

The Market in Sustainable Development Policy

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The aim of the article is to present and assess the role of the market and market mechanisms in devising a sustainable development policy. The idea of sustainable development was a reaction to market errors. International documents and declarations do not indicate the role of the market in sustainable development. The market is the environment of all activities shaping development. An appropriately shaped market and market mechanisms and instruments can foster the implementation of sustainable development. The general policy of sustainable development created by the state does not use market and its mechanisms. The appropriate place for them are three horizontal policies: economic, social and environmental. The article indicates actions for and limitations to their market orientation towards sustainable development. The application scope of market-based instruments under the policy is also a determinant of policy marketisation.

Keywords: market, sustainable development, state policy.

Rynek w polityce zrównoważonego rozwoju

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Celem artykułu jest przedstawienie i ocena miejsca rynku i mechanizmów rynkowych w tworzeniu polityki zrównoważonego rozwoju. Idea zrównoważonego rozwoju była reakcją na błędy rynku. Dokumenty i deklaracje międzynarodowe nie wskazują na rolę rynku w zrównoważonym rozwoju. Rynek jest środowiskiem wszystkich działań kształtujących rozwój. Odpowiednio ukształtowany rynek oraz mechanizmy i instrumenty rynkowe mogą sprzyjać wdrażaniu zrównoważonego rozwoju.

Tworzona przez państwo ogólna polityka zrównoważonego rozwoju nie wykorzystuje rynku i mechanizmów rynkowych. Właściwym dla nich miejscem są trzy polityki o charakterze horyzontalnym: gospodarcza, społeczna i ekologiczna. W artykule wskazano działania i ograniczenia dla ich rynkowej orientacji na rozwój zrównoważony. Wyznacznikiem urynkwienia polityki jest też zakres zastosowania w niej instrumentów rynkowych.

Słowa kluczowe: rynek, zrównoważony rozwój, polityka państwa.

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1. Introduction

The formulation and implementation of development policy should promote all activities and actions that are more socially and environmentally responsible. Such a policy should be systemic and synergistic, meaning that it should create incentives for sustainable development in every field in such a way that there is positive feedback among individual areas of economic and social activity.

Ethical factors or values based on other socially acceptable axiological foundations should play an increasingly important role in development. The establishment of such a policy cannot, however, begin with the expectation that people will become more aware and ethical. They should be provided with appropriate conditions. The realities of their actions should thus be transformed and shaped so that people take the attitudes required for the durability and cohesion of actions for sustainable development. To this effect, it is necessary to find a common ground between the various levels of sustainable development policy making, areas, sectors and spaces. Such a ground can be provided by a proper market and adequate market mechanisms and instruments.

The market is the basic form of regulating the activities of entities (Wrzosek, 2002, p. 17). The coordinating function of the market mechanism essentially involves the adaptation of entities to price information. This information concerns the scarcity of production factors and goods on the market. The classic market mechanism operates under conditions of perfect competition. However, the ideal competition model actually describes a hypothetical result of “perfection” after the game of dependencies between demand and supply is over, when the competitive sides have already achieved a balanced price that is prevailing on the market (Ingham, 2011, p. 24). The neoclassical perception of the market is criticised for this approach. For the outcome of entities’ activities, it is important how their decisions were influenced by conditions and constraints, not only the so-called income constraint though. The effects may be even more meaningful for other entities that do not participate in this market game. They will also affect future generations.

The market may be distorted in a variety of ways, leading to the development of a limited market mechanism. It is such a market situation where, in addition to interdependencies between market elements, there also emerge unilateral dependencies between supply, demand and prices, for example supply may have an impact on price changes and price changes do not have to affect changes in supply. A limited market mechanism occurs when prices do not react to changes in demand and/or supply and deviate from the classic relationships between price changes and changes in demand and supply (Wrzosek, 2002). However, if there are deficiencies and constraints that prevent the emergence of the market or hamper the

operations of actors on existing markets, then the state may undertake to create or improve markets.

