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Preface

The theory of environmental governance as a means to develop capability

The world is at present facing two most dangerous crises: one affects the environment, the other the domains of finance and the economy. While the two crises are in many ways linked, each has it own peculiar causes, and if we are to take appropriate measures to deal with them, we need the most accurate analysis possible of what has brought them about. The environmental crisis has generated a far-reaching concern with problems that range from the issue of garbage to that of global warming, while the question of amenity, otherwise known as 'the quality of life', has become a matter of the greatest concern. To make matters worse and more difficult to deal with, this is humanity's first experience of manmade damage to the environment on a global scale and of the worldwide effect of the financial and economic crisis for which 'globalization of the market' seems to have been a major cause. The question that the two crises provokes and that this book attempts to answer is how to secure the environment's sustainability and its proper governance within the type of economic system that we shall need if humanity is to flourish.

During the first decade of the 21st century, people became increasingly aware that not only is the sustainability of both the environment and the economy at risk but that society, too, is in danger, and that many interrelated issues lie at the roots of this predicament. The environment is threatened with global warming, a rise in the price of natural resources and the problem of garbage. At the same time, society needs to create a system that will ensure its future security while reducing the disparity that exists between classes and turning the tide against the growing poverty that is the result of such inequalities.

The present writer is a Japanese economist, and since every writer has his own vantage point this book looks first (though not last) at the world through his experience of the economic situation and conditions in Japan. In Japan, we are becoming painfully aware, as the global economy has developed and as Japan's position has slipped, that not only Japan itself may go bankrupt but that the world's entire economic system may also collapse. All of this is why

we so urgently need to carry out a most careful analysis of the underlying causes of the current situation so that we can lay out a precise ground plan for the aims and measures of reform.

Our first priority is to focus on the people now living on the earth, and our aim must be to expand the scope of security from that of national security to the more binding conditions of "Human Security". To ensure security we must "develop the capability of human beings" (capability) so that people may live their lives in safety and "build strong institutions" (governance), the two motor forces that must work like the two wheels of one cart (Commission of Human Security, 2003: Chapter I).

This is the standpoint (as well as the vantage point) from which this book views the current problems and their solutions, and it sets itself the goal of adopting and discussing systematically "the theory of environmental governance as a means to develop capability", seeing this as the first principle of sustainability in environmental economics; but first of all we must explain our methodology.

The Theory of Environmental governance (the analysis of a system and its participants) is founded on the theory of institutional evolution and is itself derived from a methodology that focuses on creating social systems that regulate society's approaches to the environment. The capability approach, on the other hand, is founded on the concept of individual and focuses on the individual: it emphasizes the way of life, ability and flexibility of each individual (Shionoya, 2,004: 21). While the individualist approach and the supervisory or institutional approach come from different directions, they are both institutional theories, and this book adopts the stance that both approaches are necessary. In other words, as a social-scientific method by which to analyze the environmental problem, the capability approach and the theory of environmental governance need to be unified. While the capability approach, which is founded on the facts of human nature, focuses on the individual and on each individual's freedom, equality and fair treatment, the theory of environmental governance is concerned with society's capacity to construct, regulate and enforce systems to deal with the environmental problem.

Systems of environmental governance are able to operate when societies — which are composed of individuals, companies, communities and countries — reach agreement about the environment through negotiations such as the Kyoto Protocol against global warming, and collaborate to build criteria and systems for environmental regulations. They must have the power to mandate the regulations and see that they are carried out, just as a conductor is essential for directing a large orchestra composed of many different musicians playing

many different instruments. Yet without the individual skills of the musicians, the conductor's gestures are meaningless, and in such cases "the development of capability" amongst the players as well as "building strong institutions" among the governors are equally indispensable. This book focuses on that essential partnership. It is why it has been said that China, which is fast becoming the world's largest emitter of CO_2, must focus on "human development and social governance" (Hu Angang, 2007: Chapter 3).

Our guiding principles throughout this book will be the three principles of sustainability, capability and governance, but we need to note, before we move on, four '-isms': individualism, welfarism, consequentialism and utilitarianism. As a methodology, individualism explains social phenomena in terms of personal action and the relations that follow from it, and it is a typical feature of the methodology of neoclassical economics (microeconomics). The concept of welfarism focuses on the satisfaction that consumers derive from the consumption of goods and services, whereas consequentialism puts greater emphasis on results and less on processes, while the doctrine of utilitarianism seeks for "the greatest happiness for the greatest numbers", judging morality (right and wrong) by the maximization of human pleasure for the majority and the minimizing of pain.

Two extremely influential writers of our own time, John Rawls and Amartya Sen, have criticized these latter '-isms' from the standpoint of the theory of rights. Their criticism is directed against the argument that it cannot be helped if, in attending to overall welfare, minority rights are infringed, an argument that is deployed, say, when people complain of the noise of airports. They argue that neither methodological individualism nor utilitarianism pays genuine attention to individual rights and freedom, and that while methodological individualism may not in itself be a problem, utilitarianism is philosophically insupportable. As for an authoritarian methodology, which one might even be tempted to call totalitarian, we are now seeing for ourselves "the failure of socialism", "the failure of 'totalitarian' governments themselves" and "the limits of Keynesianism", and we see that their failure is a result of their philosophical positions, which are likely to lead them to feel only contempt for personal independence and freedom.

