

Chapter 2


From Regulation to Transformation– Economic and Institutional Pathways of Environmental Policy

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ABSTRACT

The environmental policy has now become a strategy aimed at economic, financial and institutional change and not just another regulatory device. In this chapter, the authors discuss how environmental regulation, market-oriented instruments and co-ordinated policy frameworks redefine the structure of production, investment behavior, labour market, and governance structures. Treating the environmental policy as an endogenous factor, the analysis defines its impact on the dynamics of innovation, reallocation of capitals, and the structural economic change. Another crucial aspect highlighted in the chapter is the relevance of institutional quality and multi-level governance in the process of converting regulatory ambition into long term inclusive, and sustainable development outcomes.

DOI: 10.4018/979-8-3373-8998-1.ch002

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1. INTRODUCTION

Environmental policy has grown to become a much more inclusive regulatory tool within the confines of pollution control to a more pivotal tool in determining economic restructuring, financial practices and institutional transformation. Even though the traditionally viewed regulation as a constraint on economic activity, as recent experience has revealed, environmental actions may in fact influence the way innovation occurs, the direction of money flows, and the governance of an organization. This change is especially noticeable in circumstances of an increased risk of climate, accelerated technological change, and incremental financial integration. The originality of the chapter is that it views environmental policy as an explicit endogenous determinant of systemic change, and not an ameliorative or supportive policy domain. In contrast to current integrative policy models that tend to look at the economic, financial, or institutional aspects separately, this chapter constructs a coherent analyst perspective that follows the formation of regulatory ambition, market-related instruments, and quality of governance that have a united influence on long-term growth trends, financial stability, and social adjustments. Environmental policy is therefore seen not so much as a reaction to market failure, but also as a kind of strategic message that restructures expectations, incentives and coordination within the economic systems (Acemoglu et al., 2010). This chapter develops a unified system of policy design and structural results by incorporating the economic theory, sustainable finance, and institutional governance. It shows that environmental regulation can impact the productivity pattern, shift the flow of financial risks and investment and transform both labor markets due to innovation and skill distribution, but that depends crucially on institutional capacity and policy credibility. Through this, the chapter adds a consistent analytical spectacle to the interpretation of environmental policy as a transformational process of various economic settings.

1.1 From Compliance to Systemic Transformation

Environmental policy first developed as a corrective regulatory reaction to apparent environmental degradation, concerned mostly with emission limits, technology standards and compliance regulation. These initial frameworks were mostly reactive systems in nature that aimed to curb negative externalities without necessarily changing the economic systems. With time, the objectives of policies were broadened since the environmental issues became intricate and entangled with the other developmental objectives. Instruments like carbon pricing, trade permits and green subsidies that are market-based became an example of move towards incentive-based approaches and where firms should internalize the environmental costs whilst having freedom

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