

Global Vision Perspective

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Against Europe's Green Leviathan

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Introduction

Of all the arguments invoked to justify augmenting the powers of the European Union, one of the most widely cited is that of the pressing need to tackle environmental problems and in particular those that transcend the boundaries of the nation state. According to a widely held view, it is only by surrendering an element of national sovereignty and by participating in a European-wide system of regulation that nations can ensure their protection from environmental harms *beyond* their individual control. This short paper puts forward an alternative vision for environmental policy that, while emphasising the positive role that the European Union can play, challenges the rationale for the centralisation and harmonisation of environmental policy at the European level.

The Case for EU Environmental Policy

The case for European-wide environmental policy draws much of its inspiration from the economic theory of collective goods, which recognises the potential for regulatory interventions to tackle instances of 'market failure'. The latter occurs when it is difficult to exclude actors from the benefits of assets such as clean air, clean water and scenic vistas even if they do not pay a contribution towards providing the goods concerned. Most people may opt to 'free-ride' on such goods - consuming the benefits without incurring the costs - and there may be an 'underproduction' of these goods unless the state intervenes through subsidies or regulation. This argument provides the basic rationale for environmental policy at *any* level, but it has been invoked to justify *European* level action on the grounds that many environmental problems *transcend* the boundaries of Member States. In the cases of acid rain, air pollution and the management of migratory fish, for example, action by any one state will not be sufficient to secure significant improvement unless all others affected can be prevented from 'free-riding' by a superior regulatory power.

The case for environmental regulation at the European level has gone hand in hand with wider arguments suggesting the need to harmonise the content of environmental regulation between states, alongside similar rules dealing with labour standards and health and safety, in order to avoid a so called 'race to the bottom'. According to this view, in the absence of common environmental standards those with more stringent anti-pollution regulations will be placed at a disadvantage in the competition for investment capital as businesses seek to relocate to those countries with the lowest social and environmental standards.

Against EU Environmental Policy

The economic theory of collective goods gets to the heart of many environmental problems but it provides little if any justification for the further

extension of EU powers. The first point to note in this regard is that most environmental problems can be dealt with on a localised basis. Very few environmental goods are completely indivisible in supply - most are territorial in nature and their supply can differ within countries, between regions and even much smaller localities. In principle, therefore, such goods are suited to a process of decentralised supply in which citizens can 'vote with their feet', choosing which particular jurisdictions to live in on the basis of the packages of environmental goods supplied. Issues such as land use planning, management of waterways and many aspects of air pollution control *do not need to be managed on the basis of common national standards, let alone European ones*. They are better dealt with by regional, local or even smaller jurisdictions which can adapt to a wide range of preferences for environmental quality and which can compete with one another to supply the relevant regulations in the most efficient manner. Far from requiring that powers are transferred *up* from the nation state, in the British context, effective response to environmental problems requires that powers are devolved *down* to local authorities and to private individuals and voluntary organisations.

The second major weakness in the case for EU environmental regulation arises from the assumption that, even when collective goods problems *do* transcend national boundaries, EU action is the only possible option. In fact, most trans-boundary environmental problems do not correspond with the geographical boundaries of the EU and would be better dealt with via a process of decentralised bargaining between the states directly affected. Problems such as the pollution of the Rhine, for example, affect at most a handful of central and northern European countries and could be managed effectively via treaties and agreements between the affected parties rather than being subject to European water quality directives. Far from internalising environmental costs, allowing states not directly affected (such as the Mediterranean countries in the case of the Rhine) to participate in designing the relevant rules is likely to externalise them.

Similar issues arise in the cases of fisheries management and agriculture where there is little reason to suppose that 'common' European policies are required. Effective management of North Sea fisheries may, for example, require treaties between north-west European states, but is of doubtful relevance to Greece or Italy. In the case of agriculture meanwhile, European-wide subsidies administered under the Common Agricultural Policy are widely held to have *created* environmental problems that previously did not exist (by subsidising intensive farming) or at worst, were problems that could more readily be dealt with through negotiations between one or two Member States. It is significant in this regard that some of the most innovative solutions to environmental problems worldwide have emanated from countries who *do not* find their independence of action constrained by membership of supranational governance structures. Iceland, New Zealand and Japan, for example, have pioneered moves towards a successful system of marketable quotas in fisheries. While these states benefit from a geographical isolation which is not evident

for most EU members, it is stretching credulity to maintain that fisheries in areas as distant and diverse as the Mediterranean and the Baltic should be covered by a Europe wide common fisheries policy.