We need a theory of institutional evolution to study how institutions continually develop, how they function, why it is that they malfunction, what role government plays in the realm of public policy, the necessity for an approach that integrates the actions of governments and the principles of governance, what kinds of relationship ought to exist among participants, what kinds of relationships harmonize a personal sense of values with the norms and

institutions of particular societies, the differing values of particular ways of life, the workings of specific political measures, and a host of similar things.

Each chapter of this book picks up these themes and subjects them to analysis, all under the general theme of sustainability.

Chapter 1 is devoted to "The Problems and Methods of Environmental Economics". It reviews the current condition of the global environment and discusses an economic approach to environmental problems, while it also considers environmental problems in terms of environmental economics and looks at various earlier theories of the doctrine of sustainability. It also discusses such topics as the unification of the capabilities approach and the theory of environmental governance, as well as touching on such issues as efficiency and fairness.

Chapter 2, "The Mechanism of Modern Capitalism and Environmental Destruction", begins with an account of what is known as "substance metabolism", the process by which humankind and nature affect and are affected by each other, and it continues with an economic analysis of the growing problems of waste and the destruction of the environment by the ravishing of nature's resources, while examining the development of modern capitalism and its role in the destruction of nature. The problems of the global environment are put in perspective, while the environmental problems in the former socialist countries are also analyzed.

Chapter 3, "Environmental Economics and the Theory of Capabilities", reconsiders the social choice theory of Amartya Sen from the viewpoint of environmental economics, and sets out the virtues of Sen's capability approach. It considers the nature of environmental fairness, and examines the methods that are necessary to enhance the capability of each participant. The chapter takes the Minamata disease as a concrete example of how the capability approach may be used, and, by applying the theory of damage, indicates the effectiveness of such an approach.

Chapter 4, "The Theory of Environmental Governance", shows the need for a theory of environmental governance. It introduces institution and participant analysis as a methodology, and suggests how Japan's recycling society and the environmental policies of the EU may serve as models for the analytic framework of a sound environmental policy.

Chapter 5, "The Economic Evaluation of Environment and Environmental Costs" looks at the theory of social costs, the pigovian tax and the Coase theory with regard to the expense and expense burdens of participants who are faced with environmental problems. In addition, it discusses an economic method for evaluating the environment.

Chapter 6, "The Means of Environmental Policy", discusses, in both theoretical and concrete terms, the use of economic policies such as an environmental tax and emissions trading as policy instruments to link environmental governance to personal capability. It also examines such new environmental policies as the forging of voluntary agreements and the disclosure of information by corporations.

Chapter 7, "Regional Revival through Environmental Restoration", focuses on strategies to develop civic capability and environmental governance, taking as its Japanese examples the Minamata disease, the Itai-itai disease and the case of Yokkaichi air pollution, and suggests how environmental restoration may lead to regional revival.

Chapter 8, "Company, Technology, and Environmental Problem", is concerned with the relationship between environmental problems and corporate participants and analyzes the relations between company governance theory and the theory of Environmental Governance, Japanese environmental and corporate technology, the innovation of environmental reports and environmental accounting.

Chapter 9, "Global Warming Problems and Institutions" analyzes global warming problems from the standpoint of global governance. In the light of the fourth IPCC report, the Chapter overviews the accomplishment of the targets set out by the Kyoto Protocol by institutions as these are designed to be reached after 2013.

The Final Chapter, "An Integrated Solution to the Environmental and Economic Crises", sums up the various themes that have been discussed in the course of the book and offers concrete suggestions for ways that would lead to a sustainable economy that might solve both the ongoing environmental crisis and the current economic crisis.

This book questions the nature of the economy, and discusses the workings of an environmental economy under the heading of the 3 keywords "sustainability", "capability" and overall "governance", viewing the environment from an economic perspective.

This book has aimed to carry out five tasks:

① To introduce, both systematically and clearly, a broad overview of the *terminus ad quem* for the study of environmental economics.

② To emphasize a global and historical vantage point from which to view how theory actually corresponds to real conditions in Japan and the world.

③ To offer a critical survey of neoclassical economics and examine the limitations of its environmental economic theory.

④ To aim for a political economic analysis that takes in but is not limited to

Marxist economics.
⑤ To provide a glossary, a BOX and chronology for abecedarians.

This book is based on a lecture course in "environmental economics" given over the years for students at the graduate school of economics and business administration, the Department of Economics, as well as the school of public policy, Hokkaido University. During the course, students submit mini-reports of each lecture and after consultation the contents of the lectures are improved. It may be said that in this sense the book is the result of the lecturer's collaboration with the students, approximately 2000 in all, who have attended the lectures since their inception, and I should like to deeply thank those who have attended the lectures and contributed to their improvement. I should also like to express my heartfelt gratitude to the many colleagues who gave me their opinions of earlier drafts (Kazuhiro Ueta, Shunichi Teranishi, Eiji Hosoda, Toru Morotomi, Hiroki Nogami, Ken-ichi Togawa, Jin Sato, Yukari Takamura, Yasuko Kameyama, Hidenori Niizawa, Katsuhiko Kokubu, Tsuyoshi Mizuguchi, Masafumi Yokemoto, Masahito Fukami, Tatsuo Suwa).

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