY is what people normally mean when they say “economics” — the corporate, commercial, and transactional world of daily economic and political life that motivates most of what people do, and that intimately links people, nations, and private and governmental institutions within its complex processes. The marketplace economy is the dynamic, driving force of human society. It is undoubtedly the most intricate and sophisticated social mechanism ever devised to manage the extraordinary ongoing complexity of human society. It is society’s dominant engine of motivation, coordination, production, selective allocation, and social governance.

THE NATURAL ECONOMY comprises what happens in the natural physical world. In nature, as Rachel Carson and ecological sciences have demonstrated, intricate living interconnections have evolved around the globe, creating broad life-sustaining pyramid systems of great intangible value. Following the laws of physics and ecology, the natural economy absorbs, adjusts, responds, interconnects, and changes according to what elements and impacts are added to or subtracted from it.

The health and diversity of natural systems can be drastically damaged by careless human disruptions, often with dysfunctional consequences for humans as well as nature. Human interventions with the commons of nature — with chemicals, bulldozers, or whatever — can create widespread residual cumulative consequences, mostly in disruptive directions, reaching as far as extinction.

Recognition of a natural economics forces us to recognize that nature is not just a charming sidenote to human life. It is, rather, a complex and utilitarian system in its own right, superbly integrated, diversified, and efficient in processing and recycling energy and nutrients, integrating millions of ongoing and evolving life cycles, adapting to natural change, and ultimately important to humans (which links it to the civic societal economy).

THE CIVIC, SOCIETAL ECONOMY is the ultimate economic forum in human terms, incorporating both of the other economies. This is where the externalities go, and where they must be responded to. Societal economics are the comprehensive reality of the full actual social costs, benefits, and consequences over time — whether tangible or intangible in monetary terms — with which the society ultimately lives. The societal public economy desperately needs the market economy, but for the sake of its own short- and long-term interests, a society must somehow contrive to value and incorporate into its governance important elements of reality that the daily dominant marketplace does not. Societal economics thus enfold and incorporate the marketplace economy, but must go beyond it.

Widespread pesticide use, overgrazing, pollution dumping, highway salting, massive layoffs of corporate workers, or a host of other cost externalizations may make powerfully good sense to market players in the narrow market terms of individual gains, but be quite irrational in societal economics terms because of a gross imbalance of social costs and harms, a relative lack of necessity, or the availability of preferable alternatives. Regulatory agencies, in this construct, have mandates designed to serve the civic economy, but they spend most, if not all, of their daily political lives dominated by the pressures and constraints of marketplace politics. So, too, societal economics must be vigilant and responsive to the fuller unreckoned consequences of market actions. So, too, the natural economy’s complex elements are often directly and substantially linked to the utilitarian concerns of societal economics.

Healthy societal economic systems are founded upon healthy and sustainable ecological system cycles of soil, water, air, and living communities. When a resource system is derogated or destroyed, some enterprises may prosper greatly, but the society is likely to be far less well off.

—ZP

entrepreneurs — do exit the marketplace economy, but they do not thereby drop into oblivion: By the laws of physics, ecology, and logic they are internalized into one or both of the other economies, into the fabric of the natural and societal economics in which we and our society will continue to live. This is the truth that many market economists try to avoid.

The theoretical importance of a comprehensive accounting for externalized costs has long been acknowledged by academic economists, but gets overlooked in the day-to-day economic and political pressures of the marketplace. Economic analyses that ignore civic, societal economics, or natural economics that impinge on the civic sphere, are naïvely or disingenuously narrow, failing to account for substantial realities that inevitably will be felt by the society.

Charting out the three economies provides a structure for analyzing the interrelatedness and interdependence that lie at the heart of modern science and policy analysis. Going beyond marketplace economics illustrates the need to integrate a serious systematic accounting of important social costs externalized into the natural and civic economies by the marketplace, into the process of social governance. If natural economic and public values can be forced into marketplace economic processes, they are much more likely to be efficiently imple-