

# **ECONOMIC STRATEGIES FOR TRANSFORMATION OF NEOCLASSICAL PARADIGM AND COMPETITIONS IN INDUSTRY**

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**SYNOPSIS:** The present research article describes the three components of the neo classical economic paradigm namely, free market, public – choice and market friendly approach. How these three components are being applied to the various organizations, particularly, the competitive industries have get benefits. However, the global industries of various economic regions showed inefficiency and suffered from negative externalities and pollutions. And so, TO CHANGE OVER THE NEOCLASSICAL PARADIGM, THE SUSTAINABLE DEVELOPMENT PARADIGM was suggested: how the sustainable development paradigm encompasses the environment and economics to steady state economic growth: for what the world industry and society to do all that were discussed.

## **1. INTRODUCTION**

‘Paradigm’ means a clear or detailed model of knowledge. Here, transformation of neoclassical economic paradigm means, the model/theory and policies of neoclassical economics were reformed to sustainable development model to the present emerging areas of politics, business, technology and likes in view of getting material well being. The policies of neoclassical economics are not being fully realized to bring about economic equity and social welfare. The fundamental reason is, the neoclassical economic paradigm believes in perfectly competitive market/industry but in real world, most of the industries function under imperfect competition. The imperfect competition is severely affected by rivals in consumption and excludability from the payment of prices against social/public/environmental goods and services of production and distribution. It creates various problems against social welfare.

## **2. OBJECTIVE OF THE STUDY**

The major objective of the present study of economic strategies for transformation of neoclassical paradigm and competition in industry is, to understand the functions and various dimensions of neoclassical economics in competitive industries. And, how the two polarised Economics viz. namely developed and developing poor economics are affected by the economic and non economic dimensions. To findout a

valuable suggestion and recommendation for formulating economic strategies for future world economy should sustainably grow.

### **3. PARADIGM OF NEOCLASSICAL ECONOMICS**

The world economy and business enterprises today are attracted by neoclassical counter revolution: Market Fundamentalism. It comprises the basic components of

1. Free Market
2. Public – Choice
3. Market friendly approach

In 1980s the political ascendancy of conservative governments in United States, Canada, Britain and West Germany brought a **“Neoclassical Counter Revolution”** in Economic Theory and Policy. The traditional neoclassical economics, on the otherhand, was not worked efficiently under the light of market determination, resource preservation and conservation and it never realized the developing economy out from grip of developed economy towards achieving goals of self reliance and self sufficiency of self sustaining economy.

In developed nations, this counter revolution favored supply side macro economic policies, rational expectations theories and the privatization of public corporations. In developing countries, it called for free markets and the dismantling of public ownership satiate planning and government regulation of economic activities.

#### **a) Free Market**

Argues that markets are alone efficient – products markets provides the best signal for investment in new activities, labor markets respond to these new industries in appropriate ways producers now best what to produce and how to produce it efficiently; and product and factor prices replace accurate scarcity value of goods and resources now and in the future. Competition is effective when these circumstances, any government intervention in the economy is by definition distortion and counter productive.

#### **b) Public – Choice Theory**

Indicates that government can to nothing right. This is because public-choice theory assumes that politicians, bureaucrats, citizens and states are solely from self interested perfective, using their power and the authority of government for their own selfish ends for example, citizens use political influence to obtain special benefits(called ‘rents’) from government policies(eg.import license policy or rational foreign exchange) that restrict access to important resources- The net results is not only a

misallocation of resources but also a general reduction in individual freedom. The conclusion, therefore, is that minimum government is the best government.

### **c) The Market Friendly Approach**

This approach recognizes that there may be imperfections in LDC (low developing countries) product and factor markets and that governments do have a key role to play in facilitating the operation of markets through “non-selective” (market friendly) interventions – For example, by investing in physical and social infrastructure, healthcare facilities, and educational institutions and by providing a suitable climate for private enterprise. The market friendly approach also differs from the free-market and public choice schools of thought to accepting the notion that market failures are more widespread in LDCs in areas such as investment coordination and environmental outcomes. (Michael P. Todar and Stephen, 2003).

This neoclassical counter revolution approach, thus, of market economy does not show the decoupling process between economic changes and environmental damages. The reason is that the economic proxies like GDP (Gross Domestic Product) does not reflect how much the rate of ecological and environmental and non-market services are taken place to rise to say, one percent of GDP. By the result of it, the externalities appear, lead to market failure and lessen the social welfare of the society.

Let us see, how the world economies are affected by the various environmental damages that concern to rise their economic power as follows.

The concept of the competitive market mechanism is the central pillar of neo classical theory. If this mechanism is to succeed in converting the selfish interests of individuals into a best solution of the large society’s “what”, “how”, and “for whom” problems, it must meet three criteria.

