

**Institutional Prerequisites of Sustainable Development.  
Domestic Responses to EU Environmental Policy**

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## **THE REGULATORY FRAMEWORK OF ECONOMIC MARKETS**

Opting for a 'market economy' does not in itself answer the question as to the precise institutional form this economic order will take and the roles that will be played by the various public and private actors. Within some yet-to-be-determined limits, there is a range of market economies that will differ in their specific features, depending upon the particular regulatory context defining the relation between market activity, on the one hand, and the set of overarching societal objectives which specify the limits under which this economic activity is to take place, on the other hand. If economic regulation is not an all-or-nothing phenomenon, the way out of an overly regulated-regimented and planned economy into some form of a 'market economy' does not necessarily require the denial of an active role for government, both in creating the institutional prerequisites for, and at the same time providing the societally determined normative constraints upon, the free play of these market forces. These regulatory measures define the particular political economy of the social market of a given country.

Viewed from this general perspective, the economic transition presently under way in the countries of central Europe can be analyzed in terms of the interaction between two inter-related processes, First of all, economic activity is being released from the confines of the socialist economic system and exposed to the dynamic forces of the market. At the same time, this emerging market system will need to be subjected to new constraints intended to ensure that economic activity also respects and promotes certain overarching social values not necessarily 'protected' by market-driven economic decision making. For example, in Western Europe notions of sustainable development and ecological modernization, which view the relationship between environmental quality and economic development in positive-sum terms, are being used to redefine the social context and overarching policy objectives for market-oriented economic activity. Here preventive environmental policy becomes a fundamental precondition for effective economic reform and long-term development. At the same time, it is one of the societal constraints that defines what kind of economic activity will be permitted.

A serious commitment to the goal of sustainable development would mean that economic reform and market activity cannot be allowed to threaten or to ignore environmental policy objectives. Consequently, any general restructuring of the previously centrally planned economy would, according to this line of reasoning, require the effective institutionalization of an appropriate balance between governmental intervention and the free play of market forces to promote sustainable societal development. According to this scenario, the normative orientation for the new 'social market' is provided by the goal of

ecological modernization as both the basis for and an expression of integration of economic development and environmental quality policy objectives. The restructuring of these economies must be carried out in such a way as to contribute both to cleaning up the environmental damage from socialist system and developing integrated preventive policy programs as central elements of strategic and operational planning at all levels of action, from the formulation of governmental policy down to the operational management of firms.

## **THE RELEVANCE OF EU ENVIRONMENTAL POLICY FOR CENTRAL EUROPE**

But why should this goal of sustainable development be taken seriously as a regulatory principle by policy makers in Central and East European countries? While this 'meta-goal' seems to offer the philosopher's stone for avoiding politically unpleasant trade-offs between economic growth and environmental quality, it would appear that these countries have other, more pressing priorities. Are they not, understandably, more concerned with achieving a rapid improvement of their countries' standard of living by allowing as much room as is possible for the free play of market forces? Is not economic development the most pressing concern in order to curb social unrest and promote political stability? Is not environmental protection, therefore, a luxury for which these countries cannot avoid to pay the economic price?

There are at least three sets of pressures that could work to bring about a political commitment to the strategy of sustainable development. First of all, the politically relevant groups in these societies could 'demand' it, with or without support of the main economic actors. Or the political leadership itself might become sold on the idea and attempt to convince the relevant domestic actors of the need to integrate both the environmental preconditions and consequences of economic activity into the country's development strategy. Equally possible, and for our discussion most interesting, is that this commitment could be imposed upon the policy makers by the relevant actor-system outside the country, i.e. the European Union, as the price for participation in broader system of European economic cooperation.

