Recalibrating Economic Freedoms: Mitigating Climate Change by Altering Consumer Choices?

By: Carolien Veldsink, Erasmus University, Master in Global Business and Sustainability Candidate

Over the last decades accumulating scientific evidence has been suggesting that climatic alterations are (partly) brought about by anthropogenic activity. According to the Intergovernmental Panel on Climate Change (IPCC), currently about 0.8° to 1.2° Celsius of total global temperature rise can be attributed to human activity (IPCC, 2018). Represented in multiple transnational conferences, such as the 2019 Climate Conference in Madrid, national governments seek for international cooperation to prevent a further temperature rise from happening (UNFCC, 2019). But are the incremental, non-restrictive policies reflecting the efforts of such conferences enough to solve a climate crisis?

This paper starts from the assumption that the answer to that question is ‘no’. It is built around the central argument that government should take a more active stance in the climate change arena. To elaborate on this reasoning, I will first zoom in on consumer behaviour in modern Western economies. I will use a behavioural psychologist perspective to explain why individuals are unfit to make proper pro-environmental decisions. Subsequently, I will pledge in favour of a recalibration of economic freedoms for individuals and a more active role for government in achieving this. I will end with proposing an environmental tax to recalibrate economic freedoms.

Theories on individual decision-making

Over the past decades, consumerism in developed countries has taken extreme forms. Although the global trade network has resulted in a significantly greater product choice and more varied diets, the import-export network knows downsides. Long transportation routes, pollutive practices and energy used in production processes have steadily increased the environmental footprint of many (fresh) products (Choppin, 2009).

Even though consumers in Western economies are more often confronted with the fact that their purchases burden the environment, there is no clear coherence between this knowledge and behavioural change. An illustration of this is meat consumption per capita in The Netherlands, which increased rather than decreased in 2018 (Dagevos et al., 2019).
It seems that consumers find it difficult to act upon sustainable knowledge. Research in the field of behavioural psychology affirms this assumption. Bandura (2002) introduces the concept of ‘moral disengagement’: when planned self-interested behaviour is not aligned with one’s inherent conviction of right and wrong, people use various mechanisms that refrain them from negative self-condemnation. Instead of changing the conduct to act in line with our inherent moral compass, we rationally reshape the morality of a situation.

This reshaping can be done in multiple ways. Actions are easily justified by challenging the core existence of climate change, by denying individual responsibility or by comparing their own behaviours with actors who pollute more (Bandura, 2002; Peeters et al., 2019). In combination with a lack of direct consequences - environmental impacts are often experienced later, or at another place - it is understandable that Western consumers can easily disengage morally by using their brain (Bandura, 2002; Markowitz & Shariff, 2012; Brisman et al., 2018; Hall & Weiss, 2012).

It seems as if the rational mind of a human being can justify and excuse condemnable behaviours. However, besides Bandura’s rational view of moral disengagement, lately various other scientists have been proposing explanations as to why human beings seem unable to change conduct in light of a changing climate. These theories go beyond rationality as explanatory variable of unsustainable purchasing behaviour. Scientific insights from e.g. Haidt (1995; 2013), Kahneman (2011), and Thaler & Sunstein (2009) suggest that, rather than ratio, unconscious internal processes are guiding in decision-making.

According to social intuitionist Haidt (1995, 2013), moral judgment is the product of a socio-cultural emotional construct. His research has suggested that, when faced with an ethical dilemma, people have already taken position before reason comes in to explain why they take this stance. They position themselves on the basis of an emotive gut feeling, and use moral reasoning as an explanation to affirm their intuition (Haidt, 1995).

This has effects on buying behaviour: if feelings are decisive in the process of forming moral convictions, and our internalized beliefs do not include a feeling of shame or guilt towards purchasing environmentally-damaging products, then one can wonder if our moral conviction surrounding the purchase of products with high environmental footprints will ever be negative.

Following Bandura, consumers rationalize themselves out of environmental-negative purchasing behaviour. Following Haidt, their emotions do not guide them away from such environmental-negative products. Although they differ in their understanding and explanation of the origin and roots of behaviour, in a way these well-known scientists touch upon two sides of the same coin: the difficulty that individual consumers may experience in environmental-friendly purchasing decisions.

The meat industry serves well as an example to show why this is the case. Suppose you were raised in a family where meat eating was considered normal. With the growing media attention given to the downsides of meat production, you are increasingly aware of the fact that eating meat comes at a cost - especially environmentally. But knowing this and acting upon it are two different things. In line with Bandura’s thinking, this may be because you easily tell yourself that your purchase is negligible in light of the total amount of meat consumed. And, following Haidt, your innate conviction that eating meat is not a bad thing is prone to thrive over choosing substitutes. You can know what is right, but if you do not feel this to be the right thing then a change in conduct is unlikely to happen.

The explanations of individual decision-making discussed above shed a light on the caveat of Western consumerism. The cumulative effect of people’s purchasing behaviours is detrimental for the environment, yet the individuals
that contribute to this effect with their consumption patterns seem unable to cope with the responsibility of changing behaviours in light of the climate problem - be it because of rationalized excuses or because of misleading intuitions.