Decentralised solutions to environmental problems do not, it must be emphasised, imply a race to the bottom scenario. Capital mobility provides a competitive dynamic which encourages governments to supply value for money in terms of the taxes and regulations levied in exchange for a given level of collective goods. Even where corporations pay environmental charges or face regulation in one country but face competition in international markets from firms operating where regulations are less onerous, there is no necessity for standards to be driven down. In this situation, the most polluting industries in countries with the highest environmental standards will need to offer lower wages or reductions in other benefits in order to stay in business - but this shift in the balance between economic gain and environmental protection is precisely the purpose of such regulation, i.e. to reflect the environmental price of additional growth *in the country concerned*. What open international markets enable is a diversity of regulatory practice, sensitive to different income levels and cultural preferences for growth, relative to environmental protection.

An Alternative Vision of EU Environmental Policy

The above criticisms notwithstanding, the institutions of the European Union do have a positive role to play in promoting better environmental outcomes, but it is a very different role from that with which they are currently engaged. By far the most positive role that the European Union can play is that of arbiter/referee in the cross-border environmental disputes, such as those over fisheries, that occur between Member States. If, as argued above, decentralised bargaining between individual states provides the key to solving a diversity of environmental problems then the Union is in a unique position to provide a forum for the negotiation process, in some cases requiring that recalcitrants come to the negotiating table and then enforcing the relevant bargains and deals.

Secondly, the Union should confine its direct powers of regulation over Member States to the handful of issues that cannot be dealt with adequately through a process of decentralised bargaining. Assuming for the sake of argument that climate change is an anthropogenic phenomenon, then there is a strong case for EU level action to formulate an appropriate policy response. While action by European nations alone is unlikely to have a significant impact on what is a global problem, it makes sense for member states to act through the auspices of the Union in order to reduce the negotiating costs of acting on the international stage. Insofar as the European Union is itself responsible for formulating a 'climate change strategy' it should be confined to the creation of

an appropriate system of carbon trading. Some moves have already been made in this direction, but the current arrangements for emission trading are highly imperfect. Future EU environmental action should focus on improving these arrangements - it should not, however, attempt to regulate the manner in which individual Member States choose to fulfil their obligations in this regard. Once an effective system of carbon trading is in place and a market price for emissions established, there is no further justification for the EU to concern itself with the internal environmental affairs of its members.

Notes on the author:

Mark Pennington is a senior Lecturer in Political Economy at Queen Mary College, University of London. His main research interests lie in the political economy of the regulatory state, with a particular emphasis on environmental policy and public sector reform. Much of his past work has been concerned with the potential role of market processes in improving environmental quality. To this end, he has completed two books examining the politics of land use regulation in the UK and the potential for market solutions. He also has broader interests in political economy, with a particular interest in public choice theory and the 'Austrian' school of economics. At present he is looking at the implications of 'spontaneous order theories' and Hayek's economics for theories of deliberative democracy and the 'politics of difference'. A synthesis of his recent work is reflected in his current book project: *Towards the Minimal State: Markets and the Future of Public Policy*. He has published in journals such as *Political Studies*, *Review of Austrian Economics*, *New Political Economy* and *Policy and Politics*. He is author of *Liberating the Land: The Case for Private Land Use Planning* (Institute of Economic Affairs, 2002).

Global Vision is a new campaign group backed by economists and business leaders that argues for a looser British relationship with the EU, based on free trade and mutually beneficial cooperation, whilst opting out of economic and political union. Global Vision believes that this is the right relationship for Britain in the 21st century's rapidly changing world. For more details on Global Vision please visit our website: www.global-vision.net.