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## **Policy Transfer Versus Varieties of Capitalism in Environmental Policy**

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**POLICY TRANSFER VERSUS VARIETIES OF CAPITALISM IN ENVIRONMENTAL  
POLICY**

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*Introduction: Policy Learning, Globalization and Internationalization*

Policy transfer has emerged as a significant area of academic inquiry.<sup>1</sup> No doubt this is because there it seems clear that interest in policy transfer among the governments of the world is at an unprecedented level. Government officials travel the world in search of answers to the problems that confront them. Governments that are acknowledged as leaders in innovation in a particular policy area such as Wisconsin with welfare reform, New Zealand with restructuring the bureaucracy or Britain with executive agencies, privatization and private investment in the public sector (Public Private Partnerships or PPP) can count on a steady flow of visitors from other governments eager to tap their experience. Perhaps only *Lord of the Rings* has boosted New Zealand tourism more than the contract based restructuring of its bureaucracy in the 1980s.

Organizations such as OECD, the World Bank and IMF also eagerly spread what they see as best practice in important policy areas. Although no one would suggest that interest in policy transfer is uniform among all countries, it seems more extensive and large scale than in the recent past. Why might this be? Several factors might be at work.

First, the demand for new policy ideas has increased in recent decades. We have passed through a period in which in response to similar domestic pressures and considerations, a significant number of governments have discarded long established policy approaches and have looked for answers to policy problems outside previous frameworks. These breaks with the past have been more dramatic in some countries such as the UK, New Zealand and Australia than in others (notably Germany.) Even in countries in which there has been little change superficially (such as the Netherlands or Sweden), governments in fact have been willing to reformulate long established and sometimes even cherished policy approaches. Some of the quest for new policy thinking was driven by a struggle to combine popular but expensive goals and commitment with

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<sup>1</sup> The best survey is to be found in the special issue of *Governance* edited by David Marsh and David P. Dolowitz. Volume 13 No. 1 (January 2000.) See also Richard Rose *Lesson Drawing in Public Policy* (Chatham NJ: Chatham House, 1993.)

pressures to reduce taxes expressed by politicians such as Thatcher and Reagan. The last two decades of the twentieth century also witnessed a widespread realization among the advanced democracies that the measures adopted as solutions to the problems of the first half of the twentieth century had deleterious and unintended consequences. Welfare state policies may reduce extreme poverty but also increase dependency; Keynesian economic policies might in practice increase inflation and even be counter-productive in achieving stable economic growth. Yet it was also implausible politically to suppose that governments could simply withdraw from the economic and social responsibilities that they had assumed in the course of the twentieth century and had become central to their politics. There was therefore a premium on finding policy ideas that allowed governments to have their cake and eat it, to maintain commitments to goals such as educing poverty or promoting economic growth without continuing to suffer the adverse consequences of existing policies. The “third way,” so popular in Democratic and Labour Party circles, was an outcome of this quest.<sup>2</sup> Policy makers were unusually willing to “think outside the box” to use a popular cliché of the era

A second influence was globalization. The unusually rapid rate of increase of world trade and international capital movements in the late twentieth century produced much speculation that many countries would have to revise a wide range of previously cherished policies if they wished to remain prosperous and competitive. If production and investment could be moved around the world easily, countries that maintained taxes, regulations or labor conditions that were not “business friendly” could expect to pay a hefty price in terms of lost investment and jobs. While academics who were skeptical about the consequences of globalization<sup>3</sup> may have been vindicated in the sense that there is little evidence that either the much feared “race to the bottom”

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<sup>2</sup> Anthony Giddens *Beyond Left and Right: The Future of Radical Politics* (Stanford CA: Stanford University Press, 1994.)

<sup>3</sup> Geoffrey Garrett *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998); Robert Boyer and Daniel Drasche (eds.) *States Against Markets: The Limits of Global Capitalism?* (London: Routledge, 1996) and Robert Boyer “The convergence Hypothesis Revisited: Globalization But

as countries change policies to please business (for example by relaxing regulations) has in fact occurred, it also seems likely that policy makers were deterred from pursuing even popular goals through traditional means (such as higher taxes or stricter regulations) that would once have been used. Perhaps the perceptions of policy makers and political scientists differed. While many academics questioned the extent to which globalization had reduced governments' freedom of action, policy makers by and large acted as though it did. With very few exceptions (notably the adoption of the 35 hour week by France,) policy makers in advanced democracies eschewed new policies that might deter investment or cause corporations to shift production even if they did not abandon existing policies that were not entirely market friendly.<sup>4</sup> Yet politicians also could not afford electorally simply to announce that they were incapable of tackling problems because of globalization. Policy makers were particularly eager, therefore, to find new approaches that allowed them to continue to pursue popular goals without appearing "anti-business." This naturally increased interest in the possibility of transferring suitable policies from other countries.

A final factor that has increased interest in policy transfer is the growth in the importance of international networks and organizations. Bodies such as the IMF and OECD have brought policy experts and practitioners from around the world to an unprecedented degree. As Jacoby, Marsh and Dolowitz remind us, some of the policy transfer that these international organizations promote can be regarded as "coercive."<sup>5</sup> If countries do not adopt the policies that the organizations favor, serious consequences such as denial of membership in the EU or a loan form

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Still the Century of Nations" in Suzanne Berger and Robert Dore (eds.) *national diversity and Global Capitalism* (New Haven: Yale University Press, 1999.)

<sup>4</sup> Although trends in taxation are difficult to disentangle, Duane Swank and Sven Steinmo report that "From the early 1980s to the mid 1990s, governments across the developed democracies have systematically lowered statutory rates on corporate and personal income and have eliminated many allowances, exemptions, credits and reliefs. Concerns about efficiency and revenues have seemingly eclipsed the goals of redistribution through steeply progressive rates." "The New Political Economy of Taxation in Advanced Capitalist Democracies" *American Journal of Political Science* 46 No 3 (2002) p. 651. Swank and Steinmo do report, however, that for a variety of reasons, the distribution of the tax burden has shifted less than this might lead one to suppose.

<sup>5</sup> David P. Dolowitz and David Marsh "Learning Form Abroad: The Role of Policy Transfer in Contemporary Policy Making" *Governance* 13 (2002). 14-15. See also Wade Jacoby "Tutors and Pupils: International Organizations, Central European Elites and Western Models" *Governance* 14 (2001) 169-200.

the IMF will follow. International organizations generally promote policy transfer through less coercive means, however. One common technique is benchmarking in which best or appropriate practice is established and member countries are asked to explain regularly why they do not achieve the benchmark. International organizations also promote the emergence of international “epistemic communities” among policy experts simply by bringing them together regularly to share views and experiences. This also increases the likelihood of policy transfer. Finally, policy ideas are shared among countries by an international network of think tanks and consultants that as Stone argues, “transfer the ideas and ideologies, the rationalizations and the legitimations for adopting a particular course of actions” and function “as policy entrepreneurs for transfer.”<sup>6</sup>

#### *The Durability of National Differences*

The new popularity of policy transfer as a topic for study in political science is in a sense ironic. By and large, political scientists have been more likely to suggest that there will be enduring policy differences between nations than convergence. Policies are shaped by factors that are themselves deeply rooted and enduring such as political culture, institutions, the balance of power between different interests and the legacy of previous policies. Esping-Anderson’s *Three Worlds of Welfare Capitalism*<sup>7</sup> provides a good example of an argument that national differences persist. The popularity of path dependency in political science also suggests that large-scale policy transfer is unlikely to occur as countries continue to follow the trajectory on which they are set. Once policies are in place, change is more likely to take the form of incremental changes that follow the same trajectory not least because policies create constituencies with an interest in their perpetuation. Once countries choose different policy approaches, they are likely to move further and further apart as they build on their initial choice. It is easy, therefore, to think of books that describe deep-seated national differences. R.G.S. Brown, for example, argued that there was a

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<sup>6</sup> Diane Stone “Non-Governmental Policy Transfer: the Strategies of Independent Policy Institutes” *Governance* 13 (2000) p. 67.

