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## Institutional change for creating capacity and capability for sustainable development: A club good perspective

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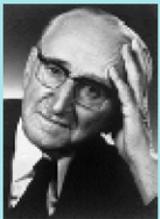
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# Ordnungspolitische Diskurse

## Discourses in Social Market Economy



**Joost Platje**

**Institutional Change for Creating  
Capacity and Capability for  
Sustainable Development – a  
club good perspective**

**Diskurs 2011 – 6**

**Joost Platje**

## **Institutional Change for Creating Capacity and Capability for Sustainable Development – a club good perspective**

### **Abstract**

Although the socio-economic development of many nations during the last two centuries has been very impressive, there are many issues questioning the sustainability of this development. Questions have been raised whether increased consumption will lead to increased happiness, or whether people will become more dependent on growth (Galbraith, 1958). While the so-called consumption society may lead to questionable results for social welfare, the increased use of natural resource and problems of waste, pollution, lack of regeneration of renewable resources and too slow progress in finding substitutes for non-renewable resources pose increasing threats for environmental sustainability (Boulding, 1966; Rao, 2000). These issues are slowly being recognized. The focus in this article is on the need for institutional change for entering a path of more sustainable (or, less unsustainable) development in the context of the seemingly infinite need for increased production and welfare. Arguments will be provided that the New Institutional Economics (NIE) may be useful in creating a theory of institutional change, strengthening society's capacity and capability for sustainable development (SD). However, without changing paradigms (worldviews) that growth is necessary and, in combination with technological advance, a mean to solve social and environmental problems, there are incredible challenges in entering a path of SD. First, some conditions for NIE to become a theory on society's capacity and capability for SD will be discussed in the context of its current focus on economic and environmental issues. Then, the notion of institutional capital will be developed and some of its determinant presented (value in the public domain, institutional strength, good governance, an institutional equilibrium). The level of transaction costs and assignment of property rights seem to be crucial for the process of institutional change. Finally, it will be argued that with the current techno-centric paradigm, when technological advance is too slow, there exists a danger that SD will become, at most, a kind of club good.

### **Keywords:**

institutional change, institutional capital, institutional economics, sustainable development, club good

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## **Institutional Change for Creating Capacity and Capability for Sustainable Development – a club good perspective**

### **Introduction**

Although the socio-economic development of many nations during the last two centuries has been very impressive, there are many issues questioning the sustainability of this development. Questions have been raised whether increased consumption will lead to increased happiness, or whether people will become more dependent on growth (Galbraith, 1958). While the so-called consumption society may lead to questionable results for social welfare, the increased use of natural resource and problems of waste, pollution, lack of regeneration of renewable resources and too slow progress in finding substitutes for non-renewable resources pose increasing threats for environmental sustainability (Boulding, 1966; Rao, 2000). These issues are slowly being recognized. However, there still seems to be emphasis on the importance of fundamentals of economic growth, while the limits to growth (Meadows et al., 1972) are hardly questioned. Even when these limits to growth are recognized, the techno-centric paradigm seems to prevail (Gladwin et al., 1995). This paradigm, putting it simply, assumes that people seem to believe that economic growth and technological development will solve environmental and social problems. At such a moment, focus remains on growth, while neglecting the type of growth and the necessity for improving different aspects of the quality of life. Aristotle (1995 (330BC)) already argued that possessing material goods is more likely to be considered the fundament of a good life. Spiritual development, while possibly significantly contributing to the quality of life and reducing resource intensity of production, is likely to remain the domain of a limited group. It may be that spiritual development is a kind of luxury good, which may be appreciated when basic needs are fulfilled (compare Maslov, 1943). In such a situation, the paradox may appear that investment in and effort for reducing resource intensity of production are determined by the level of production, and becomes more important when environmental problems and overuse of natural resources become more visible.

