

Economics of Environmental Governance: Towards a New Institutional Approach

Dr Jouni Paavola

Centre for Social and Economic
Research on the Global
Environment (CSERGE),
University of East Anglia

April 22, 2002





Environmental Governance

- ◆ involves the establishment of institutional arrangements or rules of the game in order to resolve conflicts and to foster cooperation
- ◆ Conflicts emerge from interdependence, which forces collective choices on the agenda and calls for collective action
- ◆ Governance outcomes involve both allocative and distributive consequences



Presentation Outline

- ◆ Why a New Institutional Approach?
- ◆ Interdependence
- ◆ Plural Goals
- ◆ Transaction Costs
- ◆ Application to WSS
- ◆ Conclusions



Why a New Institutional Approach?

◆ Conventional economic approach

- ▶ Assumes independent choices, perfect knowledge and welfare motivations
- ▶ Focuses on efficiency and omits conflict, power, institutions and distribution

◆ Shortcomings:

- ▶ Cannot explain institutional change and choice, nor institutional success and failure
- ▶ Insensitive to distributive and non-welfarist goals
- ▶ Cannot account for contextual factors



Interdependence

- ◆ Is misinterpreted as an externality in the conventional economic approach
- ◆ Sources and shapers include resource attributes and attributes of their users
 - ▶ Rival vs. non-rival use, economies of scale, mobility, fluctuation
 - ▶ Number, homogeneity vs. heterogeneity, social capital
- ◆ Results in conflicts, which are resolved by the establishment of governance institutions
- ◆ Thus explains the necessity of institutions independently of transaction costs



Pluralist Goals

- ◆ The conventional approach acknowledges only welfare or utility goals. Yet possible motivations include:
 - ▶ Personal welfare or that of others
 - ▶ Intrinsically valuable consequences; longevity, health, educational attainment, for example
 - ▶ Rightness or virtuousness of behaviours
- ◆ Preferences are not revealed when intra- and interpersonal value pluralism prevail
- ◆ Deliberation overcomes incommensurability in pluralist collective choices and acts on best reasons
- ◆ Several rationales exist for governance institutions



Transaction Costs (1)

- ◆ Characterise both market and non-market transactions
- ◆ Include the costs of seeking information, conducting negotiations, making decisions, specifying contracts or institutions, and monitoring and enforcing them
- ◆ Exist because of imperfect and costly information which in turn is a manifestation of
 - ▶ Limited cognitive capacity
 - ▶ Incentives to withhold information
 - ▶ Physical attributes of goods and resources
 - ▶ Existence of real time
 - ▶ Institutional arrangements



Transaction Costs (2)

- ◆ Result in imperfect design of governance institutions ex ante – ex post conflict resolution needed
- ◆ Determine what governance solutions enjoy economies of scale and scope
- ◆ Influence to what degree involved groups can participate in collective choice and have their interests to count in them
- ◆ influence what values and governance outcomes are realised



Application to WSS

- ◆ In WSS, economies of scale is the source of interdependence; conflict is over water pricing
- ◆ Pricing is a collective choice no matter who makes it. Prices are institutions that implement the collective choice
- ◆ Free access to water for the poor may reflect legitimate concerns for their welfare or health
- ◆ Discontent with privatisation may reflect deontological views on the right way to make collective choices such as water pricing



Conclusions – The NIE Approach:

- ◆ Enables us to identify sources of conflicts and to investigate structures of interdependence
- ◆ Brings up the distributive character of collective choices and is sensitive to a wide range of moral standpoints that may inform collective choices
- ◆ Illuminates how institutions regulate power or participation in collective choices and influence what values are acted on
- ◆ Sheds light on the consequences of adopting particular institutional arrangements to resolve particular conflicts

Economics of Environmental Governance: Towards a New Institutional Approach

Dr Jouni Paavola

Centre for Social and Economic
Research on the Global
Environment (CSERGE),
University of East Anglia

April 22, 2002



11