

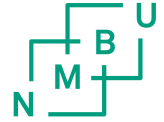
# New institutions for handling economy-environment interactions

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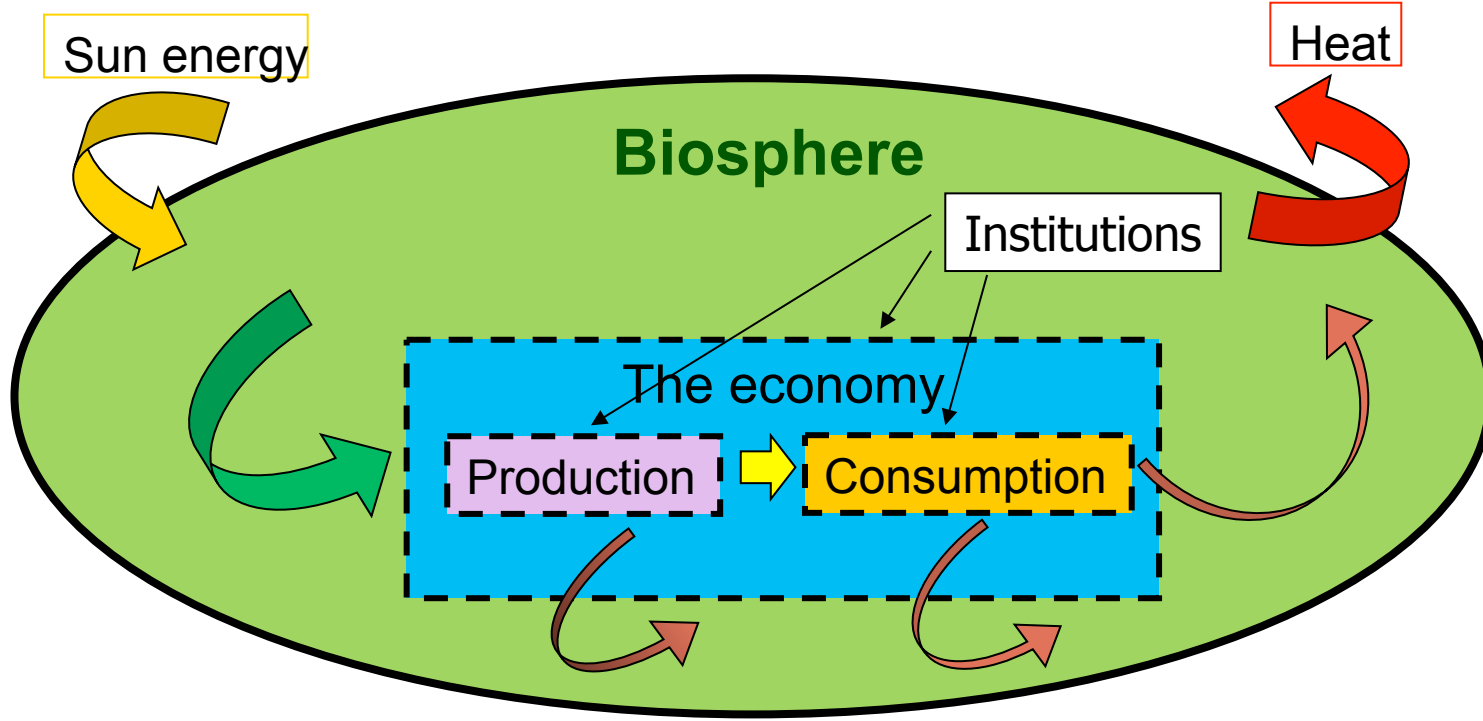
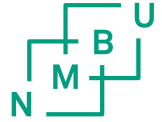
Presentation at the seminar on 'Green Growth Innovations', at the Norwegian  
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# Introduction