The focus in this article is on the need for institutional change for entering a path of more sustainable (or, less unsustainable) development in the context of the seemingly infinite need for increased production and welfare. Arguments will be provided that the New Institutional Economics (NIE) may be useful in creating a theory of institutional change, strengthening society's capacity and capability for sustainable development (SD). However, without changing paradigms (worldviews) that growth is necessary and, in combination with technological advance, a mean to solve social and environmental problems, there are incredible challenges in entering a path of SD. First, some conditions for NIE to become a theory on society's capacity and capability for SD will be discussed in the context of its current focus on economic and environmental issues. Then, the notion of institutional capital will be developed and some of its determinant presented (value in the public domain, institutional strength, good governance, an institutional equilibrium). The level of transaction costs and assignment of property rights seem to be crucial for the process of institutional change. Finally, it will be argued that with the current techno-centric paradigm, when technological advance is too slow, there exists a danger that SD will become, at most, a kind of club good.

## **2. NIE and the paradigm of growth**

It may be that the current paradigm or worldview in economic sciences is not fit for becoming a science supporting the aims of SD (Fiedor, 2006). Mainstream economics seems to focus on the importance of increase in production and creation of employment for increasing the quality of life. The paradigm that growth is good and necessary is hardly questioned. While NIE questions some basic assumptions of neo-classical economics, such as complete rationality<sup>1</sup> and the neutrality of institutions (Furubotn and Richter, 1997), the importance of growth (North, 1981, 1990) and efficiency in production and exchange (Williamson, 1985, 1998) remains unchallenged. It focuses on the importance of property rights (e.g., who owns and is responsible for what) for incentives for as well as the hampering influence of high transaction costs on economic activity (see Eggertsson, 1990; Furubotn and Richter, 1997). Little focus is on issues of sustainability of resource use, as well as issues of

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<sup>1</sup> NIE questions the rationality principle of Neo-Classical Economics by using the concept of bounded rationality (Simon, 1957). This concept means that people take rational decisions under the conditions of limited time and lack of and asymmetric information. As a consequence, outcomes of decisions may be sub-optimal from the theoretical point of view when possessing complete information, as assumed in Neo-Classical Economics. However, under the mentioned conditions, peoples' aims are still rational.

inequality and equity. However, a basis for including environmental external costs in an institutional theory of SD can be found in Ronald Coase's (1960) analysis of the importance of well-defined property rights and low transaction costs for internalizing negative externalities. The work of authors such as Sen (1999) and De Soto (2000) may be useful to include social issues in institutional analysis of SD.

While NIE focuses on the importance of transaction costs and property rights for economic activity, it seems that the so-called techno-centric paradigm, which can be found in mainstream economic theory (in particular neo-classical economics), is not really questioned. The techno-centric paradigm (Gladwin et al., 1995) assumes that economic growth and technological change solve problems of poverty and environmental pollution. Of course, it can be argued, following the Coase Theorem, that well assigned and enforced private property rights not only stimulate economic performance, but also makes the owners responsible for causing negative environmental externalities, while new technologies and more resources create opportunities for abatement of existing pollution and finding new energy resources when non-renewable ones are used up. However, very specific conditions should be fulfilled. While the right to pollute exists (e.g., tradable emission permits), this right should not exceed the absorption and carrying capacity of ecosystems. As will be discussed later on, the establishment of such rights, in case of too slow technological development, may negatively influence the opportunities for economic activity for those not having these rights.

Another issue is the so-called trickle-down effect<sup>2</sup> (see Todaro, 1997). It seems that distributional issues are not of main interest for many New Institutional Economists (but see, e.g., De Soto, 2000). One may get the impression that it is implicitly assumed that the trickle-down effect functions, implying that institutions do not matter for distributional issues, and economic growth leads to an increase in wealth and income for all citizens. The idea is that when income or production increases, the increased spending trickles down via a kind of multiplier effect to the poorer layers of society. However, a condition for this is possession of factors of production (physical capital, natural capital, human capital) in order to be able to earn. The non-

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<sup>2</sup> The trickle-down effect is supposed to function when "... *development* is purely an economic phenomenon in which rapid gains from the overall growth of *gross domestic product* and *income per capita* would automatically bring benefits (trickle down) to the masses in the form of jobs and other economic opportunities. The main preoccupation is therefore to get the growth job done while problems of *poverty*, unemployment, and *income distribution* are perceived to be of secondary importance (Todaro, 1997, 725)."

possessing excluded groups are not likely to gain. Also, when inequalities exist, they may become bigger when the poor receive a relatively small increase in income.

