

# What Is Sustainable Development?

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**T**HE term ‘sustainable development’ has been around for about 30 years, but has only recently been popularized. It derives originally from the biological concept of ‘sustainable yield’—that is to say, the rate at which species such as cod and elephants may be harvested without depleting the population. Starting in the late 1980s, environmentalists and government officials began applying the terms ‘sustainability’ and ‘sustainable development’ when discussing environmental policy. Thus, numerous measures aimed at conservation and pollution-prevention have been justified on the grounds that they are necessary to promote sustainable development. More recently, and in light of the AIDS crisis in Africa, the interpretation of sustainable development has been broadened to include issues such as healthcare and education, the lack of which are seen as constraints on economic development.

One popular interpretation of the term ‘sustainable development’ presumes that poverty, environmental degradation, disease, and other problems afflicting the world are predominantly caused by, and therefore are the responsibility of, wealthy countries. This view—which is widely held by organizations claiming to represent the interests of the environment, consumers, the poor, and the sick—claims that people in the rich world consume too great a proportion of the world’s resources and emit too great a proportion of the world’s pollution; they exploit people in the poor world by paying too little for coffee and bananas and by making them pay too much for pharmaceuticals.

The solution typically offered by those who follow this interpretation of ‘sustainable development’ is to impose outcome-oriented policies on people in wealthy countries: sweeping restrictions on the use of resources, wide-ranging interventions in the governance and behaviour of multinational companies, and restrictions on international trade. The argument is made (mostly by the UN, European governments and the EU institutions themselves) that centralized control over the use of resources is necessary in order to prevent humans from depleting the stock of resources below a

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level that would enable people in the future from living in as pleasant a manner as the current generation.

But an alternative view holds that most of the problems of the poor world result not to any great degree from the actions of those in the rich world but primarily from the adoption of unsustainable policies by their own governments. In particular, attempts to plan economies have proved disastrous in the Soviet Union and elsewhere. Lack of adequately defined and readily en-

forceable property rights—often the result of well-meaning but utterly misguided government intervention—holds back economic development in many countries, while red tape stifles entrepreneurial activity and perpetuates poverty. Foreign aid and development assistance have ensured that people in poor countries remain poor, and their leaders remain unaccountable.

Sustainable policies are those which do not prescribe an outcome for society, but allow individuals in society to improve their own lot without harming that of others. These policies, based on the creation and maintenance of market institutions—property rights, the rule of law, free markets—together with limited government and free speech, have largely been adopted by the wealthy world.

## **INSTITUTIONS FOR SUSTAINABLE DEVELOPMENT**

Institutions are the framework within which people act and interact—they are the rules, customs, norms, and laws that bind us to one another and act as boundaries to our behaviour. Institutions reduce the number of decisions that we need to take; they remove the responsibility to calculate the effect of each of our actions on the rest of humanity and replace it with a responsibility to abide by simple rules. In a system in which rules emerge spontaneously and rule-selection occurs evolutionarily, good rules will tend to crowd out bad rules. That is to say, over time, rules that result in better outcomes will be preferred to rules that result in worse outcomes.

The simple rules which seem to work best are those we associate with

the flourishing markets of capitalist democracies: property rights, freedom of contract, and liability for intentional harmful acts. These institutions encourage adaptation, by giving people an incentive to invest in improvements to their property; they stimulate creativity and invention, by ensuring that innovators and creators can reap the rewards of their work; they promote mutually rewarding associations and transactions, by creating a framework for interaction that is compatible with human nature.

While informal mechanisms—customs and norms, for example—work well for groups that are relatively homogenous and where there is little trade with outsiders, they impose significant constraints on the ability for groups to improve their lot. Societies that have adopted formal market institutions—property rights, contract law, tort law, trademarks, patents, copyright, and so on—have tended to do much better economically and socially than societies that relied primarily on informal institutions. They have also done better than societies that have attempted to control the economy centrally, either directly or through mandatory regulations.

Market institutions not only promote more rapid economic development than other, more centralist institutions, they also promote levels of environmental protection and conservation of natural resources that are closer to the wishes of the people. Let's examine why this is in a little more detail.

### **PROPERTY RIGHTS**

The institution of private property has—perhaps more than any other policy or action in the history of the world—enabled people to escape from the mire of poverty. Property rights are capital; they give people incentives to invest in their land and they give people an asset against which to borrow, so that they might become entrepreneurs.

To understand the importance of property it is only necessary to look at places where formal property rights

are severely curtailed. The 500–600 million rural poor in India are oppressed by tenure rules which make it difficult for them to rent, buy or sell property formally. Land transactions typically involve paying large bribes to local officials, who have a vested interest in maintaining the status quo. As a result, they are unable to turn their land into capital; they are barred from entering the market economy and remain enslaved to lives of subsistence farming.

In addition, the institution of private property gives people an incentive to invent new technologies, because individuals know that they will

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be the principal beneficiaries of any investments they make in research and development. Technological innovation not only enables peasants to improve their lot, it also benefits those with whom they trade by lowering the cost of purchasing food and other goods and reducing the risk of famine. But these diverse new crops and other technologies will be stifled if those who might innovate them are not allowed to benefit from the investments they make through ownership of property. The individual's incentive to invest in his land and innovate new methods of production will be greater when he can own and exchange property.