For the moment it is this latter source of pressure, in the form of the different association agreements with the EU, that is an important factor shaping domestic policy decisions. In turn, this EU pressure works either to reinforce already-present indigenous forces or to stimulate them to emerge to support EU demands. To the extent that the countries of Central and East Europe desire to gain access to the broader European market of the EU, they will not only have to 'liberalize' their economies. They will also be required to

adhere to the constraints placed upon this economic development by other policies of the Community, For example, in Chapter III of the Association Agreement with the former Czech and Slovak Federal Republic, the contracting parties agree that "an important condition for the CSFR's economic integration into the Community" would be the approximation of existing and future legislation to that of the Community. This approximation of laws would extend in particular to, among areas, the environment. This means that existing EU policy -in the form of various directives and regulations- must be incorporated into and applied through national legislation or other legally binding instruments. Furthermore, the overall thrust of Community environmental policy -most recently laid out in the Fifth Environmental Action Program (Commission, 1992)- will be expected to give direction to decision on environmental management within associated countries. These obligations with regard to environmental issues are spelled out in more detail in Article 80 of the Agreement. Not only existing laws and regulations but also with respect to the direction to be followed in the continuing development of national and Community environmental policy.

Environmental protection has also been an integral part -from its inception- of the PHARE Program of the EU which is aimed at supporting economic reforms in Central and East Europe. In 1991 the Commission's environmental strategy on which the PHARE program was to be based in the next period for this area was approved by the G-24 environmental group as well as the environmental ministers from East and West Europe. This program contains a number of policy objectives and priorities including raising the environmental consciousness of the public, strengthening and expanding the institutional, political and juridical framework for environmental policy, and transferring knowledge and technology.

## **THE EMERGING POLICY STRATEGY OF THE EUROPEAN COMMUNITY**

The EU has had its own environmental policy since 1973, the year in which the First Environmental Action Program of the Community was approved. Although there was no express authorization in the Treaty to do so, in the course of the subsequent twenty years, a comprehensive set of measures has been developed to deal with the various environmental problems confronting the member states(1). The legal (constitutional) situation changed dramatically in 1987 when the Single European Act (SEA) went into effect. This revision of the Treaty of Rome, designed to create the institutional preconditions for the completion of the internal market, granted the European Community the explicit authority to carry out an environmental policy. Article 130R of the SEA defines the basic objectives of this policy as the preservation, protection and

improvement of the quality of the environment; the protection of the health of human beings; and the prudent and rational use of natural resources. Community policy in pursuit of these objectives is to be based on the principles of preventive action; combating pollution at the source; and the 'polluter pays'.

A second essential change in EU environmental policy as a result of the changes introduced by the SEA was that the new article 100A explicitly names the environment as an area with regard to which harmonization ('approximation') legislation could be introduced in adjusting the national regulatory systems in preparation for the start of the Internal Market. The Maastricht Treaty develops the environmental powers of the Community even further. In particular, it has added the notion of 'sustainability' to the main objective of the European Community, in the form of 'sustainable growth', a model in which the demands of the environment and economy are to be in harmony with one another.

The Community has a number of instruments at its disposal in the area of environmental policy. The most important of these are the Environmental Action Programs and, of course, the concrete legislative measures dealing with environmental matters. The Action Programs are broadly conceived statements of the objectives and principles intended to guide policy development for a medium term period, i.e. four years. Since the First Program (1973-1975) various action programs have dealt more concretely and in more detail with different sub-areas of environmental policy. We will come back to these programs below.

The most widely used legislative instrument is the directive. The reason for this is that this instrument allows the member states the necessary room to fit the objectives set for the Community as a whole into the specific legal-administrative systems and the policy strategies of the different states. The European Community is active in all the usual areas of environmental management: water, air, soil, waste, chemicals, noise, nature conservation. In none of these areas, however, has the Community developed a consistent program to deal comprehensively with a given area. At the moment there are approximately 200 EU environmental directives. Some are very specific, dealing with a particular substance or source; others deal with more general topics. Two types of objectives of such directives can be distinguished: these setting specific environmental objectives, such as water quality standards or emissions of different substances; and those defining certain common administrative procedures to be used, such as the setting up of water quality plans or the introduction of environmental assessment procedures (Bennett and Liefferink, 1993:43).

