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The effect of the financial crisis and global recession on environmental policy and implementation

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Abstract

This paper sets out a research agenda that examines the potential impacts on environmental policy and implementation caused by the global financial crisis and the resulting recession. This financial crisis provides a real world opportunity to test several aspects of ecopolitical theory for two reasons: the recession is the most severe since the 1930s depression; and, modern environmentalism has only been a political force since the 1960s.

In the literature three main schools of thought can be identified that link changes in environmental policy and changes in the economic or material circumstances of societies: post-materialism; consumer versus citizen preferences; and, ecological modernisation. An idea that seems prevalent in the mainstream media and in the public consciousness is that the economic growth imperative of liberal market economics will take precedence over environmental needs. But counter to this is the school of thought that posits that when societies reach a "developed" stage that they will progress to having post-materialist values, including environmentalism (Inglehart, 1971). The test of the global financial crisis will be whether people in developed societies lessen their post-material interests when they feel their material wellbeing is threatened.

Secondly, the paper looks at the idea that decisions people make when allocating their personal resources may conflict with decisions they make about what they feel is right for society. This indicates a non alignment between their consumer preferences and their citizen preferences (Sagoff, 1988). Measures to stimulate economies following the crisis include attempts to encourage consumer spending, investment in large infrastructural works, actions designed to provide employment and keep money flowing in the system. Such measures appear at first glance to support consumer preferences, but they may also influence citizen preferences as they may secure economic recovery and stability for the wider community. These extreme economic conditions provide the opportunity to test this theory.

The third school of thought concerns ecological modernisation, the restructuring of a state's political and economic systems along more environmentally sound lines (Dryzek, 2003). The strong link of both the crisis and environmental policy

with political and economic structures provides an important test of this theory. Most developed states have incorporated concern for the environment and action against negative environmental effects into their decision making processes, as have industries in their production processes. The test will be how strongly incorporated and supported these measures are and how they stand up to the current economic challenges. Optimistically, the crisis could provide the impetus for change and technological development towards low carbon economies. Less optimistically, it could result in a 'fixing' of the financial sector and world trade without major change in the current progression of ecological modernisation. At worst it could result in a sidelining of environmental issues while economic issues dominate.

Thus, this paper argues that the global financial crisis provides an opportunity to examine the veracity of three schools of thought - post-materialism, consumer pressure versus citizen preferences, and ecological modernisation.

Introduction

At a time of mounting concern about how effective and timely current environmental policy will be in solving global environmental issues like global warming, we have experienced a global financial crisis and a resulting recession that is the most severe since the 1930s depression. While it is easy to assume that environmental policy will be sidelined by the precedence of economic growth during recovery from the crisis, others (AEA 2009) believe the process of decoupling environmental stress from economic growth is sufficiently established at both the governmental level and in business that it won't be adversely affected. Yet some scholars are hopeful this may be an economic and political failure of such severity it challenges the structure of the modern state. They hope this could provide sufficient pressure for institutional and political change to result in the development of environmentally sound societies (Ayres 1998, 12). So the challenge, to states and liberal market economics, brings us to a potentially new stage in societal development. This study will provide necessary insight and understanding by examining the outcomes.

There has been speculation (Christie 2008; Tuxworth 2008) about how environmental concern would stand up to a severe recession and unfortunately we find ourselves in a position of being able to examine what happens. This study, by determining the effect the global financial crisis and recession has on environmental policy and implementation, provides a test of three schools of environmental theory: post-materialism; ecological modernisation, in either its weak or strong forms; and, consumer versus citizen preferences.

In this paper we will first outline the methodology proposed for examining how the crisis affects each of the theories. Then we put in context the relevant issues of the global financial crisis and environmental policy, focusing in particular on

climate change policy. This will be followed by a discussion of each of the three schools of thought and possible outcomes as a result of the crisis. Finally we will make some preliminary observations about developments to date.

