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Institutional Failure and Sustainability Policy

Brian Chi-ang Lin

Abstract: This article first shows that climate change and the COVID-19 pandemic are typical examples of institutional failure, to a greater extent a serious scenario characterized by government failure and market failure at the same time. To better comprehend the global development of multilateral institutions, this article presents Gunnar Myrdal's insights into the South Asian countries, which he observed several decades ago, as a regional example. In this regard, this article also describes the institutional development of the Association of Southeast Asian Nations (ASEAN). The development of ASEAN (i.e., the emergence of Asian regional planning) has been driven by an implicit process of multilateral interactions and negotiations rather than an orientation of explicit goals. Given the various big crises and unexpected shocks that constantly threaten us all, the article stresses the necessity and urgency of initiating a comprehensive sustainability policy at each individual country level. Only when each country unambiguously chooses its own national agenda on sustainability can the sustainable development goals (SDGs) at the regional or global level be further negotiated and aligned.

Keywords: sustainability policy, sustainable development goals (SDGs), institutional failure, ASEAN

JEL Classification Codes: E60, B50, O20, Q50

It is a corollary that “planning becomes the intellectual matrix of the entire modernization ideology.”

—Gunnar Myrdal (1968, 711)

The article analyzes the significance of a sustainability policy for promoting sustainable development. The second section discusses two ongoing global issues (i.e., climate change and COVID-19) and their relationship with institutional failure. The third section describes the insights of Gunnar Myrdal's institutional analysis for promoting society as a whole. In addition, this section describes the institutional development of the so-called ASEAN (Association of Southeast Asian Nations) way. The fourth section reviews two of the United Nations' (UN's) Sustainable Development Goals (SDGs) and explains the necessity of initiating a comprehensive sustainability policy at an individual country level. In the original

Brian Chi-ang Lin is a professor in the Department of Public Finance at the National Chengchi University in Taipei, Taiwan.

institutional economics (OIE) tradition, the vision of sustainability is historically inscribed, and the study of a sustainability policy involves instrumentally advancing research on institutional economics. The final section presents brief conclusions.

Institutional Failure

Climate Change

Since the beginning of this century, climate change has emerged as a pressing issue (see, e.g., IPCC 2007; Lin and Zheng 2016; Elsen et al. 2020; O'Neill et al. 2020). Goal 13 outlined in the document “Transforming our World: The 2030 Agenda for Sustainable Development” indicates that we should “take urgent action to combat climate change and its impact” (United Nations 2015). To acknowledge the academic significance of climate change, the 2018 Nobel Prize in Economic Sciences was in part awarded to William D. Nordhaus for his “integrating climate change into long-run macroeconomic analysis.”¹

The nature of climate change is, in fact, more a consequence of chronic institutional failure than an economic issue resulting from an environmental externality. From the perspective of institutional economics, mainstream economic theory that does not pay sufficient attention to human institutions is nothing more than an analysis of a world that exists in a vacuum. The aforementioned logic remains equally true if we regard the natural environment as the built-in institutions of society. By constantly being ignorant of the natural environment being made up of built-in institutions over the long run, the huge emissions of carbon dioxide over the past century have eventually resulted in human-induced climate change. The persistent rising global mean temperature is a permanent shock to human societies, an unexpected consequence caused by a lacuna of critical attention to *natural institutions*. It is evident that many man-made institutions, such as the expansion of polluted factories and recreational resorts legitimized by market and government, are not compatible with natural institutions that have been embedded for sustaining bio-diversity in the long run.

Severe Acute Respiratory Syndrome Coronavirus 2019 (COVID-19)

Market or government failure is not a phenomenon that rarely occurs since human institutions are not omnipotent. COVID-19, however, generated unexpected shocks to all countries since its outbreak in early 2020. Many governments imposed lock-down measures in communities and cities for several weeks or months. More and more workers were laid off and became unemployed. Normal daily activities in many countries were restricted to a minimal level. As of April 2021, more than 130 million people worldwide had tested positive for the COVID-19 pandemic and more than 2.9 million deaths had been reported.

By taking the two extreme ongoing cases of climate change and COVID-19 together into consideration, it is not difficult to observe that they both exhibit characteristics of institutional failure, and to a greater extent, a serious scenario characterized by government failure and market failure at the same time. It should also be noted that giant multi-national corporations have not only been reluctant to release information about climate change for their stakeholders in the past, but also failed to predict the economic consequences of the outbreak of COVID-19 in early 2020. At the same time, national governments worldwide have not yet prevented the disease from spreading both domestically and internationally.

¹ See The Prize in Economic Sciences 2018.

As we fully learned from past history, children, women, and small businesses suffered the most during hard times of crisis. It is essential that governments at all levels in the world implement effective measures to resolve the pandemic crisis.

Gunnar Myrdal's Institutional Analysis

The Asian Drama

As we face formidable tests for global sustainability, some of Gunnar Myrdal's penetrating analyses, despite being conducted several decades ago, deserve constant attention. Professor Gunnar Myrdal, a 1974 Nobel Laureate and a distinguished institutionalist, spent several years examining the South Asian countries (including Pakistan, India, Ceylon, Burma, Malaya, Thailand, Indonesia, the Philippines, and occasionally South Vietnam, Cambodia and Laos as well) and published a three-volume book in 1968 entitled *Asian Drama: An Inquiry into the Poverty of Nations*.