<sup>7</sup> Gosta Esping-Andersen *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990.)

national style of administration in Britain. Michel Crozier's work<sup>8</sup> described a distinctive French bureaucratic style rooted in national culture. An influential school in political economy stresses the extent to which there are national types of capitalism and therefore political economy.<sup>9</sup> This "varieties of capitalism" literature has come by and large convinced people that although globalization has affected many countries similarly, countries have not reacted similarly to it. Indeed, the varieties of capitalism school would go further and suggest that it would have been futile for countries to try to adopt similar measures. Policies must be compatible with the variety of capitalism that prevails in a particular country. Attempts to borrow approaches that have succeeded elsewhere within countries that have a different variety of capitalism. Thus British attempts to import indicative planning from France or neocorporatism from Scandinavia were bound to fail because they were grafted onto an inappropriate societal structure.<sup>10</sup> Even good and apparently successful policies cannot be transferred from one country to another in which political institutions, state-society relations and markers are radically different. We would expect, therefore, that attempts to borrow techniques from neocorporatist countries and nations with more organized forms of capitalism by nations with liberal market economies would fail. Countries that we can classify as having organized capitalist systems might be able to learn from each other; similarly, liberal market economies may be able to offer each other useful policy ideas. However, policies will probably not transfer readily from one category to the other as British attempts to use indicative planning or incomes policy in the 1960s illustrated.

We have, then, two contrasting and influential schools of thought in political science today. The one stresses the degree to which governments, aided by international organizations, think tanks and epistemic communities, transfer policies around the globe. The second

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<sup>8</sup> Michel Crozier *The Bureaucratic Phenomenon* translated by the author (Chicago: Chicago University Press, 1964.)

<sup>9</sup> Peter Hall and David Soskice (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: oxford University Press, 2001.)

<sup>10</sup> Peter Hall and David Soskice (eds.) *Varieties of Capitalism; the Institutional Foundations of Comparative Advantage* (New York: Oxford University Press, 2001.)

emphasizes the importance of differences between different types of political economy. As Kipling might have written, Organized is organized, And liberal markets are liberal markets, And Ne'er the twain shall meet.”

### *Regulation and Policy Transfer*

Regulation would seem to be a particularly difficult area in which to effect policy transfer. Scholars have drawn attention to the existence of clear differences between countries (and particularly between the United States and other countries) in the manner in which they develop and impose regulations. David Vogel's book, *National Styles of Regulation*<sup>11</sup> crystallized admirably a widespread belief that regulators in the same fields (for example, the environment or occupational safety and health) but in different countries conduct themselves very differently. In particular, some regulators are more likely to approach their tasks in an adversarial, legalistic manner while others seek to engage the cooperation and voluntary compliance of those they regulate and are prepared to encourage such behavior by overlooking accidental or *de minimis* breaches of regulations. American regulators are very likely to be in the first category; British and Swedish regulators have been found by a number of scholars to be in the second.

Most of the comparative studies of regulation are a little hazy about *why* regulatory styles differ. One might summarize the literature with Captain Reynaud's famous order in Casablanca: “Round up the usual suspects!” Kellman placed a heavy emphasis on culture in his comparison of Sweden and the United States. Individualistic Americans assert themselves against regulators rather than cooperating with them, knowing their rights and resorting to law rather than compromising.<sup>12</sup> Vogel himself shares in this cultural line of explanation to a considerable degree. In earlier work, Vogel argued that American business executives are much more distrustful of their state than their counterparts in other capitalist democracies. Vogel continued to

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<sup>11</sup> David Vogel *National Styles of Regulation: Environmental Policy in Great Britain and the United States* (Ithaca; Cornell University Press, 1986.)



place primary emphasis on culture in *National Styles of Regulation* noting with favor Martin Weiner's work<sup>13</sup>, which again explained the failings of British capitalism in cultural terms. We should note in fairness to both Vogel and Weiner that they do not treat culture as some sort of exogenously generated influence but explain it in terms of the history of the relationships between social classes and the state over an extended historical period. Others place greater emphasis on institutional factors. Nivola explains what he sees as the dysfunctional character of American regulation by reference to the power of the courts and legal system.<sup>14</sup> Wilson stressed the greater capacity of the British state to explain why regulators were able to adopt a more cooperative style than American; British regulators could offer and obtain more cooperation from the regulated because both sides knew that, unlike the situation in the US, in any confrontation it would always be the regulators that prevailed making collaboration with them a sensible strategy.<sup>15</sup> It therefore makes sense for regulated industries to cooperate in return for even limited concessions from regulators. Scholars in the neocorporatist tradition (including at some points Wilson) would also stress the importance of the interest group system. Strong trade associations enjoying a monopoly of representation for their industry and the authority that comes with that status (as in Germany) are better able to play a role in collaborative regulation than overlapping, competing and weaker trade associations (as are found in the United States.) As Mancur Olson argued, the more encompassing the interest group and the less it is troubled by competition from rivals, the more it is able to take a longer term, statesman-like approach to problems.<sup>16</sup>

Political scientists agree, therefore, that regulatory styles differ although they advance different explanations for these differences. All of these explanations of regulatory style do have

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<sup>12</sup> Steven Kelman *Regulating Sweden, Regulating America*,

<sup>13</sup> Martin Weiner *English Culture and the Decline of the Entrepreneurial Spirit* (Cambridge: Cambridge University Press, 1981.)

<sup>14</sup> Pietro Nivola *Comparative Disadvantage? Social Regulations and the Global Economy* (Washington DC: Brookings Institution, Press, 1997.)

<sup>15</sup> Graham K. Wilson *The Politics of Safety and Health* (Clarendon Press: Oxford, 1986.)

<sup>16</sup> Mancur Olson *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (New Haven: Yale University Press, 1982.)

something in common, however. They all focus on factors that unlikely to change quickly. Culture, institutions, interest group systems and state capacity do change over the very long haul. However, it would be a rash policy maker who made plans on the basis of hopes that any of them could be changed in the short or even medium term. We might assume, therefore, that regulatory styles will also be relatively enduring. In common with studies of varieties of capitalism, comparative studies of regulation stress the importance of enduring national differences.