Methodological approach of the project

It is proposed to use predominantly qualitative methods based on a comparative case study analysis for the project. Given the contemporary nature of much of the information to be collected for analysis, sources will include international, transnational, and national government policy documents, implementation reviews, economic reviews and various media sources. Interviews of a qualitative type are proposed with strategic players, including members of parliament, public service policy administrators, academics, and environmentalists.

While at this stage it is intended to collect data on environmental policies in general, there will be a specific focus on climate change policies to test outcomes. The crisis and recession have come at a time when most governments are acknowledging the threat of climate change and committing to measures aimed at halting and reducing greenhouse gas emissions. Many are developing policies that will help them meet international commitments, often in the form of emission trading schemes (ETS). It is of particular concern that the process of deciding what agreement will replace the Kyoto Protocol, which expires in 2012, has coincided with the financial crisis and recession. That the crisis has coincided with this crucial stage of climate change policy formulation is of immediate relevance to this study and the process is expected to be highly contested and scrutinised.

The project will use three case studies: a European state, Spain, and two Anglo-American countries, Australia and New Zealand. Spain is a federally organised state within the European Union. As a European state they have lagged on climate change policy implementation and have only recently begun to make serious attempts to address their environmental requirements as part of the EU (Tabara 2007, 162). They are also one of the European states most severely affected by the recession with unemployment at 18.7% (June 2009), expected to exceed 20% before 2010 on current trending (Trading Economics 2009). Australia is a true federal state which has been strongly influenced in environmental policy by its ally the USA, at least until the last federal elections in late 2007. Now there is a new centre left government that has been expected to bring Australia in line with environmental policy in most developed countries. True to their electoral word, one of the first acts of the new Labor Party government was to sign the Kyoto Protocol. New Zealand in contrast is a unitary state, and after 7 years of Labour Party government and what appeared to be relatively strong moves to tackle environmental issues, has a newly elected centre right government. This is expected to pull the country back to a stronger liberal market course. This contrast will help assess the effects of ideological political change against effects of the financial crisis and recession.

The global financial crisis, recession and environmental policy

Given the crisis in the financial sector and the severity of the current recession, the developed world appears to have reached a crossroad. One road carrying on in the current direction, with states trying to fix the problems and continue with business as usual. Another road runs in the direction of rebuilding with stronger institutions that deal with environmental problems, and a third leaving environmental problems lying on the road side. The world is presented with an opportunity to learn from its mistakes and one hopes this can be applied to making changes in society to take better care of the environment. Part of this process is testing existing social theories as is the case with this work.

Up until April 2008, when the current global recession is reported to have started (Eichengreen and O'Rourke 2009), environmental issues, especially global warming, were well established in state decision making and receiving growing attention at all levels of public life. International efforts were gaining momentum to control and reduce anthropogenic greenhouse gas emissions. The last two major developed countries to not have signed the Kyoto Protocol had undergone electoral changes that were supported by voters wanting stronger environmental action. The Liberal Party government of Australia fell to the social democrat party, Labor, in part due to support for Mr Rudd's stated intention to support Kyoto and other green measures (O'Brien 2007). In the United States the election of Mr Obama as President was also, in part, for his stated commitment to improving USA environmental performance and leadership (West 2009). International organisations such as the Intergovernmental Panel on Climate Change (IPCC) had received accolades for efforts in improving knowledge and helping processes aimed at reducing anthropogenic greenhouse gases (Nobel Prize 2007). The business world was making inroads into establishing sustainable practices and products. Many businesses and countries were moving to establish themselves as leaders in clean technologies, anticipating the advantages this would create for them in the future. People were playing their part in waste reduction and recycling, energy conservation and environmentally friendly product selection (Dryzek 2005, 190).