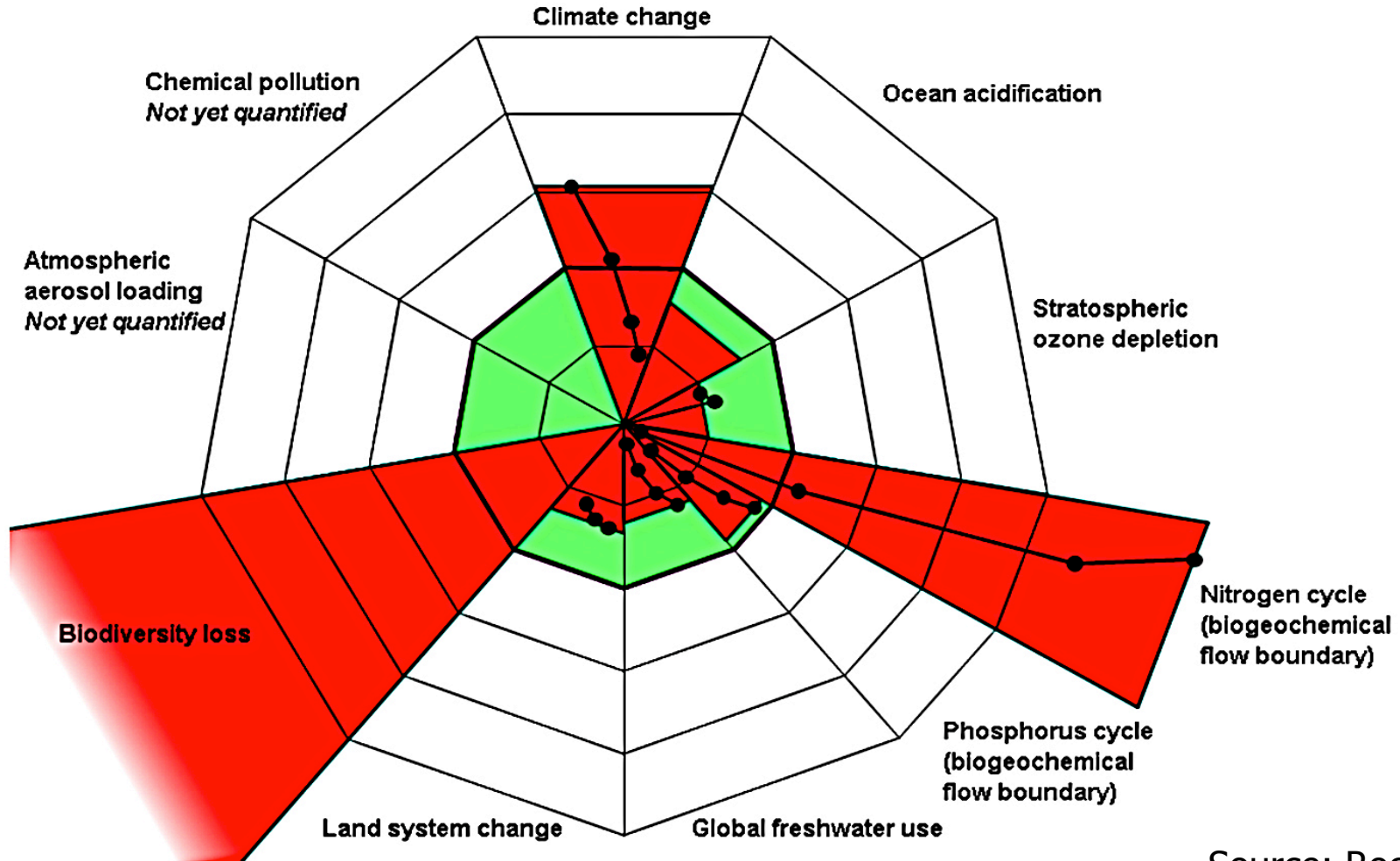
- **Strategies for environmental protection** – especially in the case of climate change – are almost exclusively focused at **technological change**
- While important, I argue a) that this in itself **demands institutional change**; b) that the **perspective is too limited**
- Given present economic institutions, we are faced with a ‘Catch 22’ situation:
  - If we **continue growing** the economy we will create an **environmental disaster**
  - If we **stop growing**, we create a **social disaster**
- Can we avoid this ‘impossible’ choice?

