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# EMBEDDED ECONOMIES AS SUSTAINABLE ECONOMIES

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## ABSTRACT

*Emerging around 1980s, the global discourse on sustainable development ironically coincided with the embrace, by mainstream leadership of international political economy, of Neoliberal Capitalism thereby setting the stage for emergence of a global market economy. The central argument of this paper is that at the heart of the challenge of securing sustainable development lies the creation of economies necessarily 'embedded' in their localised socio-cultural, natural and political settings, since 'embedded economies' alone can act as spheres of responsibility, not economies abstracted -as the on-going pursuit, creation and maintenance of a so called 'global world economy', discrete and supposedly governed by some abstract universal laws basically reflects. Drawing upon powerful, emerging insights in the sciences both natural and social, besides in philosophy and spiritual literature, this critique is substantiated by a critical appraisal of the features and fallouts of the foundational philosophy underlying the mainstream, conventional view of Economics itself. Adopting a Social Constructivist perspective, it is then argued that such unsustainable current practices having been "created" by a false ontology are therefore amenable to deconstruction and reconstruction upon the foundations of an alternative sustainable discourse of development based on 'embedded economies'. Advocacy of an embedded economy comes from the belief that fostering an effective politics of sustainable development is only possible within the context of the particular-where real stakeholders have democratic and social control over the economy. The hallmarks of sustainability- equity (both intra and intergenerational) and environmental resilience --it is argued, can never be effectively realised in the context of a 'alien' globalised economy based on the relentless generation and feeding of 'artificially manufactured wants' because unsustainability (ever deepening inequity and mindless abuse of nature) is simply built into the juggernaut of neoliberal capitalism that is fast emerging to engulf the planet Earth.*

**Key words:** Globalisation, Neoliberalism, Embedded Economy, Sustainable Development.

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## 1. INTRODUCTION

The 1980s saw the assertive emergence of a global discourse on Sustainable Development following the Brundtland Commission's formulation of the term in 1987. The UN Commission in its report titled *Our Common Future*, defined Sustainable Development as 'Development that meets the needs of the present without compromising the ability of the future generations to meet their own needs'. Since then, the idea of Sustainable Development became common place. The attraction of this idea lay in that it managed to replace the earlier versions of purely ecological critiques of mainstream capitalist development that were demanding a halt to any further economic growth as it was believed to threaten the planet's capacity to cope. Brundtland restored the status quo but with a twist, qualifying allowance of economic growth provided that was for meeting 'needs' instead of wants and did not damage the environment any further.

Around the same time, there was a decisive shift breaking out in mainstream International Political Economy (IPE).

Based on the so called 'Washington Consensus', economic policies falling under the broad banner of Neoliberalism, were being enthusiastically embraced by governments across the world. Beginning from the UK, then under Thatcher and the USA under the lead of Reagan, these policies entered the prescriptions of the IMF and World Bank and through them were hurriedly introduced in Russia—through the infamous Shock Therapy—post Socialist Eastern European nations, China as well as the debt ridden third world for whom the Structural Adjustment Packages which came as conditionalities attached to debt recovery loans, thereby connecting the pipelines to create a barrier free, fluid global economy. Thus set, this new economy unleashed into full activity, an increasingly deregulated and interconnected market, the tentacles of which started seeping fast into the remotest corners of societies spread across the globe, so much so, that markets virtually can be found in nearly every domain of our life today—from clothing, footwear, groceries, financial assets, education, healthcare, animals, plants, humans, drugs, arms and what not! Thus, we have a global economy.

Notwithstanding debates in scholarly circles on the newness, the extent, the intensity and the predominant character of globalisation today, this paper assumes that the phenomenon is certainly taking place, that its economic dimension is the most pronounced and a manifestation of Neoliberal Capitalism that has inherently a global orientation. However, the argument developed here is consciously and particularly contrasting with the views of the so called 'Hyperglobalists' who regard, economic globalisation to be both inevitable and desirable. Instead, it is claimed here that neoliberal capitalism is very much a human construction, so there is nothing natural about it to make it inevitable. Given that, not only is it amenable to change but does urgently need to be changed because Neoliberal Capitalism is found to be inherently not sustainable—not only from the ecological perspective, which ofcourse is the most prominent critique today, but equally significantly from the viewpoint of all other domains of a wholesome human life—cultural, moral as well as political.