So although the actions seem painstaking, and dangerously slow, for preventing the consequences of global warming, there was some hope that the problems were going to be tackled in time to limit, and hopefully reduce greenhouse gas levels (Hare 2009, 29). Then onto this scene came what could possibly be termed one of the greatest threats to environment progress (Ban 2009), a core failure in the predominant economic system of the developed world. The sub-prime loan failure and failure of other dubious financial practices, especially in the USA, developed into a general crisis in global financial systems. Deregulation of domestic financial markets, the liberalisation of international capital flows, powerful computers and telecommunications, and rapid financial innovation, described in 1995 by Woodall (1995), have resulted in a massive global capital market. Woodall also described the risks to economic stability but said that the

enormous benefits to capital economies had proved a disincentive to increasing governmental control (Woodall 1995). Now the risk has been realised with a crisis in world financial systems. We have governments throughout the world, the same facing the need to address climate change and other environmental issues, thrust into a world of plummeting property prices, soaring unemployment, business failures and billion dollar payouts to shore up financial institutions as the financial crisis developed. The neo-liberal approach to governance and economic management has led to competition being the dominant driver of development from the state to the global level. The pressures from this global competition, especially when it was providing substantial benefits, have made control by states ever more difficult (Barry and Eckersley 2005, ix). Now governments have to balance pain for citizens with market correction of the problems.

The global recession caused by the financial crisis has been labelled the worst since the 1930s Great Depression and up until June 2009, it has been tracking the development of the Great Depression very closely in many respects (Wolf 2009). Reinhart and Rogoff (2009, 467-469) have provided interesting insight into what may lie ahead in their study of the aftermath of previous financial crises. They show an average duration of employment downturn of close to five years and declining house prices for an average of six years. They also make the significant distinction that since the Great Depression this is the first global recession, with all other recessions since World War II, individual or regional in nature. This distinction will compound liberal market recovery attempts that rely on increasing exports or foreign borrowing, as has been the case after previous financial crises (Reinhart and Rogoff 2009, 472).

With neo-liberal market economics the dominant driver of the economy in developed countries, a failure of this magnitude can be expected to have far reaching consequences. One consequence is commonly believed to be that environmental support and policy making will suffer when economic priorities are greater. This appears to be supported during the recession of the early 1990s when there was drop-off in environmental support for green parties in the USA (Schneider 1995) and it's still a concept that appears to be widely supported by the press and public. Businesses can be expected to cry for cost relief and financial stimulus to get economic growth back on track and will be vocal against any new environmental costs imposed on them (Bita 2009). Governments have long depended on support from the corporate world and one expects they will require very strong leadership to continue programmes for emission trading and green taxes at stated levels. In combination with pressure from industry sectors, governments accrue enormous debt from loss of income and the measures they use to stimulate their economies (Reinhart & Rogoff 2009, 471).

In this uncertain world of financial crisis, recession and climate change, this study proposes to test the three ecopolitical theories to examine how they stand up to this real world situation. In the next section each theory is discussed and examined for possible outcomes under these economic conditions.

Ecopolitical theory and economic circumstances

Ecopolitical theory is relatively new having only developed as a cohesive political school of thought and social theory since the 1960s. Consequently it is still contested in many areas. Mol and Spaargen, in their review of ecological modernisation, describe the maturation of environmental sociology and environmental social sciences in general, during the 1990s (2000, 17-18). They make a valuable point that one needs to consider the contemporary debates of these theories as well as appreciating their formative context. Strong empirical tests of many of these theories have been limited by the fact they are so new. Thus, the present crisis and recession provides an opportunity to test theories that relate to economic circumstances.

There are three key theories that theorise changes in economic circumstances and environmental action. Post-materialist and consumer versus citizen preference theories, concentrate on financial influences directly affecting individuals. The other theory, ecological modernisation, concerns change occurring at the state and industry level within industrialised countries. Each of these theories is discussed and their relevance to the crisis reviewed.