The idea of sustainable development was a response to the weaknesses of and limitations to the market economy observed in theory and practice. A general objective of the sustainability concept is balanced economic, social and environmental development (European Economic and Social Committee, 2016).

The aim of the article is to present and assess the role of the market and market mechanisms in devising a sustainable development policy. This is done at various levels: international, a country as a whole and within horizontal policies corresponding to three basic components of the concept of sustainable development – economic, social and environmental policies. These issues are the subject of this article. Relationships between sustainable development and the market under sectoral or spatial approaches are the subject of many studies. This article therefore will not consider them separately. Its author assumes that the thematic volume of the journal will include papers discussing these topics in depth.

2. The Strategic Versus Market Dimension of Sustainable Development in Documents at the International Level

The goals of sustainable development were formulated in the final document (the 2030 Agenda for Sustainable Development) of the UN summit of 25–27 September 2015 (United Nations, 2015). Nonetheless, the seventeen objectives of the agenda do not contain direct references to the market. Yet, calls for sustainability of the market economy or for modification of markets to support sustainable development would be justified by the growing importance of economic globalisation and the failures of global markets in the face of crises (Peszko, 2012). The reason for the lack of “appreciation” for sustainability of the market economy at the global level is probably that sustainable development essentially implies endogenous development, namely one stimulated by internal factors (Fiedor & Kociszewski, 2010).

The idea of sustainable development determines the direction and manner of development of the European Union (EU). In June 2006, the European Council adopted the Renewed EU Sustainable Development Strategy addressed to the enlarged Community and taking into account a wider, global dimension of the challenges taken up (Council of the European Union, 2006). In line with the Renewed Strategy, sustained development means that *“the needs of the present generation should be met without compromising the ability of future generations to meet their own needs. It is an overarching objective of the European Union set out in the Treaty, governing all the Union’s policies and activities. It is about safeguarding the earth’s capacity to support life in all its diversity and is based on the principles of democracy, gender equality, solidarity, the rule of law and respect for fundamental rights,*

including freedom and equal opportunities for all. It aims at the continuous improvement of the quality of life and well-being on Earth for present and future generations. To that end it promotes a dynamic economy with full employment and a high level of education, health protection, social and territorial cohesion and environmental protection in a peaceful and secure world, respecting cultural diversity” (Council of the European Union, 2006, p. 2).

The Europe 2020 strategy is a long-term programme of the socio-economic development of the EU. It was presented in the Communication of the European Commission *EUROPE 2020 – A Strategy for smart, sustainable and inclusive growth* (European Commission, 2010) published on 3 March 2010. The document underlined the need for member states to work together to overcome the crisis and implement reforms to meet the challenges of globalisation, population ageing and the growing need for resource efficiency.

The strategy stipulates that *“sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe’s leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin economic, social and territorial cohesion”* (European Commission, 2010, p. 12). These intentions contain important references to the conditions created by the market – efficiency, competitiveness, competitive advantage.

In November 2016, the European Commission presented a strategic approach to the implementation of the 2030 Agenda for Sustainable Development, including sustainable development goals (European Commission, 2016). Among the key actions to implement the Agenda, the inclusion of sustainable development goals in a number of EU policies and initiatives, with sustainable development as an essential guiding principle for all its policies, was mentioned first and foremost: *“Existing and new policies should take into account the three pillars of sustainable development, i.e. social, environmental and economic concerns. The Commission will to this effect ensure that its policies are sustainability-assured through its better regulation tools”* (European Commission, 2016, p. 18). The document states that *“under the current Commission sustainable development is mainstreamed in key cross-cutting projects as well as in sectoral policies and initiatives”*. However, in the description of the Agenda objectives compared to ten priorities of the European Commission for 2015–2019, a reference to the market can only be found in *“Priority 4: A deeper and fairer internal market with a strengthened industrial base, in particular the Capital Markets Union, a new and forward*

looking approach to ensure sustainable finance is taken forward, linked to several SDGs” (European Commission, 2016, p. 10).

In the creation of both global and EU vision of sustainable development, the exploitation of the market was given little attention. The reason may lie in the recognition that the goals and actions adopted by individual states would be decisive in the implementation of the set sustainable development goals.