### **INTELLECTUAL PROPERTY RIGHTS**

Intellectual property (IP) rights stimulate innovation—and in particular,

they are important for products and processes that require large investments in research, development and marketing but for which the costs of copying are relatively low, for instance, chemicals, pharmaceuticals, and biotechnology, which each rely heavily on patents. The music, film, book, art and software industries each rely heavily on copyright. Meanwhile, all manufacturers and sellers of brand goods (which is most manufacturers and most sellers) rely on trademarks and service marks to guarantee the identity (and hence brand-associated characteristics) of products.

There are of course drawbacks to IP, including temporarily higher prices of the protected goods, a reduction in the number of goods directly derived from those that are patented, the legal and administrative costs involved in enforcement, and so on. These drawbacks have led several commentators to conclude that patents and other forms of intellectual property are not desirable. The problem with focusing on these drawbacks, however, is that in doing so one often forgets that the inventions and creative works might never have come about but for the existence of IP.

In sum, were we to abandon or significantly diminish our system of intellectual property rights, we might gain in the very short term through lower cost products, but the cost in the medium-to-long term would be felt in terms of fewer products, as well as higher expenditures on trade secrecy and other means of protecting knowledge, which might well increase the cost of products.

### **FREEDOM OF CONTRACT**

Another fundamental institution for sustainable development is freedom of contract. This includes both the freedom to contract—the freedom to make whatever agreements one desires, subject to fair and simple procedural rules—and the freedom from contract—the freedom not to be bound by the decisions of others. Freedom of contract is a fundamental part of the freedom to associate with oth-

ers. It includes the freedom to transact—to buy and sell property—and as such it is an essential adjunct to the right to clearly defined and readily enforceable property rights.

Contracts create greater legal certainty and thereby encourage people to engage in trade and investment. Armed with enforceable property rights and contracts, the peasant can become a merchant, a businessman, an entrepreneur.

### THE RULE OF LAW

Private property rights, the freedom to contract, free speech, and the judicial system which upholds these are fundamental to real sustainable development. People must be certain of the rules that govern their behaviour, and they should not be subject to arbitrary law enforcement (characteristic of corrupt government). They should also have a remedy at law for violations of contracts and property rights.

### FREE TRADE

Free trade is of course implied by the requirement of freedom of contract, but because of controversies over its merits, it is helpful to consider its effects in some detail. Free trade increases wealth and wealth leads to improvements in human welfare. Free trade increases the efficiency of resource use: in the absence of market distortions, production will occur in the most appropriate place, taking into consideration the cost of all factors. And free trade can have direct environmental benefits. For example, trade in ivory increases the value of ivory to people living in poor parts of Africa, who then have stronger incentives to protect elephants and the habitat in which they live—if they have sufficiently strong rights in the wildlife.

Reducing trade barriers is essential for sustainable development. The agreement reached at Doha in November 2001 to launch a new round of trade liberalization through the World Trade Organization (WTO) offers the opportunity of huge benefits to people everywhere. These benefits,

however, will be reduced to the extent that trade sanctions are permitted on the basis of environmental concerns.

Whereas environmental protection may be used as a pretext for trade sanctions, the European Union may impose sanctions in order to protect its industries from lower-cost competition. For example, it might employ the 'precautionary principle' and invoke the Biosafety Protocol to justify restrictions on imports of agricultural goods from developing countries where biotechnology has been employed to improve yields. It might thereby more than wipe out the gains

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made possible by reduced tariffs on such products—harming in particular poor countries, which would have to face the choice of higher levels of exports to the EU or higher yields. Either way, farmers in poor countries would lose and farmers in the EU get the protected markets they seek.

### DECENTRALIZED DECISION-MAKING

Decisions to limit human activities should be taken at the most local level possible but must be bound by the other principles that prevent abuses of local power. The merits of existing

global environmental agreements should be investigated, with a view to withdrawing from any agreement not shown to have clear net benefits for mankind. Decisions must be informed by sound science—that is science which has undergone a rigorous process of peer review.

### TOWARDS GOOD GOVERNANCE FOR SUSTAINABLE DEVELOPMENT

This combination of property rights, freedom of contract, the rule of law, decentralized decision-making and sound science provides the basis upon which sustainable development can take place. In short, they represent good governance. And good governance also leads to good government—democratic, transparent and accountable—which is also something that everyone (except those who benefit from rent-seeking and corruption) wants.

Sadly, as *Sustainable Development: Promoting Progress or Perpetuating Poverty?* attests, few countries have come close to instituting such systems of good governance. Ironically, perversely, those nations that have come closest—the US especially—tends to be derided as 'unsustainable' by those who hold an outcome-oriented view of sustainable development. As if wealth and high levels of consumption were in themselves signs of unsustainability.

The challenge for those eager to see the world become a more sustainable place is clear: stop squealing about the importance of global governance and instead promote good governance—decentralized ownership of resources and other assets, decentralized government, well-defined and readily enforceable and exchangeable property rights, the rule of law, free markets and free trade.

*Julian Morris is Director of the International Policy Network. This article highlights ideas explored in the new book, Sustainable Development: Promoting Progress or Perpetuating Poverty?, edited by Mr Morris. It can be obtained at [phileppa@policynetwork.net](mailto:phileppa@policynetwork.net)*

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