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Financial incentives regarding the regulation of environmental issues

Abstract

Years ago, I bought a book titled *What Money Can't Buy* by Michael J. Sandel. Reading it made me do extra research into lots of areas, mentioned in the book. When you read news related to the Himalayas, you get to know whether the expedition attempt was successful, how many people were involved in the climbing expedition, what kind of equipment they used and how much time they spent on the mountain. But have you ever wondered what happens with the litter they left behind? Or have you ever heard about voluntary carbon offsets regarding your flights? The warning signs of the changes in our environment are really coming to the fore. A lot of these have been caused by pollution. What is the distinction between a fine and a fee when it comes to the regulations of it? How does pollution permit work in reality? I examine how these permits have changed and how putting a price on something that is harmful for the environment can cause a shift in the attitude of people. What is the moral attitude that is required for obtaining more results in environmental protection? I give a list of the small deeds by an average person that can make a change in our environment. Last, but not least, for companies what are the advantages of becoming carbon neutral?

The aim of the paper is to make us more aware of the ecological consequences of our personal decisions and present some ways to get involved in reducing our individual emissions.

Keywords: financial incentives, pollution permits, moral aspect, environmental awareness, social responsibility

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Introduction

This paper was inspired by a book, written by Michael J. Sandel (2012). The title of the book is *What Money Can't Buy: The Moral Limits of Markets*. In the book there are five chapters which are based on the similarity of some items that shouldn't be sold and bought.

The first chapter is about jumping the queue, which includes examples of fast tracks at airports or amusement parks, or how the line-standing business is growing, as no one has time to wait. Lobbyists in Washington especially take advantage of the latter. There have even been companies dedicated to providing stand-ins for congressional hearings since as early as 1985 (LineStanding.com). The title of the second chapter is Incentives, and it is mainly about financial stimuli regarding healthcare, procreation, hunting of endangered species and pollution permits. This latter gives the fundamental part of the paper and the ones connected to the environment are detailed later on.

The next part is the core of the book, where the author describes several instances of how markets crowd out morals. There is a controversy about how and where the goods of a market transaction get affected by, but in these cases it is obvious that something has changed during the market exchange. Think about awards or prizes. Obviously, there is a big difference between buying a trophy (even if it is an original one) or winning the award itself. In the latter case, money dissolves its value and you cannot actually buy these forms of recognitions, such as the Nobel Prize, Oscars or the Most Valuable Player of the American League. In other situations, arguments arise from the nature of the tradeable goods, such as kidneys or babies (Sandel 2012: 96). These controversial cases query the real freedom of the seller, for example.

The markets of the fourth chapter have a connection with the beginning and the end of life. Viaticals, life insurances, death pools are all connected to someone's death and are businesses that make billions every year. The real distinction between insurances and death pools is the social purpose. The aim of the former is to provide security to one's survivors after he is gone, whilst the other is pure gambling. Obviously, a bet in a death pool does not affect the death of the person and its goal is only entertainment, as is stated in an interview for Funeralwise blog by the runner of the biggest death pool webpage. Nevertheless, the taker's attitude towards death is still morally questionable.

The bigger part of the “Naming Rights” chapter, which is the last one, has a strong connection with sports. Just think about autographs that are up for sale or that a corporation can bid on a stadium name, which obviously will be named after the company, thereby provides huge publicity for the corporate sponsor (Sandel 2012: 169). In the last two decades, public places, subway stations, educational institutions, state parks signed some serious sponsorship deals. For example, in exchange for pickup trucks for the lifeguards of Orange County, Chevrolet had free beach for their photoshoots and could use the title of ‘Official Marine Safety Vehicle’ in their ads (Sandel 2012: 190). There were some cases when police cars or fire trucks were supplied, partly covered with the advertisement of the sponsor company. The questionable part of these deals is the imprinting they leave in us.

The reason why I introduced this book in so much detail, is to make the reader truly understand how, based on my reading experience, I tried to approach the following subjects:

- Objections of markets,
- Fines versus fees,
- Pollution permits,
- Carbon offsets.

What money should and should not buy?

