

# The Daily Gleaner

Green Matters for the Daily Gleaner

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## Free Market Sustainability

The economic landscape is perpetually evolving. Typically this evolution proceeds in a path-dependent manner, which means that the decisions and events of the past limit the potential trajectories of future developments. Yet path-dependence does not have to be absolute - current realities and events can break past trajectories and open new directions. This process of evolution is referred to as punctuated equilibrium, a term borrowed from evolutionary biologist Stephen J. Gould, to describe any system wherein periods of seemingly endless status quo existence are interrupted by drastic and sudden events that establish a new status quo.

The notion of punctuated equilibrium within economic landscapes builds from Schumpeter's earlier theories of creative destruction, proposing that new components or realities within an economy could alter the competitive landscape and lead to the demise of traditional components, which promotes a continuous cycle of economic growth, death, and renewal.

I am addressing the topic of economic evolution because we have recently experienced a series of events which may, or may not, have punctuated our long-held notions of equilibrium. I am referring to the financial crisis of 2008 and the recession stretching throughout 2009/2010, and from which we are only recently emerging.

It is still too early to tell to what extent this series of events will change our economic landscape in general, although there is one particular lesson exhibited by the surfacing automotive sector which I would like to focus on.

When the financial crisis hit, oil was approaching \$200 a barrel and people were increasingly troubled by the cost of fuelling their vehicles which were designed and purchased in a time of cheap and abundant fuel. Troubled finances forced nearly all major North American and European automotive manufacturers to seek assistance from government treasuries. While extending credit to the ailing industry many governments promised the re-birth of a leaner, more competitive, and more fuel-efficiency oriented industry. It all seemed like a case study in punctuated equilibrium—jobs would be saved, an entire industry would be revolutionized, and our dependence on expensive fuels would be loosened.

As 2010 drew to a close it was clear that the automotive industry had not only retreated from the brink of extinction, but had in fact resurged to previous levels of prosperity. Ford Motors Company was near to surpassing Toyota as the global leader in automotive manufacturing, while General Motors Company had gone from bankruptcy basket-case to the largest and most lucrative initial public offering in the history of global capital markets.

Yet this success did not materialize on the back of new fuel-efficient, eco-minded models promised by governments in a time of \$200 a barrel oil, but rather on the back of competitively priced SUVs and light trucks whose sales increased by an average of 16 percent across North America. Sure Chevrolet is releasing the electric Volt, and Nissan the electric Leaf but these models and their limited production runs are no more than government subsidized concept cars. The industry was resurrected but certainly not revolutionized.

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The lesson hidden within this series of events is that central governments who are averse to swinging the heavy stick of drastic regulations and strict laws, are typically poor at catalyzing and directing economic evolution, often contrary to their own beliefs. The automotive industry was not revolutionized even in the face of government pleading and financial assistance simply because the market did not demand it. With the absence of constraining regulations, economic evolution is, and will remain, driven by market pressures.

This is important to remember for all those who seek to establish a more sustainable lifestyle. By means of your purchasing power you are a market force! One that is stronger than voluntary government initiatives, and one that may 'punctuate' our environmentally unsustainable equilibrium if all the 'ones' come together as a collective.

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