3. Formulation of a National Policy for Sustainable Development

The domestic market is supposed to be an “environment” for the creation and implementation of sustainable development. Its model and mechanisms can be established depending on the goals and stages of development (Matysiak & Raftowicz-Filipkiewicz, 2017). This does not necessarily mean that sustainable development will be naturally inscribed in the realities of the market economy. It seems that the chances of accelerating this process are offered by the existing and growing weaknesses of the market economy that, in particular, slow down or halt its evolution. On the other hand, high development dynamics may be the reason for recognising that the market will be an effective protection against possible threats to and inequalities of development processes. Market efficiency is therefore an important factor determining when the implementation of sustainable development is initiated.

A sustainable development policy is formulated by the state at several levels. The first level is the adoption of sustainable development as the core element of strategies, programmes and development objectives. Nowadays, the idea of sustainability is commonly accepted (Fiedor, 2014). The first problem however is how to translate it into policy and strategic documents and actions. This should involve a shift from the declarative treatment of sustainable development towards such approaches that can be expressed as politically and socially acceptable goals. The second problem arises from the absence of efforts to formulate a vision of development in an integrated way. Such efforts are usually fragmentary and focus on selected issues. The third type of problems involves a relatively short time horizon for developing such visions. The fourth one is the avoidance of defining the relationship: human (society) – natural environment – economy. One element (but not the natural environment) is usually given priority. Finally, the fifth problem is related to the definition of implementation instruments. The role of the state in the market mechanism is generally confined to determining the framework, boundary conditions that market participants must comply with and to acting on the market as an economic entity within the limits defined by the scope of state ownership (Wilczyński, 2000). Yet, interventions promoting sustainability in market areas dominated by private ownership are left to policies and strategies established at lower levels.

The second level comprises horizontal policies covering three main components of sustainable development – economic policy, social policy and environmental policy. In each of them, the problems of sustainable development could play a leading role. Nonetheless, they usually focus on a fragmentary view of their “own” area. On the other hand, problems in other areas of sustainable development are perceived as creating limitations to their solutions rather than as possibly strengthening them through coordination with solutions under other policies.

These problems spread to the third level of economic sectors and occur in a spatial system. It is there that sectoral (industry-specific) and regional (urban) programmes and strategies for sustainable development are also established. Although there are more provisions specifying visions of development, their weaknesses result not only from the transfer of national-level problems to lower levels at which sustainable development objectives are formulated. A significant barrier is insufficient knowledge of market solutions and mechanisms that are adapted to the implementation of/support for sustainable development in a particular sector/place. Also ignorance or an absence of solutions at horizontal levels or solutions applicable in other sectors/places results in documents only superficially touching on sustainable development but lacking foundations and unrelated to the actions in other sectors or regions.

4. Using the Market to Create Conditions for Sustainable Development Through Basic Horizontal Policies

An appropriate design of policies at the horizontal level is of key importance for the use of market mechanisms to create conditions for sustainable development. This thus concerns economic, social and environmental policies. They are particularly significant for shaping a sustainable development policy in the sectoral and spatial systems.

The use of market tools is treated as normal within the framework of economic policy as most markets are subject to certain state regulations. The problem however is to focus these tools on achieving sustainable development goals. A good example is the application of solutions for sustainable production and consumption. Clear links may be indicated with environmental policy (e.g. supporting the economy with closed production cycles) and social policy (restrictions on products that cause bad eating habits).

In social policy, the use of market tools is limited. The labour market is governed by numerous administrative regulations. In this instance, however, it is possible to focus the market on solutions fostering sustainable development (e.g. education in specific specialisations, development of a remote work market). There is also a wide area of services that can be oriented towards sustainable development goals (e.g. related to the so-called sharing economy or healthy lifestyles). In this case, too, there are

strong dependencies with the market orientation of sustainable development under economic and environmental policies.