According to Michael Sandel (2012: 110), there are two objections to consider when defining the tradable character of an item in a market transaction. The fairness objection takes account of inequality that might influence market choices. This argument suggests that not every market exchange is as voluntarily initiated as it seems from the aspect of the market. Can we really talk about voluntary acts, if the seller is forced to participate in the exchange by his circumstances? The objection of the fairness argument is not against marketizing goods, but it stresses the inequality between the two parts of the market exchange, which all together create unfair conditions (Sandel 2012: 113). The corruption objection arises from integrity and queries the norms and attitudes that market relations may damage. In keeping with this argument, there are certain civic and moral goods, which are diminished if bought and sold (Sandel 2012:

111). The argument of corruption really focuses on the character of the goods, and the norms that should be followed, rather than on fair bargaining conditions. To fully understand the distinction between these two, think of kidneys. Should they be bought and sold? Or consider blood donation. Can someone, who is in need of money, truly make a voluntary decision in a case like this? This is the fairness argument. The corruption argument of the case is the objectifying view of the human person and sees human beings as a collection of spare parts to be traded. As Sandel writes, the embodied values of markets can sometimes crowd out nonmarket values which would be worth caring about (Sandel 2012: 113). The predictability of results coming from applying financial incentives vary from case to case. In the early 1990s, there was a little village in Switzerland, which was a potential choice for being a new location for a nuclear waste site. Economists surveyed the residents of the village whether they would accept to be the chosen one for the waste storage site, if the parliament decided to build it there. A small majority, hardly more than 50 percent of voters, stated they would accept it, out of civic duty and despite the undesirable nature of the establishment. Then the economists repeated the survey, this time adding the possibility of compensation, to be more precise, offering an annual monetary payment to each resident. Contrary to the expected outcome the results showed that support decreased to 25 percent and stayed firm on this level, even after the increase of the promised monetary compensation (Sandel 2012: 114–115).

Another example of the unexpected outcome of the commercialization effect is a real-life anecdote. Dan Ariely, a behavioral economist, did a series of experiments about how paying someone to do something may diminish one's motivation, as opposed to asking them to do it for free, particularly activities with good intentions. A bunch of lawyers were asked by the American Association of Retired Persons (AARP) if they were willing to help needy retirees with legal services at a discount rate. The lawyers refused. Then the AARP asked them again if they were willing to provide legal advice for free. Once it was clear that the activity was a charitable request, the lawyers agreed (Sandel 2012: 121).

The common element in these two stories is that when the activities were not seen as market transactions, the participation of the parties was sure out of altruism or some other greater cause. The reason behind the rejection when considering the activities as

market transactions was that the offered prices were not counterpoising the necessary efforts or the taken risks.

The difference between fines and fees

The main factor that distinguishes between fines and fees is moral judgement. When we impose a fine on an activity, we indicate that the activity is wrong. Consider littering in the Himalayas, and not just the rubbish, but also the equipment left behind. For several climbers, leaving part of their equipment behind is crucial for their survival. By now, the amount of waste on the mountain requires more action, from both the government and the climbers. A new regulation demands each member of an expedition to bring back an extra 8kg of garbage, otherwise, they face legal action and lose the deposit of \$4000. (Mount Everest litter... 2014).

According to Sandel (2012: 65), the moral problem of using parking spaces reserved for the physically disabled is that the fine to be paid is considered as the cost of doing business. Treating the fine as an expensive parking fee misses the moral significance of not giving respect for the needs of the physically disabled.

In order to achieve results in changing our mindset and the way we treat our environment, it is truly important to emphasize the need for shared sacrifice and instrumental attitude toward nature.

Pollution permits

The global goal is to reduce greenhouse gases and carbon emissions. The first environmental laws were passed in the United States, in the early 1970s. The then existing regulations were backed by fines, and their aim was to force companies to pay for their pollution. There was a moral disapproval expressed in the process of fining.

A decade later, as markets had developed, the approach started to change. Emission quotas were not guaranteed to every factory, pollution was priced instead and the market was allowed to decide about the distribution. The easiest way to put a price on pollution was to levy a tax. In this case the payment is to be considered as a fee, rather than a fine. The size of the fee could have been restraining for companies, but this scheme was too complicated for political enactment, so policy makers applied emission trading.

Since the 1990s utility companies received licenses to pollute a certain amount and they could buy and sell these permits among themselves.

Based on the Kyoto Protocol on climate change, every country has to reduce their own greenhouse gas emissions, or they can pay to another country to cut down theirs. The moral problem with the global market in pollution permits is that rich countries can afford not to make reductions in their own energy use. What these countries are not considering is the fact that global warming is a cumulative harm. From the aspect of the sky the distribution of carbon emissions does not matter, as the damage will be caused regardless of the geographical location of the biggest emitters. But it matters politically and morally. Achievements are only available, if countries share the sacrifice of pollution restriction. For that, according to Sandel, we need a responsible environmental ethic (2012: 72–76).

Voluntary carbon offsets

The basic idea is to commodify the damage our energy use causes upon the planet. There are several companies, which are focusing on calculating and reducing emission and offer further options to achieve carbon neutrality, complemented with green marketing.

Basically, both BP Target Neutral and Carbon Footprint and Carbon Solutions follow the same steps in the process of creating a carbon neutral model for companies.

- *Quantify the emission*

As indicated in the article of Clark (2011), different offset companies can calculate different prices for the same action. The price depends on the estimating system that the company uses and on whether the offered neutralization projects also include other benefits for the receiver.