The argument that NIE does not really focus on social issues may sound a bit strange when considering the fact that Ronald Coase's famous article on the importance of property rights and transaction costs is entitled *The Problem of Social Cost* (Coase, 1960). However, while environmental externalities have negative impact on the quality of life of the victims, it still does not consider distributional issues. Establishment of property rights on environmental resources, which often have features of an open-access regime (non-excludability of and rivalry in use, like with air and water resources) may have serious distributional and incentive effects regarding production and income. In environmental economics it is argued that internalization of negative externalities would lead to a fall in output, implying that the market produces too much from a social point of view (see Begg et al., 1994). However, as environmental protection has not been taken into consideration in much economic analysis, and has not been of real importance in the political discourse until the second half of the twentieth century, it may be argued that many people assume polluting activities to be a right. At this moment, it is not economic activity that leads to environmental damage. It is the reduction of environmental damage that leads to economic costs! The social dimension of these issues requires more research.

Well-established property rights and low transaction costs are expressed by efficient institutions and institutional governance, stimulating economic activity (North, 1990). Institutional governance embraces organizational structures that are involved in management of the formal institutions. This includes governmental and non-governmental organisations, business and societal associations, etc., involved in information collection and processing, lowering the information costs in social and economic life. Another function of institutional governance is policy development and implementation, where in accordance with principles of good governance multiple stakeholders should be involved (Platje, 2011). Efficient institutional governance enables empowerment of weak stakeholders, and facilitates putting social and environmental issues on the policy agenda. By lowering barriers for participation in social and economic life, and producing (semi-) public goods such as health care, education, safety and access to information, it enhances human capabilities (Sen, 1999) and in turn social sustainability. It is an important instrument in supporting inter- and intra-generational equity.

When economic and social interactions increase (more transactions), it can be expected that existing formal institutions and structures of institutional governance are only able to deal with a limited amount of transactions efficiently (Pejovich, 1995). In the “traditional” NIE approach, this means that when economic activity increases, there may be more court cases due to disagreements on the effects of economic activity (e.g., negative externalities), requests for information, more complicated negotiations, etc. Increasing and changing human activity requires a change in social order and organization, in order to prevent stagnation. The issue is that even when a society develops in a sustainable way, a kind of management mechanism expressed by institutional governance and embedded in formal and informal institutions is required to remain on such a developmental path.

### **3. Institutional capital**

In NIE, institutions are defined as the formal and informal rules of the game, providing incentives for economic activity (North, 1990). Formal rules can, in principle, be written down in laws, documents, contracts, etc., and be enforced in court. Informal institutions embrace rules determined by culture, mental models, values, norms of behaviour, etc. In the context of SD, the focus should be shifted from economic performance to economic, social and environmental sustainability and the conditions for achieving a good life for current and future generations. The existing institutional framework and functioning of institutional governance is an asset, a kind of capital, which aim should be the “production” of individuals’ and society’s capacity and capability to enter or remain on a path of SD. Institutional capital creates the capacity for institutional and organisational innovation and change.

The capacity and capability to develop sustainably can be considered from the individual and system point of view. From the individual point of view, people should have capabilities to live a life that satisfies them (Sen, 1999). This implies empowerment and expanding individual political and democratic freedoms, as well as availability of economic resources needed to fulfil individual life plans. While this introduces the social element in NIE, environmental sustainability and protection of ecosystems not only influence the quality of life of current generations, but also preserve developmental opportunities for future generations (Jepma and Munashinge, 1998). From the system point of view, a high level of institutional capital

means that social, economic and political systems are efficient, resilient and adaptively efficient.

Following North's (1990) definition of institutions, a distinction is made between formal and informal institutional capital. Formal institutional capital embraces value in the public domain, institutional strength, good governance and objective science. Informal institutional capital is determined by an institutional equilibrium. Below, the public domain, institutional strength, good governance and an institutional equilibrium are shortly discussed.