And yet, there is manifestly high demand for new policy ideas on regulation. There are two types of reason for this high demand. The first is endogenous to the regulatory process itself. The second relates to the belief that the globalization make sit important to minimize cost disadvantages for domestic industry.

The endogenous factor in environmental regulation itself promoting policy transfer in environmental regulation was a widespread feeling in that established approaches in environmental policy in particular had reached the end of the road. This feeling was particularly intense in the United States where the trench warfare between business and regulators made progress in regulating hazards slower than the rate at which they were identified. The constant court challenges to new regulations and conflictual relations between inspectors and businesses impeded progress in environmental policy. Yet it was not only Americans environmental regulators who believed that new approaches were needed. Vast new challenges (such as tackling global warming) awaited. Unsolved environmental problems often included non-fixed sources of pollution such as lawn mowers or fairy cattle rather than fixed sources of pollution such as the smokestacks of power plants that are intrinsically easier to monitor and regulate. Environmental policy makers in advanced industrialized countries generally agreed that the easy to pick, low hanging fruit in combating pollution had already been picked. The remaining problems were intrinsically more difficult to address. There was a considerable interest represented in OECD

reports in alternatives approaches to regulation revealing a widespread interest by regulators around the world in finding alternative techniques.<sup>17</sup>

The second influence promoting policy transfer was globalization. Regulation is at the forefront of debates about competitiveness. Nivola's collection on American regulation, *Comparative Disadvantage*<sup>18</sup>, explores the argument that the legalistic, adversarial character of regulation adds expense to business that cannot be afforded by the United States in an era of global competition. One of the factors pushing the Dutch to implement the Kyoto Accord through the Covenant system of voluntary agreements between industries and the state was the wish to avoid taxes or regulations that might discourage investment in the Netherlands. As we shall see below, discussions of regulation in Britain often focused on what impact different regulatory schemes had on attracting direct foreign investment. In Wisconsin, as we shall see, the paper industry faced intensified global competition and warned state officials that it could not afford further regulatory requirements that were not accompanied by off-setting cost reductions.

Academics, international organizations and most importantly in the examples offered below, government officials themselves have tried to meet this increased demand for new policy ideas through international contacts. Partly because of pressures to reach international agreements such as the Kyoto Accord on global warming, national and even sub-national regulators were more in contact with each other than ever before. State level regulators in the Wisconsin DNR or the New Jersey environment agency know what is being tried in the Netherlands or Germany and have personal contacts with their counterparts in those countries. Barry Rabe has written a stimulating study of how, after Bush rejected the Kyoto Accord, a number of American states set about implementing it at a sub-national level drawing on expertise and policy ideas from other countries.<sup>19</sup> New Jersey, for example, was heavily influenced by the approaches adopted in the

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<sup>17</sup> Donald F. Kettl (ed.) *Environmental Governance: A Report on the Next Generation of Environmental Policy* (Washington DC: Brookings Institution, 2002.)

<sup>18</sup> Pietro Nivola (ed) *Comparative Disadvantage?* (Washington DC: Brookings Institution, 1997.)

<sup>19</sup> Barry G. Rabe, *Statehouse and Greenhouse* (Washington DC: Brookings Institution Press, 2003.)

Netherlands. Wisconsin officials visited the Netherlands and Germany regularly to explore how their approaches to environmental policy worked in practice.

Regulation therefore embodies particularly well the apparent paradox discussed earlier. Whereas political scientists have stressed how enduring are national differences, policy makers have looked at the experience of other countries for alternatives to traditional regulation that can meet popular demands for a cleaner environment without adopting what might be labeled “anti business” taxes or requirements. Although academics (including myself) have cautioned against the possibility of successful policy transfer in regulatory policy, real life policy makers have tried to push ahead. The remainder of this paper explores what happened when officials in Britain and an American state, Wisconsin, attempted to borrow regulatory approaches from other countries, approaches that to an important degree go against the grain of their traditional regulatory policies.

The examples differ in how explicit was the attempt at policy transfer. In the case of taken from the United States, the attempt at policy transfer was very conscious and very radical. In the late 1990s, the State of Wisconsin attempted to create a more or less neocorporatist system of environmental regulation in which a board representing business, environmental groups and government would encourage and reward firms that went “beyond compliance” with existing regulations in pursuing measures to protect the environment.

In the same period, the Blair government announced a series of measures that were intended to raise environmental standards without resort to new laws or regulations. Firms were to be encouraged by a combination of government and financial institutions to monitor and report publicly on their environmental performance. Crucially for our purposes, the drive to use environmental reports for this purpose was to be promoted and enforced not through law or regulation but by a combination of appeals from government ministers for firms to behave as responsible citizens and by pressure from private sector actors. Financial institutions such as the Stock Exchange authorities, accountants and large insurance companies were recruited by the government as allies for the campaign on the basis of arguments that they too had an interest in

knowing what environmental problems corporations generated and what they were doing to deal with them. How, the government asked, could an insurance company evaluate risks, an accountant vouch for the health of a company or a broker bid on a stock without knowing whether or not the company concerned might be held responsible for an environmental disaster? In one of its cleverest moves, the government obliged the trustees of pension funds to announce annually whether or not they took environmental performance into account in making investment decisions; trustees could announce each year that they did not, but the government correctly predicted that few would do so. Another approach was used to combat global warming caused by greenhouse gasses. The government introduced a substantial new tax on energy use, the Climate Change Levy (CCL) that industrial sectors could, however, avoid almost entirely by negotiating agreements with the government to protect the environment by reducing energy use. This attempt at policy transfer was less explicitly based on foreign examples. However, British initiatives clearly drew on continental European traditions of sectoral industrial self-government in the case of the CCL abatement plan and, in the case of the campaign to promote self-reporting by corporations, on notions of private sector responsibility for providing public goods more common in countries such as Germany than in the UK. In both of these countries, innovations in regulatory policy were made by governments eager to both improve the environment and yet avoid seeming anti business or inattentive to competitiveness. Wisconsin struggles to escape from its image as an anti-business “tax [and regulatory] hell.” The Blair government was eager to avoid being seen as “Old Labour” in disguise, taxing or regulating business instead of promoting economic success. Most importantly for our purposes, however, in both cases, governments set out to borrow policy approaches that were derived from very different system. Academics agree that the United States and Britain are to be grouped among the liberal market economies. Yet here were two governments attempting to borrow policy approaches that reeked of organized capitalism. Emphasizing the importance of industrial self-governance through institutions such as trade associations or tripartite boards such as Green Tier’s was characteristic of organized capitalist

systems, not liberal market economies such as the USA or UK. We might expect of such attempts at cross-category policy transfer that, like Dr Johnson's dancing dog, the wonder would be not that it was done badly but that it was done at all.

What actually happened in practice, however to these attempts at cross category policy transfer? The remainder of this paper attempts to answer that question. Did going against the grain work?