For the purposes of this paper, the details of the specific regulatory programs are less important than the overall strategic concepts guiding the development of Community policy. In particular, what is interesting for us is the emerging redefinition of the relations between economic activity within the Community (the promotion of which initially was and still is the primary concern of the EU) and the management of environmental quality. In order to suggest the way in which the notion of sustainability has come to occupy a central place in this strategic concept, we will look a bit more closely at the more recent Environmental Action Programs. In this way it should be possible to sketch the kinds of demands that Community policy will be making on Member (and Associated) States. In particular, we will be interested in the kinds of adjustments these countries will be required to make in the way they manage the relationships between environmental quality and economic development, and the kinds of institutional changes that will be needed to meet these demands.

## **RECONCEPTUALIZING THE RELATION BETWEEN ECONOMY AND ENVIRONMENT (2)**

Community policy makers have been among the main contributors to the development of the ideology of ecological modernization (Weale and Williams, 1992:47). As we have already seen above, one of the chief tenets of this ideology is that environmental protection should be seen not as being in competition with economic growth and development, but instead as an essential precondition for such growth and development. Recognition of the long-term compatibility of these two sets of values and policy objectives developed gradually as Community policy makers began stressing the importance of stringent environmental standards in a period of global economic competition as well as underlining the importance of quality of life considerations for skilled workers. Whereas the initial action program in 1973 was primarily concerned with the problems different national environmental regulations might cause for the creation of a single European market (Hildebrand, 1992:25), already the Third Program (1982-86) was informed by the conviction that resources of the environment were the basis -and limits- to further economic and social development and improvement of the working situation. In adopting the Third Program, the Council explicitly recognized the benefits that environmental protection could offer the EU in terms of greater competitiveness. This theme was picked up and developed further in the Fourth Program (1987-1992) where it was argued that the measures taken to protect the quality of the environment can be expected to be an important stimulus to economic growth and will, consequently, work to facilitate creation of employment opportunities (Weale, 1993:207). just how far the traditional growth ethos of the Community has

'greened' can be seen in the preamble to Maastricht Treaty which speaks of "balanced and sustainable economic and social progress" as the overall objective of the Community.

These ideas had already figured in the decisions regarding the SEA when it was argued that the increased economic growth anticipated as a consequence of the completion of the internal market would be unsustainable unless environmental considerations were taken into account, no longer as a potential limiting factor but rather as an incentive to greater efficiency and competitiveness of European industry. As Albert Weale has pointed out, with its reconceptualization of the relationship between the economy and the environment, the ideology of ecological modernization marks "a decisive break" with the assumptions of the first wave of environmental policy (Weale, 1993:207). Instead of being seen as a burden to the economy, environmental protection is now considered to be a potential source of future growth. If a country intends to acquire or maintain a secure position in the international market place it will need the technical and production capability to respond to the increasing demand for environmental quality by producing low pollution goods and pollution control technology. Such a capability has become necessary because in the emerging global markets, standards of product acceptability will more and more be determined by the country with the most stringent pollution control standards. As Weale, again, puts it: "the future development of a post-industrial economy will depend upon (a country's) ability to produce high value, high quality products with stringent environmental standards enforced" (Weale, 1992:77).

This line of argument occupies a prominent place in the thinking on which the Fourth Action Program of the EU is based. Here we read: "The Commission is convinced that ... the future competitiveness of Community industry on the world market will depend heavily upon its ability to offer goods and services causing no pollution and achieving standards at least as good as its competitors" (Commission, 1986). Consequently, the proposals of that action program were "rooted in fact that as a key factor in economic decision making, environmental protection policy and strict environmental protection standards are a sine qua non for the quality of life that the citizens of the Community expect" (Commission, 1986:3). In this sense, the ideology of ecological modernization underlying the environmental quality management strategies of the Community and individual member states, directly links the "prospects for future economic development in an era of global markets with higher standards of pollution control and environmentally safe products and processes" (Weale, 1992:77).