# Economy-environment interactions



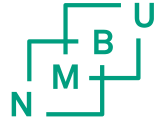
- ‘The actions of one influence the opportunities for others’: **The common and limited** biospheric system meets an institutional system favoring economic growth
- There is typically **no automatic** (negative) **feed-back** to economic actors from the effect economic processes have on the environment

# Economic expansion and environmental degradation



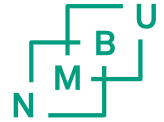
Source: Rockström et al., (2009)

# What are institutions?



- One may divide institutions in three categories
  - **Conventions**
  - **Norms**
  - **Legal rules** (backed by 3<sup>rd</sup> person)
- Institutions are **social constructs** as well as they are **constitutive of humans**
- A key concept here is that of **the role** – as defined by different sets of conventions, norms and legal rules

# Institutions as rationality contexts?

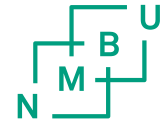


We may distinguish between different types of rationality

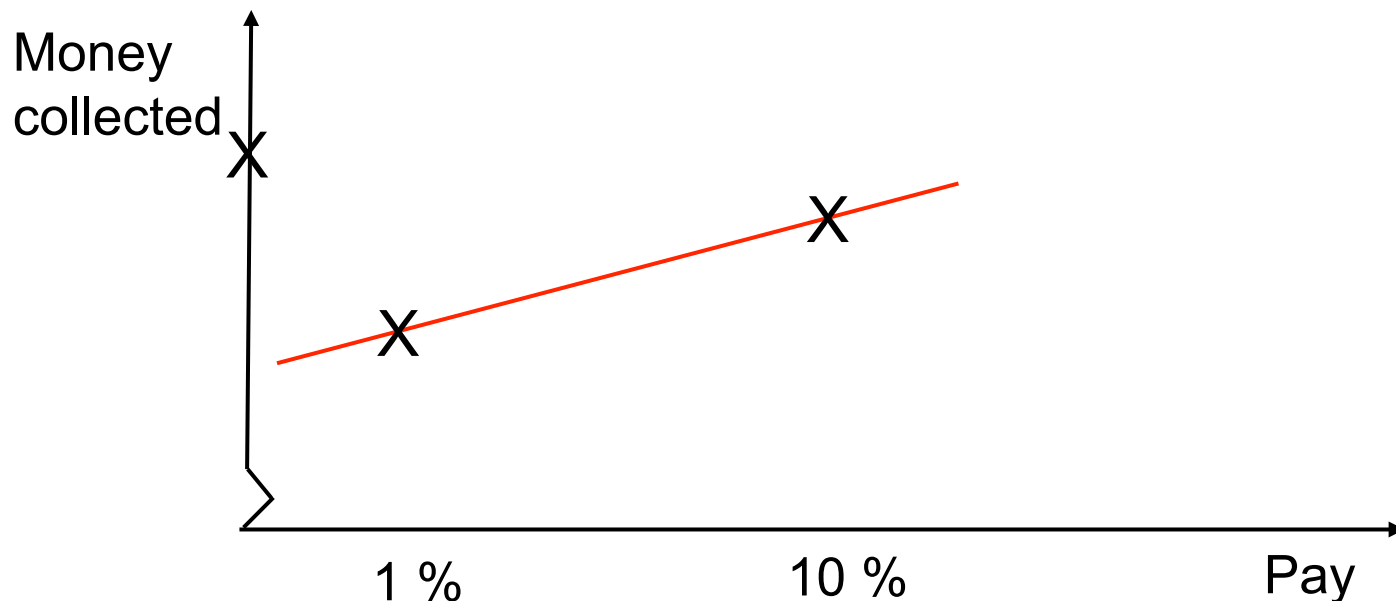
- **Individual rationality**
  - ‘**I**’ **focus** – consumer/firms – calculative/maximization of utility/profits
- **Social (or cooperative) rationality**
  - ‘**We**’ and ‘**They**’ **focus** – citizen – normative
    - Communicate → what is best for the group; how do we treat others → **norms of appropriate behavior**
- **Institutions define which rationality (logic) is expected** in a specific situation. Institutions as rationality contexts. Important policy implications

## Institutions as rationality contexts? (cont.)

### Example

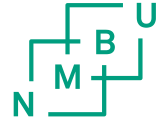


- There are very many human acts that are defined by e.g., **norms of appropriateness** – favoring group interests and the interests even of others – e.g., Murdock (1967); Ostrom (1990; 2005); Bowles (2008), Gneezy et al. (2011)
- Illustration: Collecting money to a charity: Moving from non-paid to paid action



Source: Gneezy and Rustichini 2000

# Challenges faced

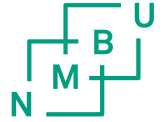


- Environmental problems – be they biodiversity loss, climate change, pollution and a combination of these – are typically the effect of a **high number of independent choices** made by firms/households/individuals
- From a governance perspective the issue is about how we can **reconnect such choices**