### *Britain; The Move to Strengthen Environmental Reporting*

Britain was a slow starter in terms of the adoption of environmental reporting. Guthrie and Parker found some level of environmental reporting in 1990 in 14% of UK companies compared with 21% of Australian and 53% of US.<sup>20</sup> There seems to have been a rapid increase, however. Thomas and Kenny reported that in their study of environmental reporting by non-American companies in 1994, just over half (13 out of 24) UK companies provided environmental disclosures in their annual reports, about the same proportion as in other the other nine countries they surveyed.<sup>21</sup> While they caution that their sample was too small (86 companies) to make reliable cross country comparisons possible, it is striking that they found that environmental reporting by UK companies was more thorough than most in that included quantitative data as well as verbal commentary on companies' environmental impacts. Robert Gray, an academic expert on environmental reporting, saw evidence of a "phenomenal" upsurge in the early 1990s<sup>22</sup> though US companies tended to report predominantly good news, perhaps for fear of legal liability if the admitted to bad. By 1994, thirty British companies were producing "stand alone" environmental reports.<sup>23</sup> However, the upsurge in reporting seemed to be petering out shortly thereafter. A Financial Times reporter in 1994 found that for the majority of

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<sup>20</sup> J. Guthrie and L.D. Parker "Corporate Social Disclosure Practice: A Comparative International analysis" *Advances in Public Accounting* 3 (1990) 159-75.

<sup>21</sup> Paula B. Thomas and Sara York Kenny "Environmental Reporting: A Comparison of Report Disclosures and Popular Financial Press Commentary" Unpublished Paper, April 1997.

<sup>22</sup> Andrew Jack "Survey of Environmental Management" *Financial Times* 22 December 1993.

businesses, environmental reporting seemed to be “a waste of time and money.” Moreover, in the view of both Greenpeace and City analysts, the quality of most environmental reports was low, “still the product of the public relations industry” in the words of a Greenpeace spokesman.<sup>24</sup> In April 1996, a joint advisory committee of the Departments of the Environment and Trade and Industry (ACBE) found that the pace of environmental reporting in the UK had slackened.<sup>25</sup> In 1997, a survey of 600 large companies (including all the FTSE 100) by a financial monitoring firm, Company Reporting, found that while 29% made environmental disclosures, only 18% made “substantive” statements, only 2% quantified targets and 1% did so in monetary terms. The report concluded that specific, useful environmental data are extremely rare.<sup>26</sup> In 1998, Pensions Investments Research Consultants, an investment advisory and corporate governance lobby reported that 70% of the FTSE 100 companies mentioned the environment in their annual report and 40% issued separate environmental reports. Below the FTSE 100, however, the percentages dipped sharply and that in general companies were still failing to provide investors with timely, comparable data on corporate environmental performance.<sup>27</sup>

The Conservative government paid little attention to the issue. Heseltine, then President of the Board of Trade, gave what was seen as an “official blessing” for it in a speech in 1994.<sup>28</sup> The government organized a seminar on environmental reporting and the role of financial institutions in November 1994. In March 1996, Joan Ruddock, then the Party’s frontbench spokesman on the environment, announced that a Labour government would enact legislation to make environmental reporting compulsory.<sup>29</sup> However, even as Ruddock made this

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<sup>23</sup> Roger Adams, Tessa Tennant and Lucy Varcoe “Companies Yet to Give the Green Light” *Financial Times* 28 April 1994.

<sup>24</sup> Peter Knight “Business and the Environment; Second Push for Green Reporting” *Financial times* 16 November 1994.

<sup>25</sup> “Publications Review: ACBE on Financial Sector Reporting” *Environmental Liability Report* 1 April 1996.

<sup>26</sup> Jim Kelly “Business and the Environment: Could Try Harder” *Financial Times* 17 April 1996.

<sup>27</sup> “Going Green” *The Accountant* April 1998.

<sup>28</sup> “The Greening of Accounting” *World Accounting Report* 1 March 1995.

<sup>29</sup> “Labour Government Would Enforce Environmental Reporting in UK” *Corporate Accounting International* March 1996.

announcement, she left open the possibility that the legislation would be given a low priority. “We will need to consult with industry itself; we are not going to rush into this” Ruddock commented.<sup>30</sup> The Labour Party had spent the previous year working to strengthen its relations with business and, it appeared, was not about to endanger that relationship now. By April 1998, the Labour government had settled down to an attempt to bring about “voluntary” environmental reporting by threatening to legislate if companies failed to act. Michael Meacher, the environment minister, coupled this general threat with what was seen as the “unusual step” of naming companies that he thought were failing to provide adequate environmental reports.

“Marks and Spencer discloses its environmental policies – so why does not the House of Fraser? We can see what Sainsbury’s and Tesco are doing – but how far behind are their rivals Asda and Safeway? BT knows it’s good to talk, so why does not Cable and Wireless?”<sup>31</sup>

In November, 1998, the *Financial Times* asked “Can companies go on ignoring environmental reporting?” and answered “It looks an increasingly unwise option as Michael Meacher, the Environment Minister, keeps up pressure on industry to show it is serious about green reporting...”<sup>32</sup> In 2000, Meacher was still threatening to “name and shame” companies that did not produce adequate environmental reports. The situation continued to improve but if the voluntary approach did not work fast enough, the government would introduce compulsory reporting.<sup>33</sup> Meacher himself favored legislating but was prevented from so doing by arguments from the Department of Trade and Industry (DTI) that Britain must not undertake measures that would seem hostile to business. In October 2000, the Prime Minister himself joined the campaign to promote reporting by moral suasion challenging the top 350 companies to adopt environmental reporting by the end of 2001.

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<sup>30</sup> “Environmental Reporting Compulsory if Labour Elected” *The Accountant* April 1996.

<sup>31</sup> “Reporting Threat To Companies” *Financial Times* 7 April 1998.



The Labour government's approach to environmental reporting therefore rested on three legs. The first was to threaten to legislate if companies did not adopt environmental reporting "voluntarily." The second was to mobilize financial institutions notably the large insurance companies and the Stock Exchange to demand that companies listed on the Exchange or in which they owned stock issue environmental reports. The third strategy was to work through accounting organizations and the Turnbull committee on company law to change corporate governance so that managers reported on – and were therefore attentive to – the environmental and social impact of their activities.

However, companies seeking to adopt environmental reporting faced significant practical problems including a shortage of qualified accountants and an absence of agreed standards. The Big Five accounting firms had to hire additional people from outside accountancy to form multidisciplinary teams working on environmental assessment though the approach remained based on a conventional financial audit. The Federation des Experts Comptables Europeens (CEE) started attempts in the late 1990s to generate generally agreed standards. A struggle developed within the accounting profession over the attempts by the chairman of the Accounting Standards Board, Sir David Tweedie, to adopt a Statement of Principles that included environmental reporting. The ASB, to the horror of some of the major accounting firms, reported that "We attach great importance to the potential of company law to achieve a proper measure of corporate responsiveness to wider interests through transparency and accountability. We believe that this should include the wider environmental and social issues where the responsible exercise of corporate power has a major role to play."<sup>34</sup> New consultancies such as SustainAbility, Integrity Works and the New Economics Foundation developed to validate environmental reports.

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<sup>32</sup> Jim Kelly "Companies Under Pressure to Tackle Green Reporting" *Financial Times* 5 November 1998.

<sup>33</sup> Dan Bilefsky "Industry Threatened Over Green Reports" *Financial Times* 3 March 2000.

