

Environmental Economics

The Cromulent Economics Blog

May 29, 2008

Was Julian Simon Right about the Wrong Thing?

In a famous bet, Julian Simon and Paul Ehrlich put their money where their mouths were on the question of "running out of precious resources." Ehrlich thought that the world was going to hell in a handbasket due to overuse of resources; Simon thought that human ingenuity ("the ultimate resource") would find ways to stretch resources such that they would not "run out." The bet, made in 1980, was that the price of five metals would rise (Ehrlich) or fall (Simon) over the next decade.

By 1990, the prices were lower and Ehrlich lost.

I was at the annual dinner of the Competitive Enterprise Institute (a think tank somewhere between CATO and AEI) last night when they handed out the annual Julian Simon award for advancing the free market environmentalism that Simon espoused, and I got to thinking.

Although I am a free market type, I think that Ehrlich lost a sucker-punch bet. Economists like Simon, after all, possess abundant evidence that humans are capable of innovating around and substituting for scarce resources. Ecologists and environmentalists (Ehrlich was a biologist) do not understand human structures as well, but they do understand carrying capacity, sustainability, etc.

I think that Simon deserved to win *that* bet, but he would have lost a bet on the bigger picture: If there's anything that global warming should tell people, it's that human innovation affects the environment, the environment will give negative feedback, and we will just have to deal with it. The environment, like some other "goods" with few substitutes (oil, water, ocean, air) is only getting more "expensive" as its quality decays, i.e., as a healthy environment grows more scarce.

Ehrlich lost the battle, but he won the war. Too bad -- for all of us -- that his was a pyrrhic victory.

Today at Aguanomics: The USDA Sees the Light, i.e., global warming is going to cause severe problems in the western US (and small ones elsewhere).

Erratum: Spelling error corrected.



Posted by David Zetland on May 29, 2008 at 09:09 AM in Climate Change, Ecological Economics | Permalink

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Comments



Dano said...

I was at the annual dinner of the Competitive Enterprise Institute (a think tank somewhere between CATO and AEI)

They're a spinoff of AEI with a different mendacity agenda focus.

*I think that **Ehrlich** lost a sucker-punch bet.*

You may want to fix your spelling, David. h.

I asked Paul about this and I think he realizes the same thing. Nonetheless, I agree with your conclusion, which is expressed as:

I = PAT

or

$I = P \times A \times T = \text{Impact} = \text{Population} \times \text{Affluence} \times \text{Technology}.$

Like your blog, too. Go Aggies!

Best,

D

May 29, 2008 at 09:30 AM



Don Strong said...

Paul once told me that he and his co-wagerers offered to continue the bet year by year. Simon declined. Looking at the history of the price of commodities, Simon would have lost in the long run

May 29, 2008 at 09:52 AM



Paul Hindsley said...

Good post. I would be interested to see how our ability to utilize human ingenuity for addressing resource scarcity changes when there are identifiable shifts in the wealth of non-Westernized countries. As we have seen considerable economic growth in India, China, and other countries, per capita resource use has also changed in those countries.

Can technological advancement address this scarcity when there are several billion additional people with money to spend on goods and services? It seems to me that technological advancement will eventually allow for more efficient use of resources, but it also seems like this major shift in demand does not have an immediate technological solution.

May 29, 2008 at 12:49 PM



Dan Cole said...

That an uncritical cornucopian like Julian Simon might be wrong in the long-wrong does not make a uncritical doomsayer like Paul Ehrlich right.

Ehrlich has made numerous erroneous predictions throughout his career relating to specific time periods. In addition to his bet with Simon, he also predicted food riots in the US during the 1980s, and even the eradication of Congress. Moreover, like many doomsayers, Ehrlich has consistently trumpeted worst-case scenarios, without any attention to their relative (im)probabilities of occurrence. And he has remained remarkably ignorant of the possibility of technological improvements for productive efficiency.

May 29, 2008 at 01:42 PM



Bob Murphy said...

Although I am a free market type, I think that Ehrlich lost a sucker-punch bet.

Now I was playing with my Star Wars toys at the time of their wager, so I can't say this from personal recollection. However, I have read that (a) Simon let Ehrlich choose the commodities, and (b) at the time Ehrlich said it was "shooting fish in a barrel." So you're right, in retrospect it's not surprising that Simon made a more accurate prediction on an economic thing (prices) when that wasn't Ehrlich's specialty.

But you know, that's kind of my point in reaction to some natural scientists on these issues: The latter not only don't understand how humans actually deal with depletable resources etc., but that they are *confident* in their ignorance. (Check out [this thread](#) if you want to see how little credence some climatologists give to economists even when it comes to

the matter of calibrating carbon taxes.)

BTW David, obviously I am not spouting off at you. I'm just saying I think your defense of Ehrlich is a bit odd. He cheerily accepted the bet, and moreover his policy recommendations were totally wrong precisely because of his ignorance of economics.

I think that Simon deserved to win that bet, but he would have lost a bet on the bigger picture: If there's anything that global warming should tell people, it's that human innovation affects the environment, the environment will give negative feedback, and we will just have to deal with it.

I don't see how this contradicts Simon's views at all. Even with global warming, just about every measure of human well-being is rising. And as you know, even specific problem areas (like fights over water) could be easily solved with the introduction of property rights. Can you explain a little more (or maybe in another post) why you think Simon's optimism has been proven wrong?

May 29, 2008 at 03:55 PM



JT said...

First, Simon would not have lost the bet had it been extended ten more years. See here:

<http://mjperry.blogspot.com/2008/02/would-julian-simon-have-won-second-bet.html> Recent spikes in the costs are misleading as was the temporary spike in silver prices earlier this decade.

Second, Simon's point is that the value of a "commodity" is relative, not absolute. You say that the value of the environment declines as it becomes more scarce. But what if improving the environment reduces human lifespan due to economic slowdown? What is the relative value gain or loss? Looking at the cost of one "commodity" without examining its relationship to others is myopic and myopia is practically Paul Ehrlich's middle name.

Further, has the environment been improved or damaged if there is an increase in forestland but fewer praries or the reverse? What is the proper amount of desert or tundra? Loss of biodiversity and adequate habitat are concerns. That does not translate, however, into a measureable, tangible "quality" of the environment. Ehrlich and other rely to a large extent on the existence of such a tangible value.

Finally, I am unclear as to the evidence that Paul Ehrlich understands "carrying capacity" well. He predicted we would have reached the end more than a quarter century ago. If that isn't evidence of his failure to understand carrying capacity, what is?

May 29, 2008 at 04:05 PM



joshua corning said...

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So as the world cools over the next 10-15 years (it has not heated for the past 10) how do you think this will effect your career?

Seriously Ehrlich was dead wrong about everything he predicted in the 70's yet has not suffered one bit from it...

As a self described free market type you understand that in a market those that make mistakes are punished in the market for making those mistakes, and those that make the right choice are rewarded and over time as the bad are punished and the good are rewarded wealth is created and general knowledge is expanded. But in the academic realm of ecology and economics it would seem that there no such limiting factors. Those who are proven dead wrong on subjects they profess to be experts in are as equally rewarded as people who are right.

When you are proven wrong about global warming what market punishment will there be to discourage blatant disregard for the facts in the future or are we doomed to suffer imbeciles like Ehrlich forever?

May 29, 2008 at 05:21 PM



joshua corning said...

I was at the annual dinner of the Competitive Enterprise Institute (a think tank somewhere between CATO and AEI)

If by "between" you mean right on top of AEI and 100 miles from CATO then yeah it is between.

May 29, 2008 at 05:41 PM

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