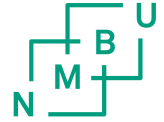
# Types of strategies



- Three main strategies
  - **Technological change** (changing the form of economy-environment interaction)
  - Create **negative feed-backs** – e.g., environmental regulations (taxes, prohibitions etc.) to support technological change
  - Make the economy **less dependent** on **continuous expansion**  
→ A more fundamental systems' change
- All strategies depend on **institutional change** – especially increased role of institutionalized **social rationality**: The role of **collectives like states and communities**

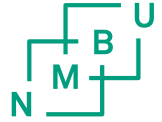
# Types of strategies (cont.)

## Technological change



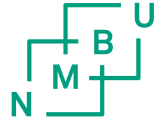
- I largely second Carlota Perez' point regarding the state to facilitate coordinated shifts – to create **mission/long-term direction**. To create a **new path**
- It is the **different motivation** that political bodies represent as compared to business that is key: Social rationality. Instituted by defining the role of politicians (March and Olsen 1995)
- **Investments are important** when transforming. Creating long term thinking and less focus on returns depend on 'creating'/ **selecting investors** with such perspectives. The role of **states and communities** as long-term investors

# Creating negative feed-backs

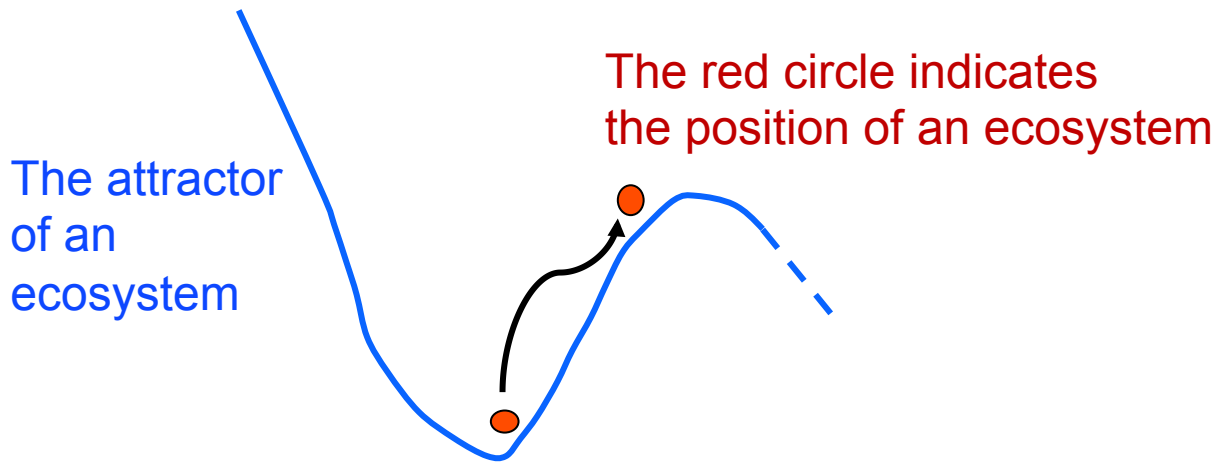


- Many economists argue that by **taxing emissions**, environmental problems could be **solved**
- In a case like, climate change, this is **technically quite easy**. One main source, **fossil fuels**. However, **not politically simple** (the fossil fuel lobby, distributional issues)
- **Relative prices are weak** at directing long-term technological change. The role of states in creating direction – breaking with ‘the path’
- The **Sisyphus dimension** of state regulations – **myriads of ‘externalities’** that has to be regulated (transaction costs). Depends, however, largely depend on the development path chosen