<sup>34</sup> Jim Kelly "Changing Our Values We Need to look At Way of Measuring Intangible Asset Such as the Future" *Financial Times* 11 March 1999.

As we have mentioned earlier, part of the government's strategy was to have the financial sector pressure companies to adopt environmental reporting. The Conservative government had been brushed aside by the Stock Exchange when its advisory committee (ACBE) had asked the Stock Exchange to endorse guidelines on environmental reporting.<sup>35</sup> Under Labour, however, the Stock Exchange became more cooperative. Major financial institutions acting out of their own self-interest but with the encouragement of the government became more active. Insurance companies in particular accepted the need to act to protect the environment. The Association of British Insurers published a document "Climate Change: Implications for Insurers" that argued that climate change was a reality and one that contributed to increasing claims on its members.<sup>36</sup> Morley Fund Management, the stock trading arm of the insurance giant (then called CGNU) recruited a team of nine socially responsible investment experts to evaluate companies' performance. It also promised to vote against the adoption of annual accounts of companies that failed to produce environmental reports.<sup>37</sup> Morley was followed by a number of large investors including the Local Authority Pension Fund Forum (LAPFF).<sup>38</sup> Anthony Sampson, Director of Environmental Management at CGNU was appointed chairman of a committee, Forge, sponsored by the DTI and DEFRA to promote voluntary environmental action and reporting.

The question remains, however, what all this effort accomplished. A report in the summer of 2002 by SalterBaxter concluded that 103 of the top 250 FTSE 250 companies produced substantial environmental (and sometimes social responsibility) reports. Fifty of these companies issued reports for the first time in 2001-02. However, 87 companies had no more than short notes in their annual reports and the rest provided limited data with no detail. Only 36 of the FTSE 250 had their environmental reports independently audited. While the SalterBaxter officials believed that many more companies will report in the coming year, so far the story is one of limited

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<sup>35</sup> Leyla Boulton "Common Standards Urged for Environmental Reports" *Financial Times* 16 March 1998.

<sup>36</sup> "Climactic Change Set to keep Alarm Bells Ringing" *Financial Times* 12 September 2001

<sup>37</sup> "Morley Beefs Up SRI Approach" *Financial Times* 16 April 2001.

success. DEFRA officials continue to regard the drive for environmental reporting as a success because so many companies issue some sort of environmental report. However, critics of the program point out that many of these reports amount to little more than pious declarations and a substantial minority of major companies still issue no report at all. This very limited response to appeals from the Prime Minister himself, the Environment Minister and their supporters in the private sector suggests that as the varieties of capitalism school would have predicted, the capacity for industrial self-governance in the UK is limited. We shall return later to the question of whether this is a fair conclusion.

### *Climate Change Levy (CCL)*

The Climate Change Levy (CCL) was introduced as part of the Blair government's commitment to tackling global warming and implementing the Kyoto Accord. The Marshall Report in 1998 had favored the use of market incentives and taxes to promote conservation rather than relying on regulation. The government's announcement in March 1999 that it was imposing an energy tax, the climate change levy, on industry was seen as following its recommendations.

The CCL was intended to be an incentive to better environmental performance, not a means of raising additional revenue. Business was supposed not to be made worse off by the tax; revenues were to be recycled through a reduction in payroll taxes (national insurance contributions) paid by employers. Moreover, energy intensive sectors covered by the Integrated Pollution Prevention and Control (IPPC) program of the European Union were to be allowed to negotiate substantial (80%) reductions in the levy in return for those sectors agreeing targets for improving their energy efficiency. The Deputy Prime Minister and Secretary of State for the Environment, Transport and the Regions, John Prescott, wrote as soon as the policy was

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<sup>38</sup> "C&W Faces LA Pressure over Options" *Financial Times* 16 July 2001

announced to the trade associations of the main energy intensive sectors asking them to begin negotiations.<sup>39</sup>

The CCL was open to serious criticism from the outset. It failed to target the sources of green house gasses as precisely as possible because the tax was levied on energy use rather than carbon based fuels that cause green house gas emissions. In order to achieve its objectives, the tax should have been a carbon tax, not an energy tax. There was no basis in terms of preventing green house gas emissions for imposing the tax on the use of hydroelectric power, for example. The general mechanism for recycling the CCL, the rebate on national insurance contributions, also caused serious economic distortions that the government can scarcely have intended. The CCL would often – probably usually – fall most heavily on capital - intensive industries. The national insurance rebate would benefit most labor-intensive industries. Another way of describing this pattern would be to say that it favored service industries (generally labor intensive) over manufacturing (generally capital intensive.) This can scarcely have been the government’s intention given the long history of concern about British manufacturing. There were also distributional problems within the category of energy intensive industries. EU rules against disguised subsidies to industries probably prohibited tax rebates to industries not covered by its IPPC program. In general, however, it was clearly extremely important that agreements be reached with energy intensive sectors so that they received a large rebate rather than relying on the national insurance refunds to recover their money. The fear of losing competitiveness and inward investment was constant. The head of Invest in Britain, the government agency, argued that the Treasury was shooting Britain “in the foot” by measures such as the CCL.<sup>40</sup> Sony cited the CCL as a major reason for cutting 400 jobs at its Pencoed plant in Wales.<sup>41</sup>

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<sup>39</sup> “Climate Change Levy Will Help UK Meet Greenhouse Gas Targets” Budget 99 Section, *Financial Times* 10 March 1999.

<sup>40</sup> Robert Shrimpsley “Treasury ‘is shooting Britain in the foot by scaring off investors’” *Financial Times* 4 July 2000.

<sup>41</sup> Kevin Brown and Jim Packard “Sony jobs ‘lost to euro and costs’” *Financial Times* 17 October 2000.

The government focused initially on nine trade associations. There was clear recognition that this was a novel policy approach for British government. “We have never tried anything like this before. This is ground breaking stuff” one government official remarked.<sup>42</sup> An intensely hostile reaction from industry developed, however, prompting the Trade and Industry Committee of the House of Commons to report that “The government is right to make a bold commitment to meeting its Kyoto target, but that target must not be met at the expense of British manufacturing industry.”<sup>43</sup> The Engineering Employers’ Federation described the CCL as the more damaging to manufacturing industry than any other piece of legislation introduced by the government in recent years. EEF’s director general claimed the CCL would “severely damage our competitiveness, drive production to less environmentally friendly economies and discourage the high value-added investment the government is so keen to encourage.”<sup>44</sup> The CCL would cost 95, 000 jobs, just over half of which would come for the engineering sector. Government concessions followed such as exempting fuels used as a raw material in the chemical, steel [coke] and aluminium production. The government might have argued that sectors willing to make environmental pacts with the government had little to fear from the CCL because they would receive almost all of it back as a rebate in return for the environmental plan they had negotiated with DEFRA. Instead, the government made concessions. The Chancellor of the Exchequer, Gordon Brown, under pressure from the Department of Trade and Industry, reduced the CCL from 1.7 billion GBP to 1 million GBP in his 1999 budget.<sup>45</sup> The government also made clear that it would allow emission trading as a means of achieving targets.