In retrospect, it did not take long for this apparent paradox to reveal itself. On the one hand it was clearly discernable how Neoliberalism was being vociferously pursued and

pushed for by the leading voices within IPE scholarship and praxis. An interesting instance was the UK Labour Government, that claimed globalisation came as force over which they had no command so that it literally compelled them to abandon socialist principles, in favour of a more neo-liberal approach to economic and social policy-making. On the other, however, the success with arriving at binding commitments to push sustainable development policies by governments in their respective countries, remained stuck up failing to make much headway, after the initial hullabaloo at Rio had cooled down. The North and the South, both had their own equations and justifications as to why, economic growth and global expansion of markets, could not be compromised. The Brundtland formulation came to be interpreted in numerous ways that could accommodate both, continued growth though with greater caution, at least on paper, not to hurt the environment and meet needs instead of wants. Pollution Control approaches and Ecological modernisation eventually emerged as the basic two variants of sustainable development as policy makers understood it.

Ofcourse, the Brundtland presented the positive linkages between an equitable economy and a sound ecology in an intergenerational perspective. However, what is often not paid much heed to was how, the Brundtland Commission defined or conceptualised ‘development’ in the first place. Two points must be emphatically highlighted regarding this:

One, it saw development as a holistic concept of societal change, that subsumes the economic, the social, the political and the ecological dimensions into a harmonious interdependence.

Two, the Report[1] especially highlighted the existence of interconnections amongst all these domains of the broad conceptualisation of ‘development’.

The understanding of Sustainable Development advanced in this paper is based on balance and equilibrium among all the spheres of a wholesome human life—socio-cultural, moral, economic as well as political. Accordingly, there is a threat to sustainability whenever anyone domain spins out of order. In the present times of Neoliberal Capitalism, it is the economic realm that has emerged as the mischief maker, spilling over to dominate all other domains but most badly, the environment as is evident from adverse changes observed in the Earth’s climate, thereby giving rise to growing concerns over ecology and hence the emergence of the whole discourse of Sustainable Development.

Now, it is argued here that, this neglect of the idea of balance, harmony and interdependence so integral to the idea of Sustainable Development and so clearly present even in the official formulation of the idea found in the Brundtland Report, has been the outcome of Neoliberal Capitalism’s new found predominance within mainstream IPE scholarship and praxis as well as in the study of Economics generally. And this accession and globalisation of Neoliberal ethos, it is argued, reflects a fundamental anomaly with how we have come to organise our societies. Our societies are fast losing balance. The particular manifestation of this, focused through this paper, is that the economic realm seems to have spun out of proportions, not only introducing the economic principles into the ecological sphere evident from the commodification of nature, but equally into the socio-cultural, moral and political spheres. The critique of Neoliberal Capitalism advanced in this paper rests on this framework of understanding sustainability as balance. Hence, the need to have ‘embedded economies’ instead of ‘abstracted’ ones.

The significance of balance has in fact been highlighted within Economics since its inception.

Aristotle once observed, “The life of money making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else.”

When over a century back in Oxford, there was consideration going on over the founding a professorship for political economy, there was a notable sense of caution prevailing. Edward Copleston of Oriel College, for instance, saw Economics as a science 'so prone to usurp the rest' and expressed reluctance to introduce it into the University's curriculum.

John Stuart Mill (1806-73) the great modern liberal who made fundamental alterations of Benthamite Utilitarianism, had once observed that that political economy is 'not as a thing by itself, but as a fragment of a greater whole; a branch of social philosophy, so interlinked with all the other branches that its conclusions, even in its own peculiar province, are only true conditionally, subject to interference and counteraction from causes not directly within its scope'.

John Maynard Keynes, the founder of the philosophy of managed capitalism warned us not to 'overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance'.

Against all such views, the advocates of Neoliberal Capitalism simply demonstrate blind faith in the free market and its potential to determine and allocate values to every domain of human life, without any checks. So extolled, the neoliberal market, quite obviously, should not be hindered by borders as well. And so, Economic Globalisation which indeed is one of the most apparent trends of our time, it is argued, is the most obvious corollary of a neoliberal economy. Now market economies dominate societies across the globe, the market links them up and the market sets the values and preferences for societies across the world—ultimately affecting sustainability of not only the environment, but of diverse cultures, moral values as well as democratic governance and social justice.