# The need for a more fundamental systemic change?



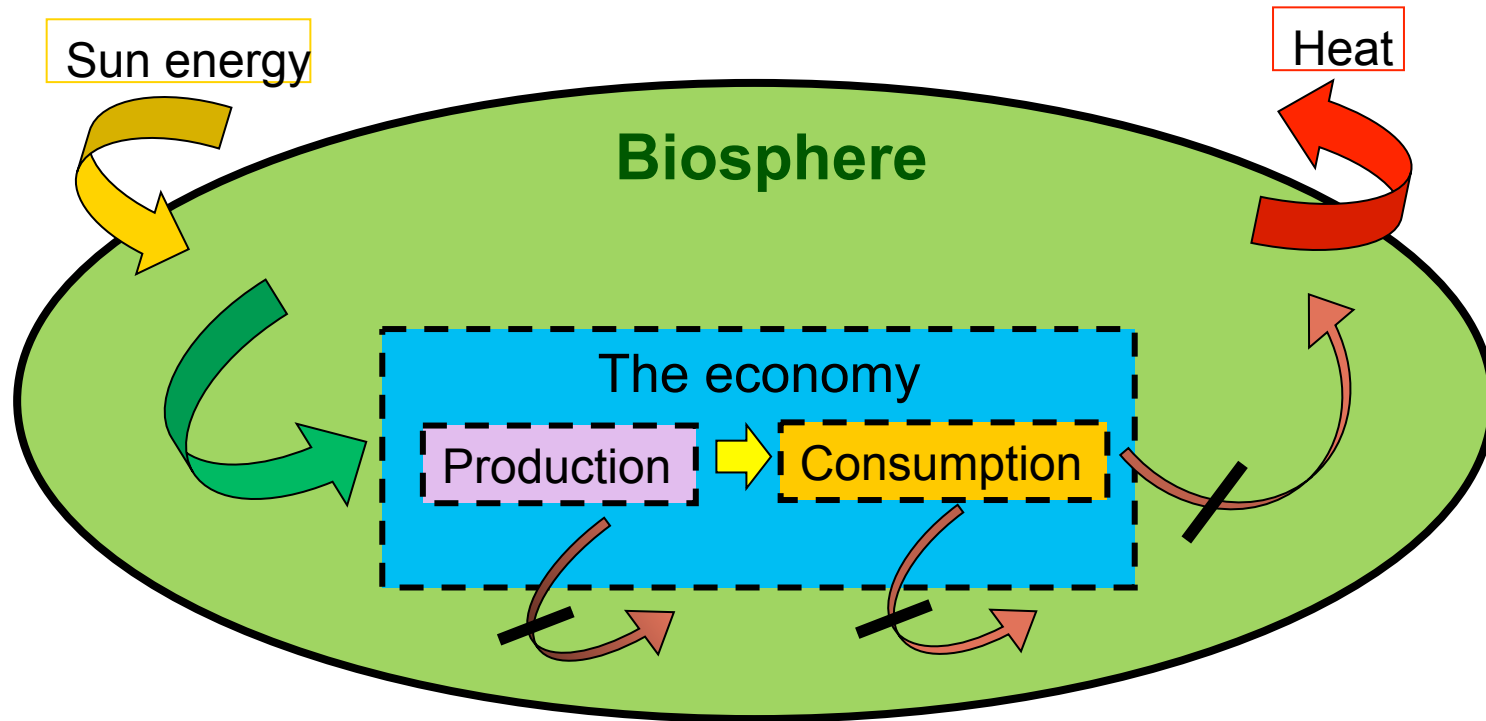
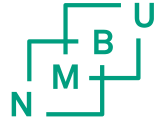
- Environmental regulation is about keeping **biospheric integrity** – avoiding passing important thresholds



- The resilience of natural systems → difficult to know when and if a threshold is passed. We need to **act precautionary: Not pushing the system** up against important **thresholds** → not so much ‘green growth’ as it is less growth