Although the different strands out of which this ideology has been woven

provide opportunities for different groups to give somewhat different interpretations and set different accents regarding what measures are specifically required, it does provide a common frame of reference or mode of discourse for a meeting of the minds -and interests- of actors who had, under earlier problem definitions, been on opposing sides of the debate. Ecological modernization suggests a way of finding win-win solutions to problems of integrating or balancing economic rationality and environmental quality. It provides a legitimizing device for public policy debate and development, and can potentially serve, as well, as an important source of policy ideas and principles. In this way it can be used to define new strategies of action which call new actors onto the political scene thereby laying the basis for the formation of new policy coalition (3).

Equally important for the argument being presented in this paper is that this redefinition of the relationship between economic competitiveness and environmental regulation is coupled with a view about the role to be played by government in creating the conditions for realizing these economic development. It is not expected that the potential of ecological modernization will be realized by processes of spontaneous adjustment in response to moral imperatives or market forces. Public intervention (regulation) will be essential for ensuring that the relation between industry and the environment as posited by the notion of ecological modernization in fact comes about. There is, therefore, a positive role for government to play -at both the national and the European level- in raising standards of environmental regulation as a means to spur industrial innovation. It is in this connection that Director General Brinkhorst has argued that the right kind of government action, in the form of "an effective environmental policy", will be required for "our industrial survival in many areas" (quoted in Weale, 1992:78).

However, while government policy and regulation will continue to play an essential role in shaping the conditions under which ecological modernization can be achieved, it will not be a system of government intervention modeled on traditional direct regulation. The relationships between government (public authorities) and economic actors will also need to be adjusted to reflect the logic underlying the ideology defining both the objectives of this policy and the means for its achievement. The nature and role of Community environmental policy will, in turn, reflect processes already underway in many Member States and provide a Community-wide framework to channel further developments in this regard.

## **THE FIFTH ENVIRONMENTAL ACTION PROGRAM AND THE ROAD TO SUSTAINABILITY**

The strategic line spelled out in the Fifth Action Program is seen as a "turning point" in the environmental policy of the European Community. This program is intended to serve as the framework for dealing with what is seen as "one of the most important tasks of the Community in the 1990s", to wit the "reconciliation of social-economic development with the maintenance and protection of the environment" (Commission, 1992:19). In pursuit of this objective, the program offers a fundamentally different approach was used than in the other four programs. The emphasis now lies upon the actors and activities that cause the exhaustion (exploitation) of natural resources and other forms of disturbances in the environment, the so-called 'target groups'.

In dealing with polluting activities previous Action Programs had placed primary emphasis on legislation or regulations. However, the instrumental approach of the Fifth Action Program is based on the assumption that present-day pollution trends can only be reversed by means of a restructuring of consumption and behavior patterns and that this, in turn, requires the involvement of all societal groupings in a joint effort, requires a broader array of instruments. juridical (or legislative) instrument will remain an important element in the arsenal. However, a second important instrument are the so-called market oriented instruments. By means of these instruments, both producers and consumers can be moved or motivated to a sustainable use of natural resources by forcing them to calculate the external environmental costs in the prices of the product. In this way the market itself will ensure that environmentally-friendly goods and services will be better able to compete with those that cause a lot of pollution and waste. Examples of such instruments are: fiscal stimulation measures or charges; the environmental audit, the eco-label and risk liability for environmental damage.

A third type of instrument are the so-called "horizontal supporting instruments" such as statistical information and basic information regarding the condition of the environment; scientific research on the development of clean technologies; a better spatial and sectoral planning; and environmental education. Lastly, there is a number of financial instruments through which money is transferred from Community programs and funds (e.g., Regional Structural Funds; the new Cohesion Fund; the PHARE Program) in support of measures to improve environmental quality.