The market orientation of environmental policy treated in horizontal terms requires taking various actions in response to specific emerging challenges and problems arising from the existence or rise of markets. Nonetheless, it would be crucial to support the development of eco-friendly product markets in manners that essentially involve the reconstruction of the production and consumption system for environmental purposes. The primary methods to this effect are an integrated product policy and the reconstruction of consumer attitudes. Actions undertaken under environmental policy in this area should be more oriented towards monitoring and transforming markets. Furthermore, environmental policy may generate market solutions in domains where they previously did not exist (e.g. the market for emission permits, fishing quotas).

In the case of environmental, economic and social policies, different attitudes towards markets that such policies concern are possible since they support or restrain sustainable development. Such attitudes include actions for:

- market creation,
- integration of activities with other policies,
- cooperation with other policies,
- observation of market development,
- stimulation of/support for market transformation,
- a deliberate failure to act (Graczyk, 2013).

Market creation relates to those policy areas for which no markets previously existed or market errors occurred. This does not mean that there was no policy regulation in these areas. Such regulation is usually present and may be purely administrative or administrative with additional economic instruments. Over time, it exhausts its regulatory potential.

Integration opportunities ensue from the fact that a certain horizontal policy and other policies may adopt very similar or even completely convergent goals. It is possible to align not only goals but also instruments and mechanisms of cooperation. Policies pertaining to branches or industries in which competition and the market play a significant role will foster the creation of market systems for solutions that lead to resolving their problems, while having a positive impact on the effects of a given horizontal policy. Thus, the market created for the purposes of another policy is a tool for implementing the goals of a horizontal policy. It is better to integrate market-creation actions with another policy than to leave this type of action to a horizontal policy alone.

A cooperative attitude stems from the fact that a horizontal policy must establish links with other policies. In relation to them, it can be treated as providing services only – ensuring the supply of necessary goods and resources in a way that allows these policies to achieve their own goals.

However, such an attitude will rarely encourage the reduction of tendencies to consume these goods and resources in excess under other policies. As a consequence, a horizontal policy will pose ever stronger obstacles and limitations to such a model of development of sectors. The relations of sectoral policies to a horizontal policy may, however, be characterised by readiness to cooperate. This should in particular be the case with goal setting. Goals should correspond to the market realities of operation of sectors. Accordingly, an attitude of cooperation in establishing goals and developing mechanisms for market access to goods and resources is necessary. The market orientation with the application of a cooperative approach also results from the fact that narrow development programmes are being abandoned for the sake of integrated solutions. This integration concerns problem issues perceived from the perspective of the entire economy. Thereby, a horizontal policy cannot consider the operation of individual sectors separately and treat them differently. This non-discriminatory approach requires the same principles and mechanisms to be applied regardless of entities, industries or sectors. This approach can be implemented in the situation of market orientation.

Not all sectors and activities pose threats to achieving sustainable development goals. For example, banking, retail, telecommunications, electronics and machine tool industries do not cause any major environmental burdens. For such markets, environmental policy may apply an attitude of observation. It should involve the designation of control points – a market development framework – at which the risk of negative changes in the environment does not exist or is acceptably small. If the functioning or developing markets do not go beyond the established framework, no corrective action must be undertaken through the environmental policy. When the framework is exceeded, the environmental policy may reduce the harmful impact of the market on the environment in a variety of ways. It can work temporarily, for example through administrative tools, but it can also use market tools. A framework can be similarly adopted and used under social and economic policies.

It is also possible to stimulate or support a market transformation. This consists in creating conditions for more favourable market development from the point of view of the goals of a particular horizontal policy. The condition is the existence of more advantageous alternatives. Such an approach can be used in two situations. Firstly, the market may be transformed towards discouraging the production and acquisition of goods for which there are more beneficial substitutes. Secondly, incentives may be provided to develop a specific type of products, services or processes. Impact instruments may include financial, credit, fiscal and other incentives offered to buyers of favourable product alternatives.

The failure to act is present in every policy. It is a conscious act resulting from a rational choice of decision-makers. It means a decision to withdraw

from action in the belief that it will not negatively impact the achievement of policy objectives. Such an approach is justified by the hope that entities will themselves decide to create or modify the market and that this market will regulate the use of resources or that functioning markets will not trigger adverse impacts from the point of view of a particular horizontal policy. In addition, other – not necessarily market-oriented – forms of regulation may be applied.