Economic planning in South Asian countries and Western countries, according to Professor Myrdal, exhibited a fundamental difference in terms of the time sequence. Economic planning in the Western countries was the (natural) *result* and *consequence* of development and industrialization. Economic planning in South Asian countries was instead employed at a very early stage of industrialization to foster development. In this way, South Asian planning has become *programmatic*. Thus, programmatic planning in South Asian countries "should be *comprehensive* and *complete*, not partial and piecemeal as in the Western countries" (1968, 739). Planning in South Asia requires numerous negotiations by the central government with governments at the lower provincial and local level. Yet, the political and institutional structure in South Asian countries only allows for a limited degree of coordination via the command of the central government. A major difficulty in carrying out economic planning in this region thus lies in making provincial and local self-government and cooperation effective. In addition, the differences in "initial conditions" for economic development between the South Asian countries and the developed Western countries are extremely significant. In this regard, many aspects such as population growth, trading position, attitudes and institutions generally work to the disadvantage of the South Asian countries. On the whole, these conditions are less favorable for the South Asian countries than they were for the developed Western countries at their early stage of industrialization.

In his *Asian Drama*, Professor Myrdal classified the social system in each South Asian country into the following six broad categories: (1) output and incomes, (2) conditions of production, (3) levels of living, (4) attitudes toward life and work, (5) institutions, and (6) policies (Myrdal 1968, 1859–1864). The first three categories represent "economic factors," and categories 4 and 5 represent "non-economic factors." Category 6 is a mixture and can be considered as belonging to the "economic factors" when the purpose of the policies is to induce changes in the first three conditions. In a social system, all the aforementioned conditions are causally interrelated and economic conditions do not have precedence over the others. A change in a condition in the direction of greater desirability from the viewpoint of development can be termed as a change "upwards." Development means an improvement in the host of undesirable conditions in the social system (i.e., "the movement of the whole social system upwards") (Myrdal 1968, 1868). Planning for development, to a great extent, can be best understood as the process of achieving a state of economic integration.

The ASEAN Plus Three (APT) Framework

It is interesting to observe that, in Myrdal's investigation of eleven South Asian countries in *Asian Drama*, eight of them became ASEAN member countries. The ASEAN was established in 1967 when Indonesia, Malaysia, the Philippines, Singapore, and Thailand signed the Bangkok Declaration. Later, Brunei became a member state in 1984 and Vietnam a member state in 1995. The countries of Cambodia, Laos, and Myanmar (CLM) joined the ASEAN in the late 1990s, with the admission of Laos and Myanmar in July 1997 and the admission of Cambodia in April 1999.

As for the ASEAN member states, the 1997–98 Asian financial and economic crisis generated repercussions that led to ASEAN's cooperation with other Asian countries in the region. ASEAN's institutional cooperation with the Northeast Asian nations of Japan, China, and South Korea (i.e., the ASEAN Plus Three (APT) framework) was first established on the side-lines of the Second ASEAN Informal Summit held in Kuala Lumpur in December 1997. Under the APT framework, the issues related to regional financial governance became the primary focus.

What has become known as “the ASEAN way,” as Acharya (1997, 329) emphasized, is a gradual process through which multilateral interactions take place and this involves “a high degree of discreetness, informality, pragmatism, expediency, consensus-building, and non-confrontational bargaining styles.” The ASEAN styles of bargaining and implementing agreements are characterized by informal personal contacts and social obligations rather than by formal legal institutions and commitments. The utilization of courts to settle legal disputes is not part of the “ASEAN way.” These features are quite different from the adversarial posturing and legalistic decision-making settlements in multilateral negotiations among Western countries. Due to its inherent nature, the ASEAN member states did not develop any formal agenda or specific formula for promoting the Bangkok Declaration in the 1970s and 1980s. During the formation process of ASEAN's cooperation with the Northeast Asian nations, Japan played a key role in the acclimation of the East Asian concept (Terada 2003). In sharp contrast to the United States stance of nonchalance during the financial crisis, Japan emerged as an uncommitted leader in the region and contributed over US\$40 billion to support Thailand, Indonesia, and South Korea.

The Institutional Significance of a Sustainability Policy

The Sustainable Development Goals (SDGs)

As shown above, the development of ASEAN (i.e., the emergence of Asian regional planning) was driven by an implicit process of multilateral interactions and negotiations rather than an orientation of explicit goals. Since the UN launched its 2030 Agenda for Sustainable Development in 2015, many countries, including the ASEAN countries, have endorsed the Agenda and taken some actions to support the SDGs. At first sight, it seems that ASEAN played a highly collective and cooperative role in the UN. However, a detailed examination of ASEAN practices indicates that the main purpose of the ASEAN countries is to enhance their visibility and improve recognition as a respected global actor bestows “soft power” on the grouping (Ruland 2020).