Underlying the policy strategy of the Fifth program is the assumption that the general objective of sustainable development, as well as the various specific objectives included in the program can only be achieved by means of a joint effort of all parties in the form of 'partnership' (Brinkhorst and Klatte, 1993:73). According to the subsidiarity principle, that has come to occupy a central place

in the political debate over the division of labor between the Community and the Member States, the Community is only supposed to come into action whenever and insofar as the objectives to be pursued cannot adequately be achieved by the Member States alone, and therefore, given the nature and scope of the problem, can better be realized by the Community. The Fifth Program, however, links the notion of subsidiarity with the idea of partnership -or, as it is often referred to, joint responsibility. According to Brinkhorst and Matte: "Partnership does not so much mean a choice of the most suitable level of action to the exclusion of other levels". Rather what is at issue is to find the most appropriate combination of different environmental instruments and 'actors' -within the boundaries set by the existing allocation of tasks and powers between the Community, the Member States, regional and local authorities (Brinkhorst and Klatte, 1993:74).

This principle of joint problem-solving is to be institutionalized along the following lines. Traditionally, EU environmental policy has been based on an approach relying heavily on legislation (a heavily 'top down' approach). The new strategy is based upon the "active participation of all social-economic partners in the joint search for solutions for environmental problems and the realization of sustainable development (Brinkhorst and Klatte, 1993:74). Crucial for the success of this approach is the level and quality of the dialogue between the different actors in the context of active partnership. For its part, the Commission intends to promote and structure such a dialogue by providing a number of formally institutionalized arenas or forums (Commission, 1992:82-83). One such body will channel contacts between the various social-economic and governmental partners by establishing a general advisory body on environmental issues. This Advisory Council is supposed to function as a platform for consultation and information exchange on environmental matters between representatives of the diverse sectors and target groups from the Member States.

In addition, two other discussion groups or advisory bodies at EU level are intended to provide the framework for an effective dialogue of the kind envisaged as part of a strategy of shared responsibility or partnership: an Implementation Network and a Policy Review Group. The Implementation Network will be made up of representatives from the national and community authorities charged with the practical application of the Community environmental regulations. It is supposed to provide a vehicle for the exchange of practical experience in enforcing these programs at the national level. The Policy Review Group is made up of representatives from the Member States at the level of Director General, and is supposed to facilitate coordination between the national policies of the 12 members and the policy of the Community.

## **THE FIFTH ACTION PROGRAM AND REGULATORY CHANGE IN THE MEMBER STATES**

As we have already observed above, the strategic line laid out in the Fifth Action Plan builds on developments already underway in a number of Member States. In these countries too the nature of public intervention in the economy is undergoing significant change through which the regulatory relationship between government and economic actors is redefined. A brief look at what has been happening in this regard in some countries of Western Europe may throw a bit of light on the institutional challenge that East European countries are now facing in responding to both domestic and external demands for an environmentally sound path of economic development. Such an overview should also suggest the kinds of changes that must occur at the national level if a given country is to be able to participate in the policy dialogue between member states and the Community as well as to be in a position to implement the environmental strategy of the EU.

A good place to begin this overview is the following observation: Deregulation in Western European countries has not meant the abolition of, or even a fundamental alteration in the basic set of, regulatory constraints on economic activity through which the country's commitment to environmental quality has been defined. Nor has it brought about any significant changes in the mechanisms that hold the existing system of environmental regulation in place. The underlying regulatory impulse carrying these environmental policy measures remains operative and, therefore, continues to legitimate and give direction to regulatory intervention 'shaping' market behavior in an environmentally friendly manner (4).

For example, the deregulation program in the Netherlands has resulted in a restructuring of regulatory space by creating the preconditions for (a particular kind of) self-regulation (as an integral part of larger system of government 'regulation' of environmentally-relevant activities). What we see in this policy area is a redefinition of the traditional regulatory relationship between government and the economy to create something that could be called 'cooperative self-regulation'. This involves, on one hand, the freeing up of certain kinds of restraints so as to expose economic actors to the discipline of market; and on the other hand, 'creating' a market for environmental quality to which these actors can respond when making product and investment decisions.

Thus, in the last analysis, regulatory reform has been designed to provide increasing leeway for economic actors ('deregulation') in order to

improve their ability to respond to market signals and developments while at the same time ensuring that they will take responsibility for the development of pollution prevention strategies within the parameters set by the government's environmental policy objectives ('re-regulation'). Such a system of cooperative self-regulation not only provides economic actors with substantial leeway in deciding themselves how they will meet these quality objectives; it also guarantees them an active role in co-determining what the general policy goals will mean for particular industrial branches and, ultimately, the individual firms. Both policy making and more specific rule making become processes of joint decision making based on extensive consultation and bargaining between government and the affected target groups of governmental intervention.

