



ANALYSIS

Institutional ecological economics

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Abstract

New institutional economics and its forerunners have, we argue made important contributions to the evolving agenda of ecological economics. The conceptualisation of environmental problems as instances of interdependence and the acknowledgement of positive transaction costs are key insights into the nature of environmental problems. We also discuss how plurality of behavioural motivations and limited cognitive capacity have important implications for environmental decision making and its analysis. We show how evolutionary and collective action theories offer complementary takes on the choice and change of environmental governance institutions and how the concept of social capital can enrich analyses of environmental governance. We conclude that an emerging institutional ecological economics has the greatest relative advantage in analysing the design, implementation and effectiveness of environmental governance solutions.

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1. Introduction

One of the major challenges of ecological economics has been how to understand and examine the design of environmental policies and governance

institutions. Institutional economics in all its guises has been an influential source of ideas for ecological economics. Ecological economics has turned to institutional economics for sophisticated models and understanding of human behaviour (Dodds, 1997; Söderbaum, 2000) and for explaining the role of institutions in collective action and environmental outcomes (Adger, 1999; Hodge and McNally, 2000; Randhir and Lee, 1996; Spash and Villena, 1999). Institutional economics has also been a source of alternative views regarding policy analysis and the

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normative basis of policy prescriptions (Hukkinen, 1998; Söderbaum, 2000; Bromley, 1998). While the influence of institutional economics has been profound, we believe that a comprehensive review of the conceptual foundations of institutional economics can provide new insights and important new directions for ecological economics.

Ironically, environment has not been a central concern for new institutional economics which has focussed on industrial organisation, public choice, and economic history. However, new institutional economics has informed a significant body of interdisciplinary research on local common property arrangements and international environmental conventions (Baland and Platteau, 1996; Berge and Stenseth, 1999; Bromley, 1992; Keohane and Ostrom, 1995; Ostrom, 1990; Ostrom et al., 1994, 2002; Young, 1994, 2002). This interdisciplinary body of research encompassing economics, political science, sociology, and anthropology has demonstrated under what circumstances environmental governance institutions are likely to be effective. It has also identified a number of design principles that characterise successful governance institutions.

We argue that this interdisciplinary body of new institutional literature offers a useful and widely applicable platform for research on environmental governance. By environmental governance we mean the management of all environmental resources, including conventional renewable and non-renewable natural resources such as forests, groundwater, and minerals; recently recognised environmental resources such as biodiversity, the ozone layer, and atmospheric sinks; and the quality of environmental media such as air and water. Environmental governance involves the establishment and enforcement of governance institutions for the resolution of environmental conflicts (Young, 1994, p. 15). Governance institutions range from informal to formal, and their scale varies from local to international (Adger et al., 2003). Environmental governance may entail the creation of new organisations such as environmental agencies to undertake governance activities or the delegation of authority to undertake governance activities to existing agents (Paavola, 2002a). Finally, governance is what governments do. Sometimes—as when resource users govern themselves under customary institutions—environmental governance does not involve the state. On the other hand, the state is intimately

involved even in the establishment and operation of the so-called new voluntary measures for environmental protection.

New institutional research on environmental governance has significant growth potential. It has traditionally examined local and international levels of governance and there is, as of yet, relatively little research on national environmental governance solutions. Moreover, interactions between the levels of governance have only recently been recognised as an important area for research and governance practice (see Young, 2002). For example, international agreements on desertification, deforestation, or climate change do not directly translate to national policy strategies. Ostrom et al. (1999) have in turn argued that local governance solutions are tied to and influenced by other levels and areas of governance and cannot be simply scaled or sealed up. We argue that ecological economics and institutional economics can together achieve important intellectual developments by combining their insights on issues such as interdependence, complexity, resilience, scale, governance, and institutional design.

The next section discusses the concept of interdependence as the foundation of new institutional approach to environmental issues. The third section investigates the implications of transaction costs for environmental governance and the fourth section shows how and with what implications plural behavioural goals and limited cognitive capacity can be crafted to the new institutional approach. We then compare evolutionary and volitional approaches to the change and choice of governance institutions and outline the role of social capital in environmental governance. Each of these areas, we argue, can contribute to “institutional ecological economics” as a synthesis of institutional economics and ecological economics.

2. From externality to interdependence

New institutional economics has evolved in part as a response to (and critique of) welfare economics and thus conventional environmental economics. Coase (1937) developed the concept of transaction costs—of foundational importance to new institutional economics—already in the 1930s when he tried to explain why

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