By the end of 1999, ten sectors – accounting for over half the energy used in manufacturing – had supposedly reached agreement on energy efficiency targets with the

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<sup>42</sup> George Parker “Energy Tax Rebate Offer to Companies Cutting Fuel Bills” *Financial Times* 29 March 1999.

<sup>43</sup> Vanessa Houlder “MPs Warn Energy Tax Is Threat to Economy” *Financial Times* 20 July 1999.

<sup>44</sup> Peter Marsh “Engineers Warn on Energy Tax” *Financial Times* 23 July 1999.

government.<sup>46</sup> These were cement, the Food and Drink Federation, glass, non-ferrous metals, aluminium, paper, chemicals, foundries, steel and ceramics. Environmental groups argued that the government had made it impossible to enforce agreements because it had negotiated them with trade associations rather than with individual companies: “The government may have gone for a soft option purely to get around the short-term problem of a lot of whinging from the industry lobbies” Friends of the Earth complained. “The sectors are going to have to enforce this and the history of voluntary agreements in this country is not encouraging.”<sup>47</sup> However, by August 2000, it remained the case that not one agreement had actually been signed.<sup>48</sup> While the delays were partly the fault of government and the need to reconcile rebates with EU law, it is also probably that industry dragged its feet hoping that the CCL might be withdrawn. The Conservative Party’s commitment to abolish the CCL may have provided some encouragement (though given the Party’s electoral prospects, perhaps not much!) In February 2001, the government announced agreements with 15 sectors.<sup>49</sup> European Union approval for rebates was secured in March 2001. By April 2001, agreements had been signed with almost all the 40 target sectors.<sup>50</sup>

At first glance, the government’s success in negotiating such a large number of agreements with sectors was impressive and promised a large reduction in green house gas emissions. If all targets were attained, there would be a reduction in carbon emissions of 2, 500 000 tons [2.5MtC/year] a year.<sup>51</sup> Yet it was not clear that the achievement was as real as might be supposed. Small and medium size enterprises were generally outside the scope of the agreements

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<sup>45</sup> John Griffiths “Brown looks Less Green After Easing Environment Taxes” *Financial Times* 10 November 1999.

<sup>46</sup> “UK Government Agrees Energy Efficiency Targets with Major Industries Including Steel” *Financial Times* 21 December 1999.

<sup>47</sup> Kevin Brown “Industries Strike Deal Over Climate Change Levy” *Financial Times* 22 December 1999.

<sup>48</sup> Kevin Brown and Vanessa Holder “A Heated Climate with little Outlook For Change” *Financial Times* 15 August 2000.

<sup>49</sup> Vanessa Houlder “Carbon Emissions Cuts Agreed With 15 Industries” *Financial Times* 15 February 2001.

<sup>50</sup> Kevin Brown and Vanessa Houlder “Go Ahead on Green Discount” *Financial Times* 29 March 2001.

<sup>51</sup> William Nix for AEA Technology *Climate Change Agreements – Sectoral Energy Efficiency Targets* October 2001.

and had little sense of how to benefit from rebates. The agreement with EU meant that only firms in heavily polluting industries covered by the IPPC were eligible for rebates while cleaner but energy intensive industries such as industrial gases were not.<sup>52</sup> A survey of 250 managers in 57 companies conducted by London Electricity suggested that only 37% of businesses had taken action to save energy because of the CCL.<sup>53</sup> Moreover, as Friends of the Earth had pointed out, it was hard to see what consequences would follow for firms if they failed to attain targets agreed by their trade associations.

### *Wisconsin's Green Tier*

The Green Tier program consists of two major features. The first was the creation of a Council that we have to consist of representatives of environmental organizations businesses and local governments, appointed by the Governor. The Council was to be responsible for the development and implementation of the Green Tier program.

The second element in the program provides recognition for businesses that achieve different levels of superior environmental performance. In order to be eligible for Tier 1, a business must not have incurred criminal penalties for infractions of public health or environmental laws for sixty months, civil judgments or penalties for 36 months and or an enforcement action by the Wisconsin Department of Justice on environmental issues for 24 months. Businesses must also have developed an Environmental Management System that, as is usually the case with EMSs, identifies the business's current performance levels, develops plans for improving it, monitors the results annually (in a process known as EMS auditing) and develops plans for further improvements. Every third EMS evaluation must be performed by an external "third party") auditor. In return for a business's superior performance, the DNR would provide public recognition for its success. The business would be allowed to use the publicity and

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<sup>52</sup> Matthew Jones "companies and Finance; The Climate Change Levy" *Financial Times* 2 April 2001.

<sup>53</sup> Matthew Jones "Levy Fails to Encourage Business to Save Energy" *Financial Times* 24 June 2002.

logo it receives for its environmental performance in promoting its products or seeking to attract capital. The DNR would assign an official to expedite and facilitate the business's dealings with the department. Moreover, the DNR would cut back its inspections of the business's plants to the lowest level permitted by law.

Businesses have to achieve a higher level of performance to be eligible for Tier 2 of Green Tier but are also eligible for greater rewards if they succeeded. Businesses have to stay out of trouble for lengthier periods than for Tier 1 (ten years without criminal penalties, five years without civil judgements) while, as for Tier 1, the company had to avoid an enforcement action by the state Department of Justice in connection with environmental law for 24months. Entry into Tier 2 also requires that businesses create an EMS that is consistent with the best international practices set out in the ISO 14000 series of the International Organization for Standards based in Geneva. Another more stringent requirement than for admission into Tier 2 is that annual, rather than triennial, third party auditing was required. Finally, businesses admitted to Tier 2 are required to achieve "superior environmental performance" negotiated with the DNR and approved by the Green Tier Council. This vaguely defined superior performance agreed in a contract between the business and the state lasting for between three and ten years is intended to take businesses well beyond mere compliance with existing law. Agreements can also be made with approved ("chartered") organizations, most probably trade associations that are able to develop and enforce plans for improving environmental performance, another bow towards neocorporatism. In addition to the benefits for Tier 1 businesses, Tier 2 businesses will be exempted from minor permitting requirements, receive accelerated approval for permit changes, be subjected to fewer inspections, and the reporting requirements on their operations will be reduced. It is intended –as with Tier 1 certification – that businesses will benefit commercially from the State's recognition of their environmental performance, for example in marketing products and attracting capital.



We may summarize these rather complicated provisions as follows. Firms that achieve higher levels of environmental performance will be recognized by the award of a Green Tier logo. It is hoped that this award will help firms commercially thereby providing a commercial incentive. The DNR will also regulate environmental high fliers more flexibly, sympathetically and predictably providing an administrative inducement to superior performance. In terms of governance, Green Tier borrowed two features common in organized capitalist systems. The first was the extensive use of self-governance by businesses as they adopted environmental management systems and “beyond compliance” targets for environmental performance. The second was a neocorporatist structure, the Green tier Council, that sought to promote increasing cooperation between interest groups, business and government within the framework of the Green Tier Council.