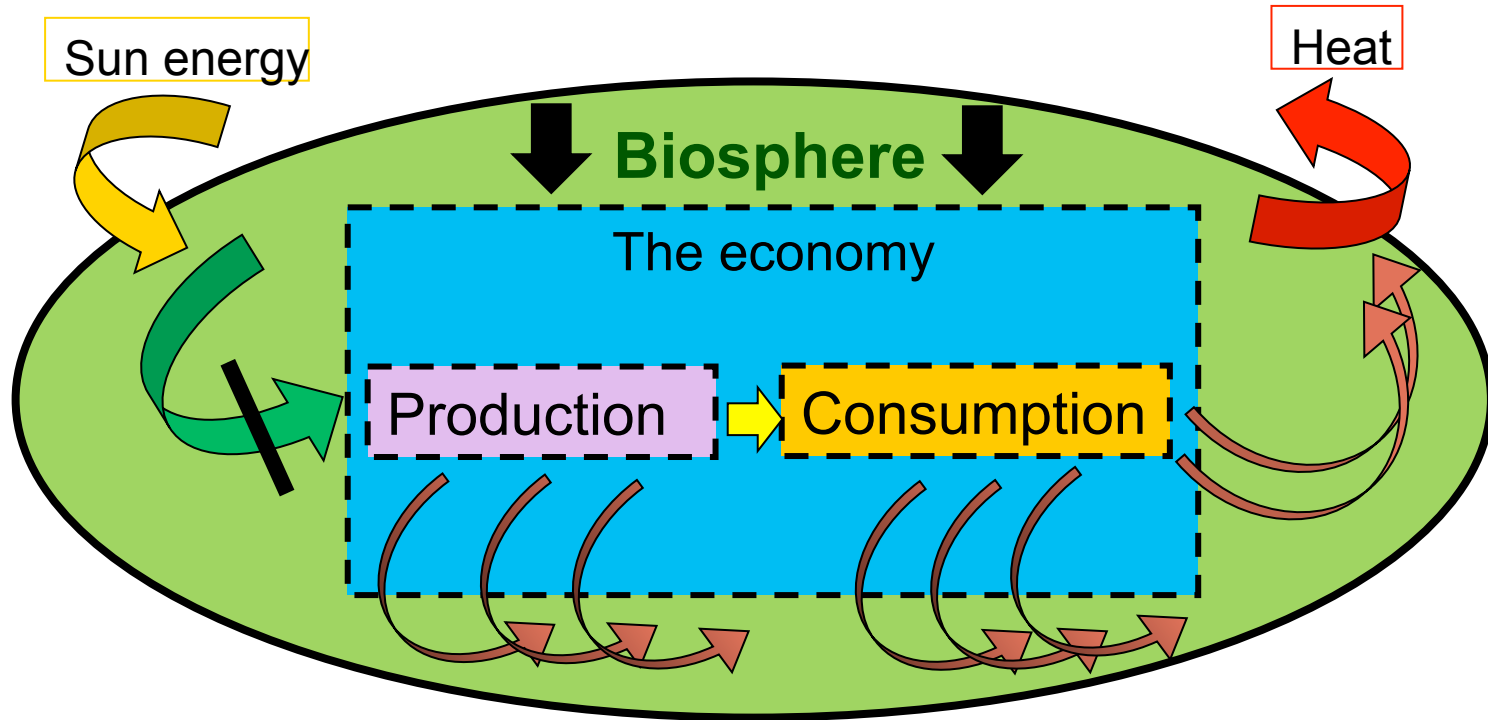
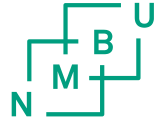
# Types of strategies (cont.)

## Back to regulating emissions



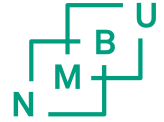
- Present strategy: Regulation on emissions/after a problem is **scientifically proven and politically accepted**
- **Long time** between problem creation and political action.  
**Interest-created 'lock-ins'** (industry/consumers)

## The limits of emissions' regulation



- Alternatives:
  - Regulate **on inputs**
  - Limit the **size of the economy**

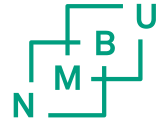
# Institutions for an economy (much) less dependent on growth



- Today: We must grow the economy to **avoid economic collapse**, not because it offers more welfare/happiness in rich countries
- What could institutions for an economy (much) less dependent on growth look like:
  - **Social rationality** instituted at the level of the **firm**
  - Changing **consumption patterns**
  - Larger role for **states and communities in investment decisions**
  - International relations/trade based more on **cooperation than competition**

Note that the first two points simplifies the role of states as regulators

# Institutions for an economy (much) less dependent on growth



- **Social rationality** instituted at the level of the **firm**, e.g.:
  - **Institutionalized triple bottom line** with owner/investor interests balanced vs. social and environmental interests
  - **Less creation of debt** – less demands on the future
  - Build on experiences with **social environmental businesses** – e.g., the UK community interest companies
- **Cooperation in international trade.** Free trade heavily restricts the ability to protect the environment, for firms to act environmentally responsible. Regain increased power of states. Combine trade and environmental agreements
- It is a '**cultural project**' – implies changes in **value systems**  
→ institutions. Demanding, but possible! We must at least dear start communicate about what it could look like!