The post-materialism school of thought

In modern democratic states, public values and actions play an important part in public policy decision making. In relation to the effect of values on decision making, Inglehart (1971) developed a theory of intergenerational value change. This was demonstrated showing that a significant proportion of post-war children who grew up in relative peace and affluence, reject their parents' materialistic values relating to money and job security, in favour of issues related to quality of life. He termed this generation post-materialists (Inglehart 1971). Inglehart's measure of material and post-materialist values has been used extensively in value surveys, but is not without its critics. Inglehart has focused on socialisation and economic security within the family (Inglehart 1981, 881), seeing both of these as having value forming influence in early adulthood. Marks (1997, 52) includes three further influences that centre around "parental socialization, formative security within the family of origin, societal (or economic) formative security on reaching adulthood, education, and contemporary influences." These additional influences deal with some of the criticisms of Inglehart's original theory. But whatever the criticism, much of the work examining the influences on modern values can be related to financial circumstances. A good example is that as general affluence of states has grown widespread education has become available and affordable, something that was once the preserve of the aristocracy and rich.

This rise of affluence and education in developed countries is associated with value changes. Such value change is attributed with giving rise to new social movements, including the environmental movement, which became a new

political force in the second half of the 20th century (Brooks and Manza 1994, 542). Brooks points to the work of Inglehart and his collaborators as being one of the most influential accounts of the origin of this political change, also labelled the "New Politics".

Now we have an opportunity, presented by the recession, to test how strong post-materialist values are when faced with financial insecurity. Unemployment, consolidation of debt, de-leveraging of assets will reduce household spending ability. The increased pressure of having to find and keep employment in a contracting economy may distract many from post-materialist concerns and restrict the time available for pursuing them. Also while this study will only examine the effects over the years of the recession, it will also provide an opportunity in the future to test Inglehart's theory regarding value change in those that reach adulthood during this time of financial stress and unemployment.

This theory is strongly related to individual values and the influence these have on political decisions, while the next theory is related to action taken directly by states and industry to manage environmental impacts.

The ecological modernisation school of thought

Ecological modernisation in ecopolitical theory refers to a process of change in modern states where they continue with an economic growth strategy but make structural changes to account for, and reduce the undesirable environmental impacts caused by development. This has developed considerably as a theory since its conception, which was largely as a counter to the radical changes being called for by environmentalists in the seventies and eighties (Mol and Spaargen 2000). As the theory has developed there has been a "loosening of the core concept", but in the current use of the term four basic themes can be identified (Baker 2007, 299). Baker identifies these as:

1. environmental protection can occur alongside economic growth;
2. environmental policy needs to be integrated in all government policy;
3. new environmental policy instruments are needed; and,
4. it takes place through sector specific activity.

In the current political arena one can find most developed states, and many emerging states, talking the talk of ecological modernisation at the policy level. As Barry (2005, 310) puts it so aptly: "It has become embedded in the discourse of environmental policy elites and policy making". A key reason this change theory appeals to political elites and industry is that structural change to ownership, power structures, and worldviews are not required.

Of course the theory is not without its critics. Baker (2007, 298) makes an important observation that ecological modernisation must not be confused with sustainable development as the former doesn't deal with environmental limits or issues of redistribution or environmental justice. Baker's writing in general

supports a relatively positive role for ecological modernisation, but her distinction helps explain why the theory attracts strong suspicion and criticism. Barry (2005, 312) points out that ecological modernisation can be used as a way to deflect dissent and sideline radicals with the discourse being incorporated by policy elites as happened in the United Kingdom with the Blair Labour government. Christoff (1996, 477) saw the discourse being used by government and industry as an "increasingly sophisticated" political response to dealing with public reaction to environmental issues. Christoff was concerned about how loosely the term ecological modernisation was used by writers and the effect of different contexts so he proposed a continuum of weak and to strong forms as a means to clarify the degree durability and sustainability of the change.

The test for this research will be about how weak or strong a states' embrace and implementation of ecological modernisation actually is. Will environmental policies, sustainable business practices, and the development of new environmental technologies be sufficiently established in politics, institutions and businesses that the recession will not significantly change the use of, or the adoption rate of, these actions? It is a possibility that the pressure to reduce costs in business during the recession, to be better prepared than competitors post-recession, and the need for future climate change strategies, will support moves to stronger forms of ecological modernisation during the crisis period.