As pointed out above, Sustainable Development as balance can be secured only when we have a coherent community in the first place. And such communities do naturally exist, sometimes as nations and sometimes as regions clubbing nations together and other times as regions within nations or regions spread across national borders. But no such coherent community yet exists at the global level. Underlying the global economy lay a diverse set of cultures, nations, communities, not yet transcended for a global community. Realist/Mercantilist IPE believes it will never be transcended while Liberal IPE scholarship think, economic integration would eventually and inevitably (according to hyperglobalists) force such a transcendence and Marxist IPE thinks, the global economy heavily works in favour of the rich countries. Underlying all these views however, there is nevertheless an acceptance that the community survives, though as a subject or object of globalisation forces. Therefore, it is basically not feasible to secure real commitment to Sustainable Development at the global level per se because there is no way that the global economy could be embedded and hence balanced in the manner that would possible when economies were decentralised and founded at the grass root level, bottom up. For instance if we analyse the failure of governments to commit to cutting down green house gas, it will be apparent that in such global deliberations, the environment assumes the form of a third party. And, there are endless debates among states, who are otherwise in competition to outbid one another economically and militarily, to push responsibility for the climate change to one other's shoulders. Such a perspective could well explain the failures of the global regime on Sustainable Development. Now, if we wish to secure Sustainable Development without offsetting the equations of global capitalism driven by courting of FDI and TNCs, it will not work. Because, real control of the economy is not in the hands of those (governments and agitating stakeholders) who are making efforts to check the ecological and other forms of wreckage facing our planet. The ability of governments to agree at the international summits is greatly checked by considerations of implications of their decisions for the fate of their economies back home. What if there is a capital flight? No leader wants to slip down the ladder of relative and

competitive economic development because that is not only going to affect people's job security, but the nation's security itself. A weak GDP could render a country's defence preparedness vulnerable. In these equations, the easy casualties are ecology, culture, social justice and democracy—all being the foundations of sustainable societies.

It would be apt to quote Peter D. Hershock[2] who made a very pertinent observation regarding the incompatibility of Neoliberal Globalisation and Sustainable Development.

“ present day patterns of economic interdependence and global trade are systematically translating diversity— understood in terms of the Buddhist concept of emptiness—into mere variety. In particular, they are bringing about a stunning collapse of locally focused ecologies of production and trade. This has the effect of affording remarkable ranges of consumer choice through reliable, efficient, and institutionally secured market operations. But these market operations also significantly isolate producers and consumers and replace local-to-local exchanges with globally mediated transfers. In effect, global interdependence is presently inflected in such a way as to erode both personal and communal resources for direct mutual contribution—depleting the very resources needed to differ in ways that meaningfully make a difference. Development of this sort is finally impoverishing.”

And this is why the juxtaposition of the discourse on Sustainable development with the mainstreaming of the Neoliberal brand of capitalism has been projected as a sheer irony. The challenge is much more complex however. Neoliberalism has a very strong tendency to absorb crises and challenges to its legitimacy which could completely undermine the survival of an idea of Sustainable Development that can be essentially distinguished from Neoliberalism. Therefore advocates of sustainability must be cautious against being co opted into the fold of an apparently 'green global capitalism' because that would destroy the radical implications of their call. Most importantly, such an eventuality threatens to present Sustainable Development simply as an issue about the environmental implications of global capitalism, to the neglect of the idea of balance which lies at the heart of the conceptualisation of Sustainable Development. Nevertheless, an immediate focus on the environmental implications of Neoliberal Capitalism will not be unfounded, as this realm has borne the worst impact of an imbalanced, disembedded, globalised economy.