1. The first is that such economic variables as prices, wage rates, and interest rates, should faithfully reflect actual economic changes and are not to be tampered with – Yet the widespread practice of administrated prices in numerous industries and the rigidity of wages, and interest rates are all too familiar.
2. The second criterion is full consumer sovereignty. But the demise of consumer sovereignty due to what Galbraith describes as the “dependence effect” is how an old story. There is the further fact that the alternatives offered to consumers are confined to what suppliers choose to make available.
3. Third, external effects, either positive or negative should be for all

practical purposes negligible. Yet it host of intractable external diseconomies such as organic mercury poisoning and photo chemical smog, has belatedly become universally recognized clearly, none of the three basic conditions is satisfactory met in present day “Capitalist” society”. (Robert D. Hamrin, p-184)

The important sources of market failure:

1. imperfect market structure or non-competitive behaviors.
2. the existence of public goods,
3. Imperfect information” (Karl E. Case and Ray C. Fair, 2004, P-256)

The market failure is experienced by externalities. “Externalities, a major sources of inefficiency is the existence of external costs and benefits. An externality is a cost or benefit imposed or bestowed on an individual or group that is outside or external to, the transaction in other words, something that affects a third party” (Karl E. Case and Ray, 2004, P-258)

Externalities are a problem only if decision makers do not take them into account. The logic of efficiency – firm weight social benefits against social costs. If a firm in a competitive environment produces a good it is because the value of the good to society exceeds, the social cost of production it this is the logic of price = marginal cost. If social cost or benefit are cover located or left out of the calculations, inefficient decisions result.

The market itself has no automotive mechanism that provides decision makers an incentive to consider external effects. These externalities (undesirable) cause to pollution.

### **EXTERNALITY AND POLLUTION:**

The economic definition of pollution is dependent upon both some physical effect of waste on the environment and a human reaction to that physical effect. The physical effect can be biological (e.g. species change), chemical (e.g. the effect of acid rain), or auditory (noise). The human reaction shows up an expression of distaste, unpleasantness, distress, concern, anxiety. We summaries the human reaction as a loss of welfare.

An external cost exist when the following two conditions prevail:

- (1) An activity by one agent causes a loss of welfare to another agent.
- (2) The loss of welfare is uncompensated.

## NATURAL LAWS AND COMPETITIVE INDUSTRY:

According to the first law of thermo dynamics, basic energy cannot be “consumed” or destroyed, but according to the second law, no “work” can be performed (no action can be taken) without some means of energy denigration from more to less usable forms. The means that some of resource degradation (wastes) accompany all use of energy of other resources.

“Contemporary anthropogenic activities as diverse as industrial production (i.e. the production of cement, refrigerants, etc.) the burning of fossil fuels stock raising, rice paddy culture, deforestation and land filling generate effluents, emissions that affect the global climate and other aspects of the global system in various ways.

The generation of carbon dioxide (CO<sub>2</sub>), a major gas contributing to global effects, is an inescapable consequence of nearly all social process, CO<sub>2</sub> emission is “Produced” Principally by Energy use (75%), Industry (cement and gas flaring) (3%) and Deforestation (23%).

By contract, “methane” is generated largely by activities in developing regions: The rising of rice (29%) and Ruminant domestic animals (20%), Burning of biomass (15%), Creation of land fills (15%), and Use of fossil fuels (21%), As well as by the solid industrial wastes of developed societies (25%).

Methane produced in developing areas is closely lied to subsistence and to activieis necessary for the poor to survive day, today.

The chloroflora carbon (CFC 11 and CFC 12) are man made and are used strictly in industrial manufactured products and industrial process. Although CFCs are currently produced mainly in advanced countries. The fastest growing markets for these products are the developing countries. And it is reminded that nearly 80% of the world’s population resides in developing areas.

CFCs contribute significantly to the erosion of the ozone layer, and their residence time is among the largest of the effluents.

Relative to the other effluents the nitrous oxides are the least understood of the greenhouse gases. Such, effluents are produced largely by fossil fuel use, bio-mass burning, fertilizer use, and the contamination of aquifers. Since almost every country in the world uses fossil fuels and fertilizers the sources of nitrous oxide are distributed globally, as are the activities producing these effluents” – (Nazil Choucri, 1993, P-21). These sources of pollution are impacts of various behaviors of business and government organizations, producers and consumers.

“The sources of pollution across nation and overtime.

The major contributors of the CO<sub>2</sub>:

**by deforestation:** Brazil 20%), Indonesia (12%), Colombia (7%),

**by fossil fuel-** United States (23%), USSR (15%), Japan (6%) etc  
**by industrial-** China (6%), USSR (13%), United States (7), Japan (7%) etc. of the different states” – (Nazil Choucri, 1993. P-21).

Let us now see how human behavioral problems cause to environmental issues.

In industrial countries, the most dramatic examples come from Eastern Europe, where the environment has been regulated for 40 years. The result is ill health, damaged buildings and machinery corroded by polluted water. Most estimates put the total lost of environmental degradation at 10% to 15% of national income.

Apart, the deforestation brings the costs. When the trees go, soil is more easily blown or washed away. When trees are cut down along water sheds, flood prone area for instance, in India doubled to 40 million hectares between 1970 to 1980. The eroded soil is carried by rivers and clogs harbors and dams, By the year 2000 the buildup will have cost these dams 1,40,000 gw. of generating capacity. To replace that with oil at the low 1988 oil price of \$15 a barrel would have cost more than \$4 billion. And this cost of erosion will accrue for a single year. In each succeeding year this vast burden on poor countries will recur or grow” (Francis Carin Cross, 1992). The main reasons are (a) halo effect and (b) stereo typing of mal perception on growth model settings.