### *The Problems*

Some businesses as well as the top officials of the DNR realized that more collaborative approaches to regulation had the potential to solve many of their problems by the early 1990s. The Wisconsin Paper Council approached the DNR in the early 1990s with a deal that rested on many of the points that we have encountered already. Environmental concerns, the Paper Council recognized, were not going to disappear. Yet paper companies feared that further regulation could undermine their ability to compete nationally and internationally. The Paper Council approached the DNR with an offer; the industry would promise to make progress on reducing discharges of a limited number of the pollutants of most concern to the DNR in return for a DNR promise not to burden the industry with additional regulations covering other problems. The agreement was generally successful and notable reductions in all but one of the problem discharges were achieved; the one problem that was not resolved was in part unsolvable because its elimination would have limited progress on other pollutants. The state also adopted an experimental program in which up to ten corporations could enter into agreements with the DNR to improve their

performance “beyond compliance” in return for greater flexibility from the DNR in the imposition of regulations.

Why, then, has it been difficult for Wisconsin to adopt regulatory change more broadly in the Green Tier program?

The first and fundamental problem that confronted attempts to reform regulation was the deep level of distrust that exists between business, environmental groups and the DNR. In Wisconsin as in the country more generally, there was a tendency by all these groups to distrust the motives of the others. Environmentalists believed that business executives were simply trying to avoid obligations to protect the environment. Business executives felt that environmentalists were more interested in competing with each other for members by taking extreme positions than in making sound policy that balanced environmental concerns with other objectives such as economic growth. Both business and the environmentalists believed that the DNR was really sympathetic to their opponents. Business groups were inclined to see DNR officials as wedded to an anti business approach to environmental policy; environmental groups, conscious of the links between business groups and Republicans, believed that DNR policy was designed to allow business to overcome the environmental policies that they had won with difficulty in the past. A lawyer who was brought into the policymaking process as a neutral facilitator was struck by the lack of trust between all parties involved; environmentalists and business not only distrusted each other but also distrusted the DNR in addition. In general, she thought, the tensions between the DNR and the environmentalists were the greatest. An executive from the paper industry doubted the sincerity of environmental groups arguing that moves towards cooperation or compromise by them took away their ability to use “scare tactics” to raise money. A utility executive questioned whether environmental groups had any special standing; everyone wants to protect the environment he argued, not just environmental groups who had no right to claim to speak for the public or the public interest as a whole. Even after the numerous meetings to develop Green Tier

(discussed later) one business lobbyist said, “Do I trust Caryl Terrell (of the Sierra Club” anymore [than before?] Bluntly, no.” A senior DNR official argued that the most serious problem in achieving Green Tier was the “real need to build a degree of trust that does not exist and will not exist until we learn to exercise a degree of civility.... in the process.”

The distrust between environmentalists and business spilled over into the political system more generally. Liberal Democrats were likely to see arguments for innovation in environmental regulations as arguments for abandoning the protection of the environment; conservative Republicans believed that proposals to reform regulation were a distraction from the real goal of repealing excessive regulations.

The second problem in securing reform was that although both business and environmentalists were well organized, they did not have clearly established peak associations that could bargain with each other. The environmentalists were on the face of it the least cohesive. Only two environmental organizations groups – the Sierra Club and Citizens for A Better Environment – were involved extensively in discussions about Green Tier. Some groups that would have seemed to be obvious potential participants such as the Environmental Defense Fund and the Nature Conservancy were not. As it happened, however, environmental groups were able handle prevent potential rivalries and resentments emerging through informal means. Chronically short of resources, environmental groups not involved seemed to have agreed informally that the two groups involved could in effect represent the environmental movement more generally. One environmentalist involved argued, “We have a regular means of communicating with other groups dealing with other(s) [environmental] organizations. We trust each other enough that we don’t all need to go to every meeting.” Ironically the problem seemed to be greater for business. As we shall see below, major differences emerged between the peak association for business in Wisconsin, Wisconsin Manufacturers and Commerce (WMC) on the one hand trade and both trade associations and individual corporations on the other. One major

electricity utility, WEPCO, resigned from WMC in part over these differences; the business people involved in Green Tier came close to publicly rebuking WMC for its tactics.

A third problem was that the attempts to achieve a closed policy process in which the environmentalists and business would bargain with each other kept breaking down. One fundamental problem was that Green Tier needed legislation to be established. Changes in environmental policy required legislation. Collaborative regulation could not be introduced by administrative fiat. The need for legislation placed reform in a more precarious position. At the state level as at the federal, there are numerous points at which a bill can fail --- in committees, in the Assembly, in the Senate or by the Governor's use of what is not merely a line item but letter veto.

The intention of DNR officials in planning the process by which Green Tier was developed was to promote trust between interests involved. The Green Tier Advisory Committee was central to this process. Composed of eighteen people from industry, environmental groups and law, the Committee was intended to create the realization among groups used to thinking of themselves as adversaries that they could instead be partners. The Committee was surprisingly successful in this endeavor. By the end of the process, the members of the committee had united behind the Green Tier proposal described below. Unfortunately, no sooner had the Committee endorsed a plan to be the basis of legislation than the hard won unity was undermined.

The original attempt to enact Green Tier had been based on a plan to include it in the state's Budget. This was an attractive idea for a number of reasons, the most important of which was that the Budget is the one piece of legislation that the legislature must pass. While attempts to include policy making in the Budget are routinely decried, every group and legislator hopes to avail it if the opportunity the Budget represents. The inclusion of Green Tier in the Budget therefore enhanced its prospects considerably. However, the budget also struck the WMC as a

wonderful opportunity to secure the enactment of one of its longstanding legislative favorites, audit immunity. Audit immunity is the idea that businesses that detect a breach of environmental regulations themselves and who report the breach to regulatory authorities should be exempt from penalties or proceedings. The Green Tier Advisory Committee had not discussed audit immunity was not discussed by the Green Tier Committee, however. It was highly unlikely to approve the form of audit immunity favored by WMC because environmental groups were strongly opposed believing that they would be cut out of the regulatory process by secretive deals between businesses invoking audit immunity and the DNR. The WMC nonetheless used its links to the office of the Republican Governor, Scott McCallum, to have audit immunity grafted onto the Green Tier component of the Budget. The environmentalists on the Green Tier Advisory Committee saw this move as duplicitous. Many business members of the Committee sympathized with this view. The staff of the WMC, however, believed that they had merely behaved as any interest group would; they had seized whatever opportunities the political system offered them. The fact that the Green Tier Advisory Committee had worked to achieve consensus was no barrier to using links to the Governor's Office to achieve a cherished policy goal. Unfortunately for WMC, the profound feeling of betrayal their tactic created in the environmental groups prompted them to use their allies in the legislature to block the entire Green Tier proposal, including Audit Immunity. With difficult enough issues to face in the Budget, legislative leaders agreed to strip the now contentious Green Tier proposal from it. Proponents of Green Tier were faced with the more daunting task of securing its passage as freestanding legislation. What had gone wrong? In brief, the political system had worked as we predicted earlier; interest groups that failed to win what they wanted in one forum (the Green Tier Advisory Committee for WMC) encouraged them to shift to a venue in which they could (the Governor's Office.)