As Thomas Wanner[3] too observed “...the emergent green economy/green growth discourse can be seen as another 'passive revolution' where neoliberal capitalism adjusts to crises arising from contradictions within itself.” In a similar vein, Julian Reid[4] too observes,“While sustainable development deploys ecological reason to argue for the need to secure the life of the biosphere, neoliberalism prescribes economy as the very means of that security. Economic reason is conceived within neoliberalism as a servant of ecological reason, claiming to secure life from economy through a promotion of the capacities of life for economy. This is the paradoxical foundation on which neoliberalism constructs its appropriation of sustainable development.”

## 2. THE FADING APPEAL OF NEOLIBERLISM

The market fundamentalism of Neoliberal Capitalist philosophy, though is claimed by its adherents to have been taken from Classical Liberal ethos of the 19<sup>th</sup> Century, turns out to be much more narrower than the latter. To be sure, Adam Smith had gone on record endorsing the stoic view that man, “ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of the vast commonwealth of nature”, and that “to the interest of this great community, he ought at all times to be willing that his own little interest should be sacrificed” [5]This militates against the Neoliberal view of the individual that C B Macpherson succinctly defined as “possessive individualism” whereby the “individual is the sole proprietor of his own person or capacities for which he owes nothing to society.”

### **Economist, Stanislav Menchikov[6] observes**

The standard, neoclassical model is actually in conflict with human nature. It does not reflect prevailing patterns of human behavior. [...] If you look around carefully, you will see that most people are not really maximizers, but instead what you might call ‘satisfiers’: they want to satisfy their needs, and that means being in equilibrium with oneself, with other people, with society and with nature. This is reflected in families, where people spent most of their time, and where relations are mostly based on altruism and compassion. So most of our lifetime we are actually altruists and compassionate.”

Herman Daly and John Cobb (1989), presented the alternative “person-in-community paradigm” that treats the self-sufficient, sustainable community as the basic economic unit rather than the selfish individual.

Interesting developments in the physical and natural sciences have further lent credence to ideas that contradict the central assumptions of Neoliberal Capitalism. Modern physics postulates that the universe consists of unified patterns of energy. According to one of Einstein's favourite epigrams, the field generates the object, and it is not the other way round. Whereas in the Cartesian worldview we can only know reality by knowing specific parts, Einstein discovered that in order to know things, we need to know the whole from which they originate. Insights from the Laws of Thermodynamics, Systems theory and James Lovelock's Gaia Hypothesis[7] have also been very powerful, given that Neoliberal ideas are largely derived from the positivist school of social sciences. Professor Donald Pfaff, the author of the recent work, *The Altruistic Brain*, showed evidence from neuro science research that the human brain is hard wired towards ethical behaviour, or to be good. Thus Pfaff seemed to offer a scientific confirmation to philosopher Wilhelm von Humboldt's authoritative declaration that humankind is intrinsically more inclined to philanthropic than self-serving actions.

Socialists, social democrats and the communitarians among others have all critiqued the foundational assumptions of Neoliberalism from within the social sciences. Amitai Etzioni (1988, 1993) for instance, argues that every individual has certain moral, spiritual and social needs that are equally or sometimes relatively more significant than merely economic needs. People are creatures governed not only by logic and reason alone, but emotions and value considerations understood in terms of a person's immediate community is very pertinent.

Equally significant are the teachings of major religions and spiritual traditions that lay stress on the need for balance and harmony as the essence of human life on Earth.

### **3. DECONSTRUCTING NEOLIBERALISM AND RECONSTRUCTING A SUSTAINABLE DISCOURSE OF DEVELOPMENT**

A constant theme of this paper has been to show that whatever we make of our social world is our own creation, fashioned by the ideas that we widely share, assuming as they do, the form of an ‘inter subjective consensus’. That means, it is always possible to change the ideas that inform our practice. The need to do so with respect to the Neoliberal ideas has been amply brought out in the forgoing discussion on the meaning of sustainability and how it is fundamentally at odds with neoliberal philosophy, still pervasive in mainstream IPE thought, and hence need to be transformed to make Sustainable Development meaningful and substantial and not merely a partial green and red washing of neoliberal capitalism. The roots of the present challenges of climate change, growing inequities within and across societies and the general sense of alienation and void that consumerist and speculative capitalism brings along are certainly to be found in a flawed philosophy and all there is to do is to change that philosophy, a task that was underway all along since the rise of neoliberalism and now

increasingly gaining momentum as globalisation of this philosophy and practice is making its pangs felt more acutely than ever before.