Working counter to implementing stronger forms of ecological modernisation is the extent that support for consumerism is established in societies. Consumerism drives most economic activity (Dryzek 2005). During the crisis, states may choose to continue with business as usual, trying to patch up the financial sectors' problems and trade their way out of recession. It would be expected that this will demonstrate how 'weak' or 'strong' the incorporation of ecological modernisation has been to date.

The consumer preferences versus citizen preferences school of thought

The concept that consumerism drives most economic activity arrives at the heart of the next ecopolitical theory related to economic circumstances. In liberal democracies the preferences of individuals are central to economic decision making. As these preferences are related to the market, such preferences have been labelled consumer preferences (Sagoff 1988). Sagoff differentiates between consumer preferences and citizen preferences, highlighting that decisions we make as self-interested individuals are not necessarily the same as those we make when we make choices for society in general. Many authors agree that individuals have a multiple preference ordering and that only focusing on consumer preferences will not always provide accurate information and that influences affecting values and preferences need to be accounted for in the design of surveys to support decision making. Sunstein (1991) in particular, feels preferences are endogenous and shifting, and points out that policy decisions can affect what preferences are evident. This puts us in a chicken before the

egg situation. If preferences can be shifted, then education and institutional structures can help develop new values and preferences. Dorff (2002) argues that this can be desirable when people don't appreciate the benefit of a change that will improve social welfare and they can be helped to shift their values. Of course Dorff emphasises that there are limits to this and that force and coercion cannot be tolerated. Therefore, while one can envisage this as appropriate for shifting values in favour of environmental protection, one could argue it is a process that has already occurred in educating people into consumerist lifestyles where market economies and their institutions have fostered and supported consumerism.

The idea that individual preferences are changeable is relevant to this research which will look at the effect the recession has on preferences. It is possible that people who now find themselves without employment, or with their small retail outlet struggling to reach the end of the month financially, won't express the same willingness to pay for a public good like the preservation of a wilderness area as they did prior to the recession. The financial crisis imposes sacrifices on people and it remains to be seen if they are prepared to pay more or less for the sake of environmental improvement.

This relationship between economic wellbeing and care for the environment has been expressed in another form, referred to as the Economic Kuznet's Curve (Barry 2005, 306-307). This inverted u-shaped curve is used to demonstrate that as a country concentrates on its development, the resulting environmental damage is of little concern. However, as the country reaches a certain level of wealth, environmental care can then be afforded and a decrease in the environmental damage associated with development is noted. While the simplicity of this concept is easily challenged (Roca 2003) it is associated with shifting preferences and relevant to this test of the effects of the financial crisis and recession. Roca, who links the Kuznet Curve to individual preferences, points out that the rich are more able to avoid undesirable environmental impacts and he examines the distributional social effects and displacement of environmental costs.

If individual preferences, especially consumer preferences begin to dominate, and people demonstrate they are less willing to pay for the cost of environmental protection, then governments will find it harder to make policies to protect the environment. This could be especially so for climate change policy where benefits may be difficult to appreciate because they centre around the prevention of change, with immediate costs for future benefits, and with it taking a long time for improvements to be measurable.

Preliminary observations of the crisis related to the chosen theories

These three key ecopolitical theories relating economic circumstances and environmental action have been discussed and possible outcomes related to the effects of the crisis and recession have been highlighted. The economic downturn will help assess the influence of material and post-material values, whether ecological modernisation has become sufficiently established as a policy approach and as a way of doing business, and how citizen preferences will stand the test of reduced incomes. With the world in general trying to deal with coordinated policies to control greenhouse gas emissions, the reaction of governments to this issue will provide valuable insight to the veracity of these theories.

While this paper presents a work in progress, the current global recession began back in April 2008. This timing provides an opportunity to make some initial observations in relation to the theories described and progress on environmental policy during this time. The obvious issue to examine for environmental policy is action to mitigate climate change. This is firmly on the global policy agenda, largely because the process of deciding a successor agreement to the Kyoto Protocol has been underway for several years already and a key meeting in this process is to take place in Copenhagen in December 2009 (UNFCCC 2009). This time will coincide with recession conditions and economic consequences continuing to prevail in many countries. As well as continuing unemployment and economic downturn, states will be facing substantial debts due mostly to loss of taxation income and spending measures used to stimulate their economies (Reinhart and Rogoff 2009; Bita 2009).

