

Conservation and Innovation: A Compromise Via the Lens of Coase and Schumpeter



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Opinion

Ecological conservation often stresses the limited capacity in the world we live in, and that the way to sustain our future is to conserve now. Innovation, on the other hand, stresses different (new) usages of existing resources. The two views often clash, not able to seek a compromise. As an example, at the Fifteenth International Conference on Environmental, Cultural, Economic & Social Sustainability earlier this year, my joint paper on “Digitizing Refugee Camps: Promotion of Mobile Communication for Charter Governance” was criticized for not being “environmental”, that a promotion of mobile communication for refugee camps will contribute to the problem of waste generated by mobile phones, adding to the recycling challenges on-going worldwide. The commentator advocated conservation, with particular emphasis on indigenous life in N. America. This sentiment echoes a conservation bill recently passed in the US House of Congress for the New Mexico’s Chaco Canyon Region in N. America, considered to be “premature” by the Oil and Gas industry.

In the past 20 years, my colleagues and I have strived to seek a compromise between conservation and innovation. We outlined the research agenda as early as 2000, [1] and later, in Lai and Lorne [2] and Lorne [3] in probing the meaning as well as various methods of implementing of sustainable development. The conservation and innovation crash can be viewed through the lens of two prominent economists, Ronald Coase and Joseph Schumpeter, who each individually, and separately, proposed their respective paradigm of analyses, without seeking a compromise. Indeed, in a private interview between Ronald Coase and the author in 2013, 3 months before his death, when asked what he thought of the work of Joseph Schumpeter, he politely said, “He was upstairs. I was downstairs.” Yet, Professor Coase have been pragmatically probing various new contractual arrangements

brought about by the new technologies in this digital age up until his death.

There are many arrangements that can be creatively designed so that the world we live in can “have the cake and eat it too”. This is the inquiry that we should be promoting. In a 2014 article in Planning Theory, Lawrence Lai [4] and I have illustrated a theoretical framework where the Coase an approach of bargaining to achieve static economic efficiency can be embedded into Schumpeter’s notion of creative destruction. We gave several examples of how features of this “meeting” has been adopted in the existing institutional structure, even though the two economic giants have never discussed the possibility between themselves. We argued that this should be the research agenda of our present generation, addressing to resolving the conflicts between the old and the new economy.

To elaborate more, Coase’s methodology hinges on an existing technology (production function) and existing preference (given utility function). The problem of social costs has been shown as a bargaining exercise of reaching a static economic efficiency condition. Coase’s proposition is that it doesn’t matter who has the right to a resource as long as the rights are clearly defined because, under rational decision making, efficiency will be achieved. The depletion of natural resource, a problem of social costs, does not exist in a world of zero transaction costs. Therefore, the relevant question to ask is what type of institutional structure can best reduce the transaction costs of parties being affected, or stakeholders.

Schumpeter, on the other hand, assumes technologies and preferences are ever changing. Indeed, he characterized that to be the essence of capitalism. In this context, particular institutional

structure that is deemed efficient at one stage could be replaced by another more efficient one based on new technologies and the emerging preferences. If Coase and Schumpeter were to meet to talk, unavoidably, it will be a question of how new preferences can also accommodate old preferences. This question can become particularly acute when it comes to culture and heritage, as they are typically perceived as being handed down from generation to generation, i.e., needing to be preserved and conserved.

An insight can simplistically illustrates how Coase could meet Schumpeter. At the conference hotel used by the Santa Fe Institute of New Mexico to host a symposium on inventions and innovations in 2018, the author marveled at the pueblo design of a 3-storey structure. It reminded him of a photo of an original pueblo stone house used by the indigenous people at the Bandelier National Monument, which was his visit the day before. A Chaco Canyon celebration would require no electricity, with primitive water delivery method as a way to preserve heritage and culture. Thank God it had not been required by the conference organizer for us to

relive that life. We can be blessed with modern convenience with elegance while still pay our respect to the past. That, having the cake and eat it too, is the essence of Schumpeter meeting Coase.

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