In light of this, it would be wise to seek solutions that nudge individuals into the right decision. It is time to change the choice design for individuals, a change irrespective of internal convictions but guiding towards a more sustainable buying decision through external incentives. As information provision is only limitedly likely to be effective (see Bandura’s moral disengagement theory), the next part of this essay will elaborate on economic market incentives as a means to stimulate green consumerism.

**Governmental interventions in the markets**

Before jumping to conclusions as to how individual consumers should be activated towards climate-considerate behaviours, it is important to shape the image of Western capitalist economies. Adhering to the laissez-faire policy, in which Adam Smith’s invisible hand is said to regulate economic markets, the general laws of supply and demand determine market equilibria and, subsequently, market prices (Varian, 2010). Market focus is put on efficiency, and the idea that competition between market participants has a positive influence on such efficiency is embedded in economists’ thinking (Griffith, 2001). Within this competitive environment, only those who can produce against the lowest costs survive.

There is much theoretical literature on the role that is attributed to governments in these capitalist systems. That role is generally small: politicians are expected to intervene as little as possible and let the markets do their work. A rare exception to this rule is the market of so-called ‘public goods’, goods of which no one can be excluded from consumption and that do not have property rights (Varian, 2010).

The most obvious examples of public goods are found in nature. The atmosphere, oceans, parts of the lands; all can be said to be public goods. And all are currently subject to a tragedy of the commons: an overexploitation of natural resources as a result of extracting them for production (Varian, 2010). Such resources are limited in their supply, so what is consumed now will not be there for future generations to use. This is a highly inefficient long-term market outcome, which leads to believe that the current generation should step up and intervene in the economic markets to prevent such failure from happening.

The question becomes who should be the responsible party to do so. Most firms are mainly profit-driven, willing and able to ignore external production costs and the environmental impacts of their production processes (Varian, 2010). Subsequently, market prices are low as they do not include environmental costs. In combination with the knowledge that consumers are prone to buy the least expensive products, so that we can spend money on other things, it becomes obvious why people are still buying cheap but not-so-sustainable products.

Government is the one actor who has the ability to alter this unsustainable market outcome by using an environmental tax instrument. With such a tax, government intervenes in the economic market by altering product prices, as a result of which a price incongruence between demand and supply is brought about. This delta is redirected to the government (Varian, 2010), who can in turn invest the money in e.g. information campaigns on environmental footprint of products, or in subsidies for local farmers who bring seasonal products to the market.

Besides supporting such pro-environmental purposes, the tax could have more effects.

Following the optimization principle, which states that people choose their consumption as optimal as possible under their budget constraint, consumers are likely to substitute expensive products for cheaper alternatives.
(Varian, 2010). Indirectly, lower incomes would force companies to rethink their production processes and methods, and it would foster sustainable innovations as they would be forced to think about greener alternatives to stay competitive in the market.

An environmental tax is similar to a tax on tobacco; only now, rather than taxing those products that are bad for one's health, we are taxing those products that are bad for our environment. This environmental effect can target energy, transport, pollution or resource use (Eurostat, 2013), and examples of successful taxes can already be found: a plastic bag tax in Ireland decreased plastic bag waste by almost 5% (Anastasio, 2017), and the decision of the European Union to ban single-use plastics (Rankin, 2019) shows increased effort too. The latter regulation is an important example of an effective multi-national approach, which focuses on instalment of instruments in multiple countries and prevents businesses from simply moving their business abroad.

It does not end with plastics, though. Products that contain palm oil, fish threatened with extinction such as tuna or salmon, or products that use a lot of water in production, such as avocados, should be up for consideration next (Nichols, 2019). Another urgent tax that should be imposed is the one on (red) meat: this industry alone is responsible for 18% of global emissions (Benz, 2009). A meat tax would not only help reduce this pollutive effect, it would be a statement towards the bio-industry itself. And, given the horrific treatment of animals in this sector, this statement is long needed.

**Conclusion**

This essay has pledged in favour of a recalibration of economic freedoms. Starting from a behavioural perspective, I have argued that individuals are unable to make sustainable buying decisions due to processes of moral disengagement and an inherent inability to refrain from unsustainable choices. Combining this with the lack of monetary value that is attributed to nature in the economic markets, I have used market forces and the study of Economics to argue in favour of an environmental taxation system. Such a system not only offers individuals the financial incentive needed to substitute their unsustainable product choices for more sustainable ones, it also enables government to fund locally farmed products through the income generated by such a tax whilst incentivizing the market participants to expand their focus to more sustainable ways of producing: a win-win-win situation for Planet Earth.

I am aware that market regulations are controversial, difficult to install, and that they will raise many criticisms of (especially right-wing) politicians. However, government is the one actor that should be thinking in terms of future as a counterweight of short-term focused firms and consumers. The facts of climate change and the influence of consumerism are there, and it is the government that, by interfering in economic processes, can nudge individual consumers towards more sustainable decisions: a substitution of their product choice for more sustainable alternatives. This does not restrict individuals in their freedoms, rather it changes the value of choices within these freedoms and recalibrates the system into a future-proof choice design. The invisible hand should be helped with a visible one, to regulate for the better and ensure that the generations to come still have the ability to meet their needs.
Sources


