



EconoMag

The Show that demystifies Economics

Environmental Economics - Part 1

The Environment and the Economy: can we really put a price on nature? ©

by Pierre Vercueil

Welcome back to another edition of Economag on EnglishWaves. Today we kick off a brand new theme, focusing on the links between our natural environment and the global economy. In our next five episodes we'll try to answer the question: can we really put a price on nature, and if so, how?

Let's start by asking ourselves why we should care about the environment? Quite simply, not investing in the environment leads to higher bills, taxes and other costs – both monetary and non-monetary – in the future. But this goes further than just paying higher prices for energy. National economies, and the international economy on a whole, depend on the health of the natural environment. Economic activity, both production and consumption, relates to the environment in two fundamental ways. In the first and most obvious way, we draw resources (both renewable and non-renewable) from the environment to produce goods and services. Second, we emit waste into the environment in the process of both consuming and producing.

It's often difficult to see the link between something as mundane as our monthly grocery budget, and the way in which environmental ecosystems are a valuable resource in our economies. A good example of this is to consider something such as wetlands, or marshlands for instance. In the United Kingdom alone, wetlands provide up to £350 million worth of natural flood defense, containing water that would otherwise flood several large towns. If this flooding took place, government and local businesses would have to recover the costs from the damage caused by increasing their revenue streams – that means higher taxes and prices of goods coming your way!

Environmental degradation also increases costs for business production. Around 8,000 liters of water are required to produce a pair of Nike sneakers, so if that water is polluted or lost throughout drought, floods, or other means it becomes scarcer, driving up its price. It's not difficult to consider that increased production costs to businesses lead to higher prices for the public.

Not all of us make this link though. The truth, of course, is that most of us care more about our current and short - to medium-term standard of living than we do about the health of some plant or animal species that we seldom, if ever, see first hand. Fewer of us admit, however, that most of us care more about our own welfare than we do about that of people one, two or three generations down the line. Herein lies the dilemma of incentivising economic agents – everyday people like you and me – to recognize the economic value of the

earth's environment, and its capacity to sustain us.

In our next four episodes we'll consider in what other ways natural endowments bear economic value, how society has traditionally managed its environmental resources, the consequences of these choices, and the measures currently being taken in order to ensure a sustainable future. Stay tuned to Economag on EnglishWaves.