Take Goal 13 on “climate action” as an example. The UN Framework Convention on Climate Change (UNFCCC) is “the primary international, intergovernmental forum for negotiating the global response to climate change” (UN 2015) and also welcomes the adoption

of the SDGs with special reference to Goal 13. It remains unclear, however, what specific value Goal 13 will create for global climate governance, especially when ambiguous Goal 13 targets offer no clear guidance (Kim 2016). At the same time, the ASEAN countries have yet to take action to combat climate change with the exception of Singapore's official statement on facilitating the low-carbon transition.² The domestic governance or monitoring system in each of the ASEAN countries corresponding to the SDGs is quite arbitrary. Thailand, for instance, assigned the 17 Goals to between one and three corresponding ministries or government agencies for further consideration. As a result, four Goals (Goals 12–15) have been assigned to Thailand's Ministry of Natural Resources and Environment, whose vision is "balancing and sustaining natural resources and environment within 2037."³

Let us take Goal 8 stated to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" as another example. Although Goal 8 looks like an ideal goal, based on a closer examination of the ASEAN practices, at least two major problems emerge. First, to monitor the SDGs, data shortage has been a major challenge. Even with the commonly-used GDP as the main frame of reference for developing other sub-indicators, half of the ASEAN countries, including Brunei, Cambodia, Lao PDR, Myanmar, and the Philippines, can only report partial and incomplete information regarding the annual growth rate of real GDP per employed person between 2016 to 2018.⁴ Second, and more importantly, the UN has yet to offer clear indicators for monitoring the various targets such as the ambitious target 8.4, which is to "decouple economic growth from environmental degradation" (UN 2015).

Sustainability Policy

In essence, each of the UN sustainable development goals, judging from its characteristics and scope, must be framed and implemented as a national goal from the beginning. It is thus conceivable that, without a decisive consensus from each of the ASEAN countries, the UN's SDGs cannot be well integrated into ASEAN's regional goals. The ASEAN countries are not developed economies (with the exception of Singapore) and any straight alignments with the UN's SDGs are not feasible without further changes in the socio-economic structures of the ASEAN countries. What the ASEAN countries really need is to initiate a comprehensive sustainability policy for each individual country in the first place.

Compared with the intervention of stabilization policies in the economy in the short run, a sustainability policy here refers to a process of institutional planning for achieving multiple-goals at the national level in the long run. In the short run, the implementation of Keynesian policies under given institutions can frequently stabilize the economy, thereby achieving policy targets. For instance, the government can employ spending/taxation measures to stimulate the labor market and the economy. The level of employment and output can rise accordingly in the short run. However, the accompanying increase in carbon dioxide emissions, a major topic for UN Goal 13, is not a concern of Keynesian stabilization policies. Thus, to achieve a state of sustainable economic growth and continuously declining

² See ASEAN *Sustainable Development Goals Indicators Baseline Report 2020*, 165-171.

³ See Official Website of Thailand Ministry of Natural Resources and Environment (n.d.).

⁴ See ASEAN *Sustainable Development Goals Indicators Baseline Report 2020*, Table 29.

carbon dioxide emissions, a national sustainability policy should include at least (a) the coordination of a bundle of policy measures, and (b) an adjustment of socio-economic institutions for aligning policy measures from the short-term to the long-term.

From the perspective of achieving a sustainability agenda, the institutional limitations of a macroeconomic stabilization policy should be pointed out. Take the United States for example. The U.S. national stabilization policy was deliberately implemented toward the value weights connected to various dimensions of domestic economic performance including inflation, unemployment, output, and so on. As the global economy became more and more complicated and integrated, U.S. academics and policy-makers faced increasing difficulties designing an optimal stabilization policy (Krugman 2008). In essence, a stabilization policy tends to isolate economic factors from other issues and primarily focuses on short-run economic activities. It is fair to claim that UN Goal 8 could be listed as a national target operated in the regime of the U.S. stabilization policy. As for Goal 13, it would certainly be taken as an environmental issue and regarded as only of minor concern.

Historically, institutionalists in the OIE tradition have adopted a holistic perspective on examining the ongoing issues and have endorsed the significance of institutional planning (see, e.g., Myrdal 1978; Hayden 1987). It has become increasingly clear that a stabilization policy is necessary for keeping the economy running, but is not sufficient for promoting society as a whole in the long run. To satisfy a national agenda with an emphasis on sustainability that is compatible with global sustainability, it is crucial for countries to implement not only short-run stabilization policies, but also a long-run sustainability policy as well.

Conclusion

The occurrence of COVID-19, a critical test for sustainability, has inevitably induced a process of institutional change within each individual country. The occurrence of institutional change within each individual country generates both anticipated and unanticipated consequences, which in turn will influence the progress of regional and global integration across countries. The cooperation of a country's central government with foreign central governments, as we have learned from past experiences, such as during financial crises, can only be founded on the implementation of its national socio-economic possibilities. As countries around the world draw up plans for sustainable development well into the future, it would be better for them to initiate a comprehensive sustainability policy rather than a collection of stabilization policies. Only when each country unambiguously chooses its own national agenda on sustainability can the sustainable development goals at the regional or global level be further negotiated and aligned.

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