### ***The Public domain and the Coase Theorem***

The notion of the public domain (Barzel, 1989) is related to the so-called Coase Theorem, which was developed based on Ronald Coase's (1960) article on *The problem of Social Cost*. The idea is that when property rights are perfectly defined, transaction costs of collecting information, negotiation, monitoring and enforcement are zero while there is freedom of contract, markets will find optimal solutions for negative environmental externalities. The essence of the Theorem is that in reality none of these conditions is fulfilled. The existence of transaction costs may makes it difficult to exactly define property rights. Technological advance has as a consequence that goods and services become more complex. This, in turn, increases the transaction costs of measuring all their characteristics (Barzel, 1982). Furthermore, negotiation costs as well as monitoring and enforcement costs may be high, making characteristics of a good available to others, i.e., there is value in the public domain creating possibilities for opportunistic behaviour. Opportunistic behaviour concerns individuals or groups trying to increase their wealth at the expense of others or the environment. A large forest may be privately or state owned. However, in practice it may be too expensive to monitor, creating opportunities for people to obtain wood for heating and other resources without being allowed to by the owner. Furthermore, use of goods may be limited by law (e.g., environmental regulations, speed limits, regulations for construction), while environmental protection reduces the alienability of natural resources and in turn contractual freedom. While an inalienability rule may be needed to leave environmental resources for future generations, it negatively influences current economic activity (Bromley, 1989, 1991). High transaction costs may also be a reason for reduced freedom of contract. When

negotiation and enforcement costs are high due to, for example, inefficient public administration, in reality people cannot make full use of their property rights.

Generally speaking, the larger the value in the public domain, the less likely it is development will be sustainable. As incentives for opportunistic behaviour become stronger, people are more likely to focus on redistributive struggle, and less on productive activity (Platje, 2004, 30). This negatively influences economic activity, social cohesion and natural resource management. On the one hand, less economic activity leads to lower use of environmental resources. On the other hand, when institutional governance functions poorly due to high transaction costs, while property rights do not exist or are not enforced, strong economic interest groups may force through environmentally-unsound investments. Furthermore, knowledge and education may be used for unsustainable activities exploiting labour and natural resources. Generally speaking, the larger the value in the public domain, the less institutional capital exists, and the less likely it is a path of SD will be entered.

### ***Institutional strength***

Institutional strength focuses on incentives provided by the institutional environment, in particular property rights regimes, for human activity in accordance with principles of SD. A condition for institutions to be strong is low value in the public domain. When it is known who has the right to what, this person or group can also be held responsible for his / her / their behaviour. However, well-defined and enforced property rights do not automatically lead to SD. For example, when the right of alienation on the environment exists, this includes the right of destruction. This may at most lead to a situation of weak sustainability, assumed that substitutes can be found for the disappearing environmental resources (Borys, 2005). When property rights on physical and natural resources accumulate in the hands of the few, the system may be strong, but not sustainable from the social point of view. A system may be strong while human liberties do not exist, people do not have the right on their own labour (e.g., slavery), etc. Thus, an equitable distribution of property rights on natural and physical resources, as well as civil and political liberties, are a condition for strong institutions to support SD.

When property rights are well-delineated, a question is what effect different types of property rights regimes have on SD. The discussion here is based on Jepma and Munashinge (1998), Ostrom et al. (1993) and Cornes and Sandler (1996). Regarding

the economic elements of SD, it has been argued that private property provides the strongest incentives for efficiency and growth (Furubotn and Richter, 1997). However, conditions to be fulfilled are the existence of competition and a properly functioning institutional governance. Furthermore, private property and the willingness to possess more than other people may lead to ever-increasing production and consumption (Veblen, 1919) and increasing problems with pollution and access to natural resources. When property rights are unequally distributed, institutional governance is weak, and / or owners are difficult to identify, capabilities may be reduced for a large part of the population.

While common property may lead to lower economic output due to incentive effects, social cohesion may increase. When there is a large group of co-owners, the benefits of investment are distributed among these co-owners. As the direct private benefits decrease, this may provide disincentives for individuals to invest and innovate. However, as all have access to the fruits of the property right, capabilities are distributed more equitable. Public goods such as safety, knowledge, water protection, institutional governance as well as semi-public goods such as public education and health care have similar effects. Like with any type of property rights regime, institutional governance is crucial for its functioning, while empowering people and creating capabilities to function in social and economic life.