However, “Mr.Lawrance Summers, World Banks chief economist suggested to poor countries that the polluting industries from the developed countries to poor countries should be migrated with environmental conscious. The assumptions are for the as follows: imputed cost on human health of poor is low, there is virgin, unpolluted environment, employment potential is high, poverty can be reduced, Income elasticity of pollution is high.

These are opportunities to motivate the migration of dirty industry from developed countries to poor countries.

But Dr.R.K.Pachauri says that the assumptions of L.Summers were not correct namely, income elasticity of pollution is low, environmental carrying capacity is low, lack of infrastructure and health standard of people are low in poor countries.

So, the poor country’s people should be motivated with clean technology to migrate the industry and employment opportunities. It is reminded here that Adam Smith, the father of the science and proponent of the invisible hand said, the ultimate concern of economics is the welfare of the people and anything which loses sight of that must be laughed out of court”. (“The Economic Times” 16 February – 1992).

The overcome of all the difficulties of environmental pollution and behavioral problems, the Sustainable Development Paradigm is soundly suggested. The idea of an accommodation between economic growth and

environmental protection found expressions in the phases “Sustainable Development”.

Mrs. Brundtland defined the idea as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Her committee’s report was anxious to extend the moral basis for development, by arguing the need for intergenerational equity (fairness to posterity) as well as for intragenerational equity (fairness to contemporaries).

The objectives of sustainable development are satisfied, if the following strategies are accomplished namely,

1. Prof Ronald Coase’s market bargain solution for common property pollution should be followed. That is if polluters have the property right, the sufferers should pay compensation to polluters not to pollute. Here,
  - (a) “willingness to pay principle (WPP) not to pollute is followed. On the other hand,
  - (b) if sufferers have the property right, the polluters should pay to sufferers to bear the pollution. Here, “willingness to accept principle (WAP)” to bear the pollution is followed.
2. Fiscal incentives and tax abatements should be encouraged to clean technology — equipments and goods / services.
3. The “Golden Rule” in ethics “What I feel done bad things to me by others that I will not do the same to others” — should be taught to children e.g. not littering the public place and, like. It grows environmental conscious to future generations
4. Mutual understanding is needed between rich and poor societies to share the natural resources equity basis.
5. The poor country can get opportunity to accept industry migration with clean technology.
6. The international as well as national level agencies like World Bank, IMF and Govts. should motivate the environmental groups, producers, consumers and non government agencies (NGO).
7. 3-R methods in Pollution Control should be appropriately followed to curb the material waste and environmental pollution problems. The 3-R methods namely, waste recycling, reusing, and recovering are for waste management for instance, the waste recycling method has a dominant place to conserve energy and to save economy. The major waste materials such as aluminum, steel, paper and glass are generally appeared in our life style. If these wastes are to be recycled, a number of benefits can be realized by us as follows:

**Table: 1**

**Environmental and Economic Benefits Derived form Recycling of Wastes**

S.N o.	Environmental and Economic Benefits	Waste Materials			
		Aluminu m	Steel	Paper	Glass
1.	Energy use	90-97	42-74	23-74	4-32
2.	Air Contaminants	95	85	74	20
3.	Water contaminants	97	76	35	-
4.	Mining wastes	-	97	-	80
5.	Water Use	-	40	58	50

Source: “Health People 2000”, 1998, US Department of Health of Human Service, Public Health Service, Washington — P-326.

Other Economic Features of 3 — R Methods, for Instance Waste Paper Recycle as follows;

- a. Recycling waste paper to recover one tonne of clean paper of waste paper is to preserve about 20 well matured soft wood trees,
- b. Saves two barrels of oil,
- c. Saves 7000 gallons of water,
- d. Saves 4100 Kilowatt hours of electricity — it is enough energy to power the average American home for five months,
- e. prevents, emission of 60 additional pounds of toxic agent into the air,
- f. and saves three cubic yards of landfill space” (Healthy People 2000, 1990, P-326) in these ways, we can measure the others benefits to access the value of recycling recovering and reuse process of wastes today.

## CONCLUSION

As population grows, the industry grows. As industry grows, environmental pollution grows. The meaning and types of pollution clearly mentioned. That is, external cost is pollution defined differently.

The reasons and impacts of pollution viz., market failure, externalities, behavioral problems, perception, and motivation are dealt to understand present and future environmental problems between rich and poor countries.

In present days, the rich economics push the dirty industry towards



poor economics. The problem understood by the poor and rich countries to migrate the industry. The attitudes of both are changed that with clean technology the industries should be migrated.

And all these changes are invited by the sustainable development paradigm. It helps to common property solution, compensation for pollution, sharing natural resource equity basis and clean technology adaptation, 3-R methods for conserving environment and save the economy that should be learned by modern industrial society.

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