In signing the Kyoto Protocol, governments have signalled their acceptance of climate change as an issue that must be dealt with, and most developed countries are in the process of formulating targets and plans to meet greenhouse gas emission reductions. Of the proposed research project study countries, Spain, as a European Union member state is required to meet EU emission targets which have been labelled the most ambitious in the world (Harrison and Grajewski 2009). As a country that is in severe recession, it is also one of the EU states furthest away from achieving its emission targets (Tabara 2009, 162). In July this year the President had the highest citizens' disapproval rating of any EU leader for his handling of the financial crisis (Wilson 2009). Thus, Spain has a difficult balancing act to resolve the country's economic problems and meet international global warming commitments. Similarly, in both Australia and New Zealand governments are struggling to balance voter expectations and opposition to Emission Trading Schemes (ETS) from key industry sectors, notably energy and agriculture, respectively (Curran 2009, 213; Fallow 2009). To date both governments have agreed to delays or changes to planned legislation and implementation schedules to avoid affecting the competitiveness of industry sectors when recovery from recession is seen as so important in each country (Taylor 2009, Smellie 2009, 1).

Although delays in ETS and greenhouse gas reductions so far appear to be bowing to economic pressure, at this stage, there are signs that ecological modernisation may be established sufficiently to weather the recession. In May AEA conducted a business survey of world leading companies (AEA 2009) to gauge their reaction to climate change in times of crisis. The answers suggest that these businesses will keep up their ecological modernisation strategies, seeing advantages in retaining leadership status, competitive positioning and preparedness for the future. The G8 meeting of July 2009 was preceded by strong urging from influential sources to seize the opportunity to take strong moves towards carbon free economies. Amongst those urging this action were Achim Steiner, Director UNEP (UNEP 2009) and IUCN, with a new coalition of environmental, development, business and labour groups (IUCN 2009). Additionally, at this meeting the leaders agreed to surprisingly stringent cuts in greenhouse gases (Harvey, Dinmore and Parker 2009). This was a surprise, in part, because the G20 meeting in April 2009 had also been preceded by calls from high profile sources to use the opportunity "to use low-carbon growth as the key lever for economic recovery" (HSBC 2009), but that meeting all but ignored the opportunity to use stimulus packages to support green development (Draper 2009).

Both postmaterialism and consumer preferences versus citizen preferences are less easy to gauge responses to without specific empirical study. Certainly in Spain, spending has dropped dramatically, to the extent that deflation has been recorded for April, May and June of 2009 (Money Week 2009). With unofficial unemployment close to 20% and youth disproportionately affected, people are increasingly reserving spending for essentials. Spain is a relative newcomer to the modern consumerist lifestyle being a less developed country that achieved rapid economic growth through incorporation in the EU (Tabara 2006, 162). Values of the citizens may still be more materialist than those of other developed countries. Spain's generation that would exhibit postmaterialist values according to Inglehart's argument (Inglehart 1981), is only reaching adulthood now. In Spain, even into the 21st century, the environment has been regarded as a luxury good by both Spanish institutions and much of the population (Sauri and Moral 2001, 360). In both New Zealand and Australia citizens are more aware of, and give strong support to, environmental issues. This is also reflected in foreign policy decisions (Buhrs and Christoff 2006, 232).

The challenge for this research will be to gauge changes relevant to postmaterialist and consumer versus citizen preference theories. The anticipated years of high unemployment, increased competition in the workplace, depressed housing markets, and governments managing high debts will all create pressure on people to adapt lifestyles. How this will affect measures of postmaterialism and consumer versus citizen preferences will provide a valuable test of these theories. In a similar way, pressure for economic recovery and increasing global competitiveness will test how strongly ecological modernisation has been

incorporated in policy making and industry. This work hopes to contribute to the understanding of what does occur under such extreme conditions through testing the veracity of the theories described.

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