In these countries, therefore, the renegotiations of the agreements governing the relations between government and economic actors has then resulted in the restructuring of regulatory space around a point of equilibrium between concern for environmental quality on the part of economic actors and improved economic competitiveness of firms as a result of increased responsiveness to market forces. Both in response to political pressures from voters and action groups -forces at work in the traditional political market- and as a result of direct consultation and bargaining between government and representatives of economic sector(s) a regulatory framework has been created that in turn generates the 'market' forces that are to be relied upon to discipline the decision calculations of individual economic actors.

In order to understand how government intervention has worked to create such a regulated market for environmental quality, the following points should be kept in mind. At the ideological or programmatic level deregulation has been carried out by the call to unshackle business from 'bureaucratic regulations' and free it to respond to market forces. To the extent that society wishes to promote certain collective environmental quality objectives, it should be left to the firms themselves to decide in what ways their activities can be brought into conformity with these objectives by allowing them to respond to the same kinds of market considerations that guide their decisions on investment and production. However, there is an important difference between deregulation in the area of economic regulation and deregulation with regard to social regulation. It is difficult to imagine what would it mean to determine environmental quality decisions on the basis of the free play of 'market forces'. The original problem giving rise to government intervention in the first place was -and remains- that the market alone can not deal adequately with the problem of the negative externalities of production which we experience as pollution. Consequently, there are no market forces to rely on or to return to, once regulations have been lifted, to promote the politically defined objectives of socially acceptable environmental conditions.

On the other hand, as we have seen, deregulation is less about leaving environmental quality at the mercy of free market forces and more about the relation between the instruments to be used in pursuing these objectives and the impact of these policy constraints on the ability of the affected firm to act efficiently in the market place. Government intervention in private decision making to correct shortcomings of the market is not to be abolished by deregulation. Public authority is still to be used to influence economic behavior in an environmentally 'friendly' direction. What is to be changed, within these continuing policy parameters, is the mix of instruments through which these behaviors are to be affected. Both by rationalizing the instrumentalities of direct regulation and by making greater use of economic incentives as well as by institutionalizing self-responsibility into the daily operations of the firm ('self-regulation'), more leeway is to be given to the firm to select its own response to the constraints of environmental regulation in making its firm-specific market calculations. By simultaneously retaining the objectives of environmental regulation and increasing the firm's ability to adapt to the market, it is assumed that the goals of economic development and a socially-efficient environmental protection can be achieved together.

All well and good, as long as we keep in mind that government regulation continues to be the basis on which the effectiveness of these alternative instruments of environmental policy depends. Consequently, if 'care of the environment' is to become 'good business' (practice), there will have to be some kind of 'market' (economic bottom-line) conditions or incentives to stimulate and carry this commitment. It would, clearly, be unrealistic to expect industrial managers to take actions that undermine or are at odds with the well-understood economic interests of their firm. Their commitment to environmental responsibility needs to be 'carried' by its consistency with market logic. At the same time, however, if the fundamental 'economic' cause of environmental pollution is the failure of the market (under 'normal conditions') to provide the signals that would force economic decision makers to internalize all the relevant costs of production/ consumption, then these 'signals' (prices) have to be introduced by government (external) action.

In this important sense, then, it is the regulatory activity of government (in response to politically articulated will of the community) that creates the 'market' situation in terms of which firms calculate the costs/benefits ratios of responses to economic incentives for environmentally sound behavior or to the attractiveness of governmental initiatives on pollution prevention. While industrial managers may indeed be moved by notions of moral responsibility and personal feelings regarding environmental quality, they will, in the last analysis, act on the basis of economic rationality. If pollution prevention is to

pay (i.e. be in the long term economic interest of firms in the broadest sense, not just in terms of 'short-term, immediate profit'), government policy must help structure the market so that it provides appropriate signals for calculating these pay-offs.