Regarding environmental protection, much depends on the transaction costs of internalizing externalities determined by the functioning of institutional governance. Furthermore, as mentioned, a question is whether crucial natural resources and ecosystem functions are alienable. Important is that use of renewable environmental resources is allowed up to the carrying capacity and capacity to renew, while the pace of use of non-renewable resources should not exceed the pace of development of substitutes. In case of local environmental resources, as Ostrom et al. (1993) argue, it may be that a common property regime is more effective in preventing overuse of local environmental resources, as all members of the community are directly involved, and no third party enforcement has to be used. This is contrary to popular belief inspired by Hardin's (1968) article on the *Tragedy of the Commons* that this type of property rights leads to overuse. However, Hardin rather discussed an open access regime, without a mechanism of managing the common resource (Bromley, 1989, 1991). The effectiveness of managing common property depends on the level of managerial transaction costs, which tend to increase with an increase in

the number of members of such a club. The costs of internal monitoring and enforcement mechanisms should be compared with the cost of use of formal institutional governance in case of private property.

It is the current generation that decides on the developmental opportunities for future generations. Independent of the type of property rights regime, general access to health care and education, as well as efficient institutional governance, creates capabilities for future generations by supporting the development of human capital and reducing the transaction costs of participating in social and economic life. Public and semi-public goods support inter-generational equity. When environmental resources are overused, a solution may be the creation of inalienability rules (strong sustainability) or support of technological advance (weak sustainability). While the intergenerational effect of private property depends much on the distribution of property rights between families and inheritance laws, local common property may also in this case lead to the inclusion of a larger group of people in sharing the fruits of development.

### ***Good governance***

For analysis of institutional change, good governance, determined by transaction costs of access of stakeholders to and the efficiency of institutional governance, may be the most important element of institutional capital. As mentioned, institutional governance is involved in the design, interpretation, interpretation and enforcement of formal rules of the game by politics, police, court, etc. Another important function is data collection on economic, social and environmental issues (land registers, environmental protection agencies, statistical bureaus, scientific units, non-governmental organisations, etc.) (Platje, 2011), bringing social and environmental issues on the policy agenda. Institutional governance, when functioning properly, embraces a mechanism for institutional change and transitions to SD, creating society's capacity and capability to developing sustainably. The efficiency of conducting its policy function is embedded in existing formal institutions as well as mental models and value systems. Good governance can be defined as participation (inclusion of different stakeholder interests), accountability, effectiveness and coherence (Commission ..., 2001, 10). It is strongly related to the EU subsidiarity principle (Ahlt and Szpunar, 2005), stating that policy should be developed at the level as close to the citizen as possible where this can be done most efficiently.

### ***Informal institutional capital - institutional equilibrium***

The last element of institutional capital is an institutional equilibrium, where formal institutions and institutional governance are supported by informal institutions (Furubotn and Richter, 1997, 23-4). Trust in and acceptance of the formal system lowers enforcement costs of existing formal rules, while trust in institutional governance may facilitate institutional change and reduces quarrel about reliability of information. However, it also may be that inefficient institutions and institutional governance, focussing on aims that are contrary to principles of SD, are supported, hampering institutional change. Trust in and acceptance of rules may also impede change when the current situation is considered to be satisfactory, or when the expected outcome of institutional change is highly uncertain (compare van de Mortel, 2000). While a lack of acceptance of the formal system may provide incentive for institutional change, it may also lead to a situation of high transaction costs and adverse incentives, contributing to unsustainable production and consumption activities.

### **3. Institutional change and sustainable development as a club good**

A club good approach has not been applied to the dynamic aspects of SD yet (but see Platje, 2011). Although being in contradiction with the intra- and intergenerational aspects of SD, a club good approach may be useful in order to analyse whether parts of the world can develop sustainably regarding the level of production, natural resource use and social equity, while effectively excluding other parts of the planet. The importance of a club good approach lies in the idea that people and countries are unlikely to resign from the aim of economic growth (e.g., Galbraith, 1958; Keijzers, 2003), while one question is whether technological development will be quick enough in order to find substitutes for non-renewable resources as well as renewable natural resources which are overused. If this is not the case, in order to guarantee continuing growth of production and consumption in one area, region or country, other areas need to be excluded from access to and use of the mentioned natural resources. A similar approach may be used to analyse the problem of social exclusion in highly developed countries (see Castells, 1996, 1998).