- *Reduce emission, replace*

At this step, the goal is to reduce the use of fossil fuels and to identify those parts of the processes that can be replaced by lower carbon alternatives.

- *Neutralize*

Offset the unavoidable carbon emissions via green energy projects, all over the world. Many of the projects are not only focusing on neutralizing the caused climate damage, but have additional benefits, such as education, clean drinking water, jobs, especially in developing countries. The portfolio of green projects includes forestation, clean water programs, wind farms, geothermal and hydro-electric power related establishments.

The risk of these initiatives is to excuse ourselves from taking any further action on preventing to cause or limiting the harm. As Sandel (2012) writes about carbon offsets, for some people this could be a way out of making fundamental changes in their lifestyle and attitude which would be desirable for long-term effects in nature.

It was a real pleasure to have first-hand experience with carbon offsets. First, I actually calculated my CO₂ emissions on the webpage of BP Target Neutral. Using the same destinations (Budapest-London) in the calculation, my flight cost to offset was £1,51.

When I bought four flight tickets to London recently, at the end of the booking process at Ryanair, the opportunity of carbon offset donation was automatically offered. Although I miss the transparency of the carbon offset scheme and projects on the page of the airline, from the viewpoint of a customer, this new feature is still acknowledged and appreciated. As indicated in Clark's article in *The Guardian* (2011), this (350 HUF = £0,9) was a very low price to pay for offset.

The two amounts are likely to differ due to the already mentioned reasons, which are the dissimilarity of the calculation methods, and the additional cost of the budgets of the optional green projects.

An extra detail to this topic is that the airport of Budapest is on the list of the first thirty carbon neutral airports in Europe. This is remarkable, as Budapest Airport is the first joiner from the region of Central and Eastern Europe. According to the Director of Budapest Airport, they are continuing their efforts towards greener energy as the passenger traffic is also constantly and rapidly increasing (Piac&Profit 2018).

What actions can be taken in favour of the environment?

These are the top ten, most frequently suggested actions, mentioned in *Forbes*, *The Guardian*, and on *Carbon Footprint*.

- Turning electrical equipment off when not in use.
- Take the public transport or share your car with others.
- At shopping, look for products with minimal packaging and use your own bag to carry them.
- Avoid buying bottled water, if possible.
- Buy local and seasonal, so energy is saved on transportation.
- Line dry your clothes.
- Reduce your consumption of meat, even one vegetarian day a month can make a significant difference to your emission.
- Clean safely, look for non-toxic cleaning products.
- Repair and reuse, before recycle.
- Offset your remaining or even just part of your carbon emissions.

In the light of changes ongoing in the world, it is quite remarkable that the World Wildlife Fund will publish its book about 12 deeds to save the world, later in 2018. I am really curious how many of their recommendations will match the items listed above.

Summary

The world is full of potential, inexpensive ways to reduce emissions. A simple deed, like changing the lightbulbs for low-energy types, can save, in a couple of years, the amount of the emission of a shorter flight (Clark 2011). The real answers to most of the questions raised in this paper should be found within our society. The norms we live by, as well as the purpose and the character of the product or service, should determine the terms of its tradability. Despite the transformation of markets we have to care about the fields where nonmarket values should be determinant. To achieve more in favor of our world, we need a new environmental ethic, focusing on shared sacrifice and eco-friendliness.

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The integration of environmental, social and governance issues in mergers and acquisitions transactions trade buyers survey results. December 2012 prepared by pwc with support from pri. About the authors. The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration for their implementation; fostering good governance, integrity and accountability; and addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation. Section 2 introduces current environmental issues facing Singapore. Section 3 gives an outline of Singapore's environmental policies, legislation, and the structure of governmental organizations for environmental administration. Section 7 provides information on noise and soil contamination control measures, and the regulation on Legionella bacteria in circulating water of cooling towers. The Environmental Pollution Control Act (implemented in 1999 and last amended in 2000) is the basis for the environmental policy of Singapore. Appendix 1 carries its full text. Appendices 2 through 5 contain necessary portions of four pieces of environmental legislation deeply relevant to Japanese companies operating in Singapore. Regarding environmental risks, the health and safety record of BP in the run-up to the Gulf of Mexico oil spill in 2010 was worse than that of its peer group. When this fact was brought to the fore after BP's share price had fallen, it reinforced the need to analyze ESG performance indicators. There are structural reasons and practices that cause short-termism in financial markets, most notably, financial incentives and culture. Interestingly, "regulation requires it" was selected by only 7% of respondents, supporting the view that the consideration of ESG issues in investing is not led by regulation (see Table 2). Complementing traditional financial analysis with a consideration of ESG issues faces the challenge of the changing relative importance of these issues over time.