Cooperative self-regulation within such a regulated market for environmental quality has also led to the enlargement of the community of relevant actors involved both in negotiating the regulatory agreements and in the functioning of the markets these measures create. A number of actors in addition to national government participate in the translation of general objectives into operative goals and procedures. These include representatives from sub-national governmental authorities, the target groups themselves, and other interested groups in society. Once in place, the market creates both new opportunities and risks which, in turn, mobilize new and old actors. For example, legislation defining the legal liability of firms for environmental pollution affects the market for liability insurance. This then leads insurance companies to evaluate a particular company's risk, and thus the premium it must pay, in terms of the in-house capacity of the firm to manage its environmental affairs effectively. Likewise, the loan and investment policies of financial institutions, including banks and financial markets, can be geared to the perceived 'greenness' of the firm in question. And of course, government programs regarding product information and labelling reinforce the position of consumers 'demanding' environmentally friendly products. In this way, then, private market actors perform important functions within the overall system of public regulation.

These, then, are some of the ways in which government policy creates the foundation on which this particular social market economy is based and also generates the incentives (both positive and negative) which ensure that economic actors will remain sensitive to the market forces so created. This combination of market incentives and regulatory constraints provides the material basis for a system of self-regulation that is not just a question of good will and admirable intentions. Co-operative self-regulation requires the discipline of both a publicly-structured market and the ultimate threat of the regulatory stick to keep things honest.

## **CONCLUSION: THE INSTITUTIONAL INFRASTRUCTURE OF EFFECTIVE ENVIRONMENTAL POLICY**

The emerging strategy of environmental regulation in Western Europe and the EU is part of the process of redefining the relations between society and its governmental authorities and the working out of a new division of labor

and pattern of collaboration between them. Students of alternative regulatory schemes for promoting new environmental protection strategies stress that efforts to prevent pollution will need to become a joint responsibility -in an important sense, a co-produced result. The character of the regulatory relation between business and government will need to shift from confrontation to collaboration. At the heart of their vision is the belief that socially responsible self-interest can be mobilized in support of long-term adjustments towards pollution prevention. Supporting this faith is the already visible growing awareness on the part of some large corporations that continued corporate existence depends on the environmental performance of the firms and enterprise and the continued support of public and government.

This paper has attempted to make two general points, intended to qualify the enthusiasm for privatization and deregulation as the primary tools for transforming Central European economic systems into functioning market economies. First, we have argued that all market economies are in a fundamental sense regulated economies. Consequently, Central and East European countries do not really have the choice of a completely deregulated and privatized market economy. The transformation of their economies will also require that they confront the need to integrate economic development and environmental quality. They, too, will be forced to 'regulate' their market economy on the basis of some kind of commitment -enforced or freely chosen- to sustainable development through the ecological modernization of the economy. In this important sense, then, is not a question of regulation or no regulation but rather one of finding the appropriate kinds of governmental interventions -intended to shape and steer economic activity in socially desirable (as defined through the political process) ways. This will mean that traditional forms of direct intervention will be replaced or supplemented by various modes of more indirect guidance. And this in turn means replacing the 'hard' instruments of direct regulation with the 'soft' intervention modes of indirect and self-regulation. In any case it is important to keep in mind the need for various governmental initiatives -jointly conceived with target groups- to stimulate and encourage, but also to 'keep socially honest' the market-oriented decision making of economic actors.

Given the external and, in the long run, internal (domestic) pressure for sustainable development, the socially regulated market economy will have as one important limiting factor (upon the 'free play of market forces') the commitment to strategy of ecological modernization as a central element of its policy for environmental quality. In Western countries, this commitment has involved a reordering of regulatory space in a search for a balance between market forces and government regulation of a new type. By creating the kind of a regulated market described above, the objectives of sustainable development

are to be achieved by introducing considerations of environmental quality and care as parameters for the decisions of economic actors.