As a result of economic growth, population growth and technological development, efficient institutional governance is likely to undergo a kind of depreciation. Putting it simply, as it is only able to deal with a certain amount of transactions, the limited

capacity will lead to an increase in transaction costs with an increase in the number of transactions (Pejovich, 1995). Without institutional innovation, the system is likely to deteriorate, and the depreciation of institutional capital reduces society's capacity to enter a path of SD. Furthermore, a lack of institutional capital may lead to a perpetuation of the situation, or even worsening, due to lack of institutional innovation.

It may be that the possession of institutional capital and, in particular, access to institutional governance, is fundamental to (sustainable) development becoming a kind of club good. While a public good is featured by the impossibility of excluding people from use, and non-rivalry in use exists, a club good is characterized by non-rivalry or partial rivalry, while exclusion is possible (Buchanan, 1965; Cornes and Sandler, 1996). It can be argued that basic liberties such as freedom of speech, freedom of press, freedom of contract, competition and enforcement of contracts are characterised by non-rivalry in use and non-excludability. Institutions and institutional governance supporting the increase in human capabilities and stimulate system survival do not only have a public good character, but also may be featured by positive externalities. As a result, there exists a free-rider problem in institutional change. There is no group in society obtaining direct benefits when creating such institutions and institutional governance. Most public goods are featured by some rivalry in use, as is the case with highways which may congest. While the capacity of a highway or organization of institutional governance may determine the level of rivalry, as mentioned, such a good may also depreciate, reducing the quality and quantity of services as well as positive externalities for current and future generations (Cornes and Sandler, 1996). In case of limited capacity and increasing demand, access should be reduced. One way of achieving this, is the formation of a club.

It may be that different levels of institutional capital, i.e., society's capacity and capability to trigger off and direct institutional change, are a determinant of unequal development (compare Todaro, 1997). This inequality may become institutionalised in a process of institutional change for SD in higher developed countries with a higher level of institutional capital. If being possible at all, such a club is unlikely to be stable in the long-run. While it is difficult to create institutional capital due to problems with path dependency, interest groups with aims contradicting principles of SD, informational problems, etc. (see North, 1990; van de Mortel, 2000), it is difficult to maintain a high level of institutional capital due to the discussed problem of

depreciation in the face of fast technological and economic changes. Furthermore, developmental processes and environmental problems may be featured by uncertainty and non-linearity (Rao, 2000), making “investment” in institutional capital difficult.

Thus, economic and political integration of higher developed areas may increase developmental differences on a global level. This may be in particularly relevant in the current discourse on European integration. The idea will be explained by way of a simplified example. Suppose there are three countries having the following characteristics:

- Country A is highly developed, has a high level of institutional capital and innovates in its institutional structure.
- Country B and C are less developed, and have a low level of institutional capital.

Now suppose that country A and B integrate politically and economically, while C remains outside this club.

Country B may mimic country A, as good practice somewhere else provides incentives for institutional change (North, 1990). As country A may have an interest in institutional innovation in country B, e.g., supporting the development of a common market, this may give an extra impulse for change. Suppose science and education are supported. They lower the threat of introduction of inefficient institutions, as not only different interests are represented, but also decisions are made based on generally accessible reliable information.

The creation of efficient institutional governance strengthens processes of institutional change, and lowers the risk of institutional deterioration. Furthermore, science and education may support the understanding that people, although having different mental models, have more interests in common than they think, reducing the cost of institutional change (see Ruttan and Hayami, 1984, 205). However, country B may also copy “bad practice” from country A, while examples somewhere else may also lead to copying of an institutional framework by a powerful group in their own advantage (Castells, 1998).

While country C may still have incentives to mimic, it faces greater challenges, related to the mentioned factors hampering institutional change. A lower level of institutional capital is often featured by poorly delineated property rights, high

transaction costs of political change resulting from an inefficient or corrupt public administration, stronger influence of interest groups having goals leading to increased overuse of the environment, social inequalities, etc. In such a case, the lack of capacity for institutional change may lead to a perpetuation of unsustainable development paths.

