

Is Environmental Quality a Luxury Good?

Economists like to classify things, and one of these notions is that of a “normal” versus a “luxury” good. Normal goods are things that people want more of when the price of the good goes down. This of course is just about everything we find valuable. Luxury goods are different. Luxury goods are things people want more of when their income goes up, not when the price of the good goes down. For example people might move from beer to wine or from a Ford to a Mercedes as their income goes up. Also a luxury good might be something that people might not want at all unless they can afford it.

Some economists believe that environmental quality is a luxury good. Environmental quality may be one of the finer things in life that only a higher income can afford. For example it was only in the 1950s after 100 plus years of the great growth in incomes afforded by the industrial revolution in Europe and the United States did democratic governments (and assuming that democratic government represents the will of the people, a big assumption if you know about information asymmetries) start passing ‘clear air’ laws. It was only after people started living longer more wealthy lives did they become concerned with the luxury of breathing cleaner air. Clean air laws are targeted towards specific geographical areas, most particularly cities and natural vistas, where people saw what they wanted changed and created preferences for these changes.

Global warming is obviously different. Global warming is not the noticeable smoke of industrialization hanging over a city during the warmest days of the year. It is something which affects the whole planet, and for which no one democratic government is responsible. It is only human nature, or ‘normal’, to fear change or to fear something which has an unknown (and perhaps unknowable) outcome. Those who enjoy alleviating what perhaps is only ‘normal’ (the fear of the unknown), we can call them perhaps “do-gooders”, are asking that governments ‘do something’ about global warming.

However all of the world is not as rich as Europe and the United States were in the 1950s when demands for clean air were made. According to the World Bank (who of course has an incentive to over-estimate due to its own self-interest) 80% of the world’s people live on less than \$10 per day (let’s assume that figure to be say 50% given the Bank’s bias). If the “do-

gooders” have their way in curtailing worldwide economic growth for their own luxury consumption of a reduction in global warming this will only force those without the necessary income to consume something they don’t want. It is only with the economic growth afforded by *more* growth, not less, that people worldwide will actually want the luxury good of a reduction in global warming. Why should half the world force something down the throats of the other half and worse, threaten them with lives of never-ending poverty? A reduction in global warming is a luxury good to some and an economic ‘bad’ to others. The hegemony of the rich violating the rights of the poor is not economic nor social justice at all.

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