Secondly, a market is not just the sum total of 'freely' deciding producers and equally autonomous consumers seeking the best bargain; markets of all kinds require the creation of a variety of institutions to carry the activities. The transformation of an economic system requires, therefore, not only the regulatory underpinnings supplied by governmental policy; it also means that the necessary organizational infra-structure must be provided, by either establishing new institutions or adapting old ones to the various functions that must be performed if a market is to operate efficiently. It is clear, for example, that if a central element of cooperative self-regulation involves consultation and bargaining between government and target groups, then there must be intermediary organization to represent those segments of society. A strategy of ecological modernization based on cooperative self-regulation requires a wide range of organizational actors, within both government and society. In this sense a regulated market for environmental quality also rests upon the associational life of society as a whole.

There are at least three levels of institutional adaptation to market economies which should be distinguished in this connection. First of all, and most prominent in discussions of these problems, there is the need to create the conditions for a new macro-system based on relatively free play of market forces; this is the main focus for deregulation and privatization measures. In the second place, at an intermediate or meso level, an associational infrastructure must be created, either by adapting existing social and economic organizations or by creating new ones to perform various functions required by a capitalist economy. This will include redefining the working relation between government and the different economic actors. And, thirdly, the development of such a market system will require adjustments on the part of managers of industrial firms since managing a firm in a market situation is different from performing the same tasks in a planned economy in which the disciplining effects of market exchanges are absent. The same holds true for government officials whose job it has been to 'regulate' this economic activity in one way or another. The nature of the regulatory role of the state, the instruments employed and the relationships between regulatory agencies and their target groups will need to be adapted to the requirements of the institutional context of the particular market economy. These kinds of adjustments in the role conceptions and management skills of both public and private actors are important preconditions for the transition to an effectively working market order.

What this all means is that the creation of a market economy committed to ecological modernization requires more than just the transfer of ownership of

assets to private hands and the discarding of regulations that restrict the decision making freedom of market-oriented actors. The challenge faced in economic change in Central Europe goes beyond the privatization and deregulation of what has been inherited. If all markets are organized or, in an important sense, publicly regulated, then the preconditions for the transition from centrally planned economies to some form of market economy also include the organizational underpinnings on which the effective functioning of such an economic system ultimately depends.

And this is perhaps the greatest challenge faced by the countries of Central Europe in transforming their economies: creating the institutional capacities required to put into place and to operate the kind of system of socially responsible self-regulation that is an integral part of a market for sustainable development. This new kind of regulatory capacity (in the service of preventive environmental policy) places especially great demands on the capabilities of sub-national governmental authorities. It will also require new habits of mind and management skills at the level of the individual firms. Moreover, both government and industry will need the assistance of a number of 'supporting' actors in redefining the appropriate relationships between the private and the public in the new economy.

An analysis of this transformation process focuses attention on the role that government must play in defining the regulatory structure of the new economic system. It also makes us aware of the way in which this restructuring of regulatory space also mobilizes a variety of actors and provides incentives to tie their material interests to the promotion of environmental quality objectives. But such an analysis also needs to examine the way in which the need continually to redress the balance between economic development and environmental protection generates a political process through which actors and interest compete in the political market place to define the conditions under which economic activity will be carried out.

## NOTES

This paper was originally presented at a conference on "The Transition of the Slovak Economy and the Environment" held in October 1993 in the High Tatras, Slovakia. A more extended treatment of the general argument of a "regulated market for environmental quality" can be found in "The Political Economy of Ecological Modernization. Creating a Regulated Market for Environmental Quality" which is to appear in M. Moran and T. Prosser, (eds.): *Privatisation and Regulatory Change*. Open University Press.

- (1) For a handy overview of the development of Community environmental policy, see Hildebrand (1992).
- (2) The following discussion of the concept of ecological modernization and the place it has come to occupy in the environmental policy strategy of the European Union draws, as the references indicate, heavily of the work of Albert Weale.
- (3) This general point is also made by Weale (1992:78-79).
- (4) For an overview of developments related to the "deregulation" of environmental policy in The Netherlands, see Hanf (1989).

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