Although it is for every unique community spread across the world to decide the particular form of alternative to global capitalism, which would be suitable for their needs, certain essential requisites can nevertheless be identified that must be present for an economy to truly be sustainable :

Balance among all the dimensions of a wholesome human existence. Accordingly the economy should be treated as part of a broader structure of the society that has equally significant other parts-- culture, ethics and the natural environment that ought to be valued in themselves, intrinsically and not be subjected to the logic of the market, through mindless commodification.

The general orientation of each community should be to empower and sustain itself in its own natural setting by maintaining healthy exchanges with neighbours so that their transactions are not solely motivated by speculative motivations and remain as personalised as possible.

Each community should reserve the right to answer the fundamental questions of economics--what to produce, how to produce, and for whom to produce-- keeping in mind primarily the interests of the community- the people and all life forms within it, above any other consideration (particular care should be taken to check the predominance of speculative considerations while determining the purposes of an economy as this is the most potent factor that promotes decontextualizing the economy from its immediate location). These questions should not be left to any external agency be that the managers of the global economy sitting at the WTO, IMF and World Bank or global corporates and allowed to be governed only by speculative considerations. When we create such embedded communities, each community becomes a sphere of responsibility because every decision would be taken democratically, and would have the immediate impact on the decision makers, on their interests, on their natural setting and on their resources. This would make meaningful democratic control possible, help forge essential community bonds for the success of redistributive measures of social justice. The prospects of Sustainable Development multiply under such an arrangement.

To cite the most contemporary example of such creative rethinking about the pursuit of development against the dominant trend set by Neoliberal Capitalism, we have the tiny Himalayan Kingdom of Bhutan, which is now a constitutional democracy and has officially committed to prioritising of Gross National Happiness in place of the conventional GDP to measure the nation's progress with real development. Bhutan, presents itself as an inspiring example of how to look at development in terms of balance and harmony—which they refer to as a New Paradigm of Development.

#### **4. CONCLUSIONS**

By way of a summary cum reiteration, it may be recalled that this paper attempted to highlight that the core of sustainable development is a balanced, decentralised and democratic community. One in which, the spheres of culture, ecology, polity and economy are harmoniously bound up and carefully maintained within their respective limits. From this understanding, it appears that sustainable development and Neoliberalism are fundamentally at odds as the latter believes in the primacy of the economic realm as a natural fact of human life in contrast to essence of concept of sustainable development. It is argued that a globalised economy, is necessarily disembedded because there is no global society that might organically give rise to and be able to effectively regulate it. In the upshot, the logic of economics begins to dominate every other sphere of life, affecting in the process, the quality and survival of the environment and diverse cultures, not to speak of the impact of market fundamentalism on

intra and inter national/regional inequities—all of which mar the prospects of securing sustainable development, understood as balance, equilibrium, in any substantial sense.

## KEYNOTES

1. Our Common Future. Published in 1987
2. Hershock is the Co-ordinator of the Summer and Outreach programs at the Asian Studies Development Program, East West Centre, Hawaii
3. Thomas Wanner is a lecturer in the discipline of Geography, Environment and Population at the University of Adelaide, South Australia. His research and teaching interests concentrate on the political economy of environment and development issues with a particular focus on international environmental governance, gender and development, and education for sustainability.
4. Julian Reid is a political theorist, philosopher and professor of International Relations. Renowned for his advance of the theory of biopolitics, contributions to cultural theory, post colonial and post structural thought, critique of liberalism and semial deconstruction of resilience.
5. Taken from Amartya Sen's , On Ehtics and Economics, 1990 page 22-23
6. Quoted in Compassion or Competition; A Discussion of Human Values in Economics and Business, 2002. We should recognize that even though compassion is a desirable state of mind, there may well remain a role for competitive practices. As the Dalai Lama says, competition can be beneficial if it encourages us to be the best in order to serve others. Tibetan Buddhist monks for whom compassion is the heart practice, know a variety of competitive events, including heated public debates, which help to sharpen the mind. So while compassion is the motivating factor, competition can be a means to achieve the goal
7. This portrays the Earth as a living organism that is primarily concerned with it's own survival.

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