However, it was argued that, in accordance with the techno-centric paradigm, there seems to be a lack of will to reduce production and consumption. Then, a fundamental question becomes whether natural resources can be renewed or substitutes can be found. When natural resources become scarcer, technological advance and transfer of environmentally sound production technology is too slow, while appetite for growth increases, there exists a threat of collapse of economic activity of high developed countries, or increase in conflicts about scarce natural resources. In this situation, development of production and consumption for one part of society or the world will be based on exclusion of other people, areas, regions or countries. A high level of institutional capital, innovative power as well as economic, military and political strength may be conditions to become a „member of the club.“ Strong stakeholders are often located in or connected with large urban administrative and financial centres with significant economic potential, and / or connected with criminal networks (see Castells, 1998).<sup>3</sup> A high level of institutional capital, accompanied by economic and military power, supports players from these areas to become powerful global stakeholders. It can be argued that due to the lack of global institutional governance in the process of proceeding globalisation there is large value in the public domain. As a consequence, strong stakeholders struggling to achieve their goals, such as multinational enterprises, the International Monetary Fund, the World Bank, the World Trade Organisation, financial networks, criminal networks, etc.), increase in salience.

While, as mentioned, it may be difficult to establish a club of sustainably developing countries or areas,<sup>4</sup> there exist opportunities for establishing management regimes

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<sup>3</sup> Economic power facilitates access to institutional governance and establishment of property rights (e.g., patents on biotechnology) (see Stiglitz, 2002, 2006).

<sup>4</sup> One reason for the instability of such a club may be the large number of interested and salient stakeholders, which easily may lead to overuse of resources, in particular when the transaction costs of un-allowed access or withdrawal are too high. Access to institutional governance is based on basic liberties embedded in democracy and law and regulations, from which people can be excluded by law or due to high transaction costs of access (e.g., bureaucracy), a lack of capabilities expressed by education and income, etc. While many basic liberties have features of a public good, their use is limited by the “carrying capacity” and existence of institutional governance. Even efficient institutional

for global commons and excluding people, groups, regions or countries from access and use. The aim of a club may be to create a situation of lack of rivalisation in use (i.e., a public good) for the members of the club. Thus, in case of energy resources, this may mean sustainable energy supply, where with the depletion of non-renewable resources such as oil and coal substitutes become available for the members of the group. The club should have such an amount of members that the carrying capacity is not exceeded, while being able to renew or find substitutes for resources. Exclusion may be achieved by law, force, establishment of a property rights regime (ownership, management and use rights), high transaction costs of access for non-members, etc.

#### **4. Concluding remarks**

In order to enter a path of SD, it may not be enough to create strong institutions in the form of well-established and enforced property rights. Efficient institutional governance, like other (semi-) public goods, may cause large positive externalities, supporting intra- and intergenerational equity. Formal institutional capital creates capacity for SD and the development of innovative solutions. However, a change in worldviews in science and society may be a condition for such institutional capital to develop. In economic science, the focus should be shifted from economic activity and efficiency to capabilities for achieving a good life and society's capacity to adapt and change in the face of the (new) challenges of SD. In society, a change in worldviews may be required, as otherwise development of efficient institutions and institutional governance for SD may be too difficult.

In the current process of globalization, there exists the danger of SD becoming, at most, a kind of club good. Looking at the huge differences in levels of development, there is no SD at the moment. As environmental resources are overused, a management system should be created to solve this problem. However, as levels of institutional capital differ between countries, it may be in particular strong players from the areas with a high level of institutional capital as well as economic and political power that determine their own development path and set the structures for global environmental management. It may be that access to efficient institutional governance will be limited for certain groups of countries, while, when being successfully, a management system for environmental resources, e.g., required for

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governance faces transaction costs of access and use, creating rivalry. Access to efficient institutional governance may become a privilege for certain elites.

food and energy production may lead to exclusion of large parts of the world population. Or, putting it differently, the currently existing inequalities may become institutionalized as a result of the aim of environmental sustainability. A solution for this is to support the creation of institutional capital in areas and countries with weak institutions.

However, this may be against the interest of the more developed areas, as it may lead to increased competition for scarce resources. When the aim remains (increased) growth, while eco-innovation proceeds too slowly, it is even unlikely that a club of sustainably developing areas or countries will persist, while problems with increasing scarcity and overuse will only intensify, with all its negative or even disastrous effects for future development.

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