Each of these policies should, especially within the framework of monitoring the implementation of sustainable development, design criteria and mechanisms that should be used in relation to other policies, programmes and strategies, including:

- a mechanism for approving goals generated by other policies,
- a mechanism for approving goals generated by the demand side,
- a mechanism/attitude of friendly tolerance of and support for the development of markets with a profile acceptable to a given policy and meeting its primary goals,
- a mechanism for phasing out markets – accelerating the withdrawal of some products or services.

In practice, the entities responsible for a given policy face different conditions and factors that allow and restrict the freedom to choose or modify the market orientation of policies towards sustainable development. Their market orientation depends chiefly on several factors such as:

- the degree of implementation of the goals deemed urgent,
- the pressure from the external environment, in particular related to ideas developed at the EU level,
- the weakness or lack of a market ensuring effective allocation of resources and property rights,
- the need to increase the economic efficiency of operations, the amount of transaction costs (as an alternative to administrative costs in an administrative policy model) (Graczyk, 2013, p. 116).

Policy marketisation is also reflected by the application scope of market-based instruments. The notion of market-based instruments of the state policy has not been explicitly defined. Instead, instruments termed market-based are enumerated. For example, regarding market-based instruments, the monetary policy states: *“these instruments are used by central banks in developed countries to affect short-term interest rates on the interbank market. These include: open market operations, standing facilities, mandatory reserves. They may be used as long as an effective money market that they affect is in operation”* (Encyklopedia Zarządzania, 2012). Another approach indicates the tasks of instruments, for instance: *“labour market instruments support basic labour market services”* (Ministerstwo Pracy i Polityki Społecznej, 2012). In practice, it is difficult to define what market-based instruments actually are and it is easier to identify the instruments that are considered market-based.

Nevertheless, it seems advisable to adopt, within each horizontal policy, a definition of types and scope of market-based instruments. As regards environmental policy, market-based instruments are *“individual rights established by entities responsible for an environmental policy to use the environment that are allocated through the use of the market and market mechanisms. These instruments are established by setting a limit on the use of certain environmental resources and assets, by dividing these rights into individual transferable permits and by the market mechanism finally allocating the latter”* (Graczyk, 2013, p. 110). The application of market-based instruments for environmental protection allows for using market signals and correcting market failures in a cost-effective way (Commission of the European Communities, 2007, p. 3).

5. Conclusion

Development based solely on the market regulation mechanism brings about effects contrary to the idea of sustainable development, in particular to the principle of justice between generations. It is a natural environment in which development occurs though. Therefore, it is necessary to use the market and market mechanisms to achieve and implement sustainable development.

The reference point for devising a national policy for sustainable development is provided by very general documents. They are drafted at the supranational level – the EU and even global. What is characteristic of them is the failure to consider the market determinants of sustainable development. The possibilities of effective use of the market for sustainable development thus depend on appropriate policies of individual countries. Sustainable development using the market and market mechanisms can be created and implemented in the development policy of a country as a whole. In particular, this should be done under three horizontal national policies that correspond to three basic aspects of sustainable development, namely economic, social and environmental policies.

The activity of markets in today’s economy is controlled and monitored in diverse ways. Markets are connected with specific economic sectors. Their functioning can be targeted at sustainable development by various public agencies and authorities. Sustainable development in spatial terms may also be programmed and supported by public authorities. They can also use local markets and market mechanisms for regional or local activities for sustainable development.

Nowadays, the idea of sustainable development is commonly accepted, yet mainly at the level of declarations and it is more difficult to confirm it in the reality. Entities, nonetheless, mainly act upon information from the market. Market solutions focused on implementing sustainable development may be used to rebuild the system of values that people follow

in their choices. In a longer run, sustainable development policy could be increasingly oriented not towards traditional, individual or group interests but towards systematic empowerment of people understood as members of a civil society.

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