Several lesser problems also contributed to Green Tier's problems. Neither at the level of the Wisconsin DNR nor the federal Environmental Protection Agency (EPA) were all officials in

favor of moving away from the traditional “command and control” mode of regulation. Finally, neither business nor environmental groups showed much inclination to fight for Green Tier as opposed to being willing to accept it if it happened. Green Tier is not something we’d go in and lobby for “said one utility lobbyist. “We’ll lobby for Green Tier if we are asked” a paper company lobbyist remarked “but it isn’t a priority.” “Will business spend a lot of capital to get it passed?” a business lobbyist asked and answered his own question: “No.” An environmental lobbyist explained participating in the Green Tier process with a marked lack of enthusiasm. “It’s a big time commitment to talk about something you don’t think is going to happen but you need to be there to make sure your interests are represented.” Green Tier might be good public policy but it was not worth fighting for. Part of this difficulty stemmed from the compromise between environmentalists and business that Green Tier represented. Business executives had expressed fears from the first meetings of the Green Tier Council that it did not offer them sufficiently great incentives to participate.<sup>54</sup> Environmentalists, of course, feared that it offered business too much.

As of spring, 2003, the Green Tier program remained stuck in limbo. It had been re-introduced in the State Senate and Assembly but prospects for passage remained very uncertain; in the previous session, it had passed the Assembly triumphantly but not the Senate. In 2003, prospects looked better in both chambers but the vexing issue of audit immunity once again resurfaced. As Green Tier was very much identified with officials – a former Governor and a former Secretary of the DNR – who had left the scene, it seemed as if the prospects for Green Tier were poor after the Democratic victory in the November gubernatorial election. The repeated attempts to revive Green Tier illustrated its popularity; contrary to some cultural explanations, in the abstract, people were more attracted than repelled by the idea of creating an institutionalized, collaborative relationship between business, government and interest groups. In practice, however, they could not make the idea stick.

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<sup>54</sup> Minutes of the Green Tier Advisory Council July 20 2000.

## *Conclusions*

How do these cases relate to the contrasting views of the policy transfer and varieties of capitalism literatures? In both the USA and the UK, governments have attempted to find alternative policy approaches that allow them to continue to pursue policy objectives in the face of the competitive pressures associated with globalization. As the policy transfer literature would suggest, policy makers were eager to try to learn from each other. British policy makers admired the contribution corporations make to governance in continental countries such as Germany. The British officials involved in developing the scheme for a climate change levy that could be reduced by negotiating a satisfactory environmental program with the Treasury were well aware of the sectoral agreements in the Covenant system operated by the Netherlands. The Wisconsin DNR was not only inspired by German and Dutch practice to attempt to create Green Tier but even took business executives to those countries to show them how such a scheme could operate in practice. Dissatisfied with the existing range of policy options in their countries, officials did indeed look around for alternatives, particularly for alternatives that offered the prospect of achieving higher standards of environmental performance without imposing taxes or regulations that might deter investment. Ironically in the face of early predictions that neocorporatism would have to be abandoned in the face of globalization, many of these alternative approaches are redolent of policy techniques used in countries in which more organized forms of capitalism are established. In both Wisconsin and Great Britain, policy makers borrowed approaches that would be familiar in other countries but were not their own. In a sense, therefore, the most obvious lesson to be drawn from these cases is that policy makers today are surprisingly willing to borrow ideas from other countries and engage in policy transfer. The extent to which the policy approaches borrowed diverged from current practices differed, however. The Wisconsin initiative was the boldest drawing explicitly in the least neocorporatist of countries on approaches used in two of the most (the Netherlands and Germany.) In Britain, there was at least an established

tradition of cooperation between regulators and regulated even though the new policies went beyond normal British practices in terms of reliance on private sector governance.

As saw at the beginning of this paper, influential schools in political science would predict that if governments are rash enough to try to borrow policy approaches from countries with very different economies and societies to their own, the policies they transfer will fail. Those who believe that we have differing, competing capitalisms would predict that the institutional (using the word in the widest sense to include interest group systems and patterns of business – government relations) differences between Wisconsin and Britain would doom attempts to import cooperative approaches practiced in countries with more “organized” forms of capitalism. The failure of Green Tier, for example, could be seen as the inevitable consequence of not having authoritative, monopolistic interest groups capable of striking a deal with government that all their members would respect and institutions within which bargaining between them could be contained. At a crucial moment, the business group, WMC, could not resist defecting from an agreement with environmentalists and government and shifting the institutional venue in quest of short-term advantage. Schools such as the “varieties of capitalism” approach would therefore have a ready -made explanation to hand. British and Wisconsin officials had attempted to borrow approaches to environmental policies practiced in what are called in the “varieties of capitalism” literature “organized” forms of capitalism and, in a somewhat older tradition, neocorporatist countries. In these countries, business interest groups recruit almost all potential members and enjoy a significant degree of authority over members. In Germany, trade associations representing firms in a particular industry have operated self-regulation schemes in which they set targets for members and appoint inspectors to insure that they have been attained. In the Netherlands, trade associations have negotiated binding agreements (Covenants) on topics such as climate change. In contrast, British trade associations achieve this degree of authority only intermittently and in a limited number of industries. The United States is always cited as the exemplar of market or



disorganized capitalism. Trade associations have no authority over members and are seen as organizations that merely provide services to them. In Germany, governments are seen as having a legitimate roll in persuading businesses to act in ways that might not be advantageous from a purely market perspective (for example by retaining production in a traditional but relatively expensive location.) British and above all American businesses in contrast are more likely to challenge the right of government to ‘intervene’ in their affairs.

The fundamental problem that has afflicted the attempts to import alternatives to traditional regulation into Britain and the United States might be said to be that they attempt to borrow a specific set of policies but cannot import the entire set of practices, assumptions, attitudes and institutions that underpin them. British companies did not always see why they should adopt environmental policies that they government had asked them to use but had not legislated to make them. Business groups in Wisconsin did not see why they needed to forgo political opportunities available to them as an interest group in the hope that a more European style partnership with other interest groups and government would be more valuable in the long term. Successful policy transfer depends on the compatibility of policies with patterns of state-society relations. The British were, as many political economists have noted, unable to import French style indicative planning to run their economy in the early 1960s or Scandinavian style neocorporatism thereafter; the structure of state-society relations was incompatible with these approaches. Attempts to import environmental policies from countries with more organized forms of capitalism into those with less encounter similar problems. Individual policies, no matter how attractive, cannot be grafted on very different patterns of state society relations than those in which they were developed.

Is it clear, however, that these attempts at policy transfer have been utter failures? Certainly many think so. Only last summer, for example, a private members’ bill was introduced by a Labour M.P., Linda Perham, calling for the enactment of compulsory environmental and

social reporting in the UK. Its sponsors argued that the Prime Minister's challenge in October 2000 for the top 350 firms to adopt reporting by the end of 2001 had failed with three quarters of the companies ignoring Blair's challenge.<sup>55</sup>

Yet a simple verdict of failure would be wrong in both countries. As usual, we have the job of deciding whether glasses are half full or half empty. Take the case of environmental reporting. While it is true that progress has been less than the government wished for, there has indeed been progress and we may even describe the UK as emerging as the leader in this field. By 2002, the top 100 UK companies were more likely than their German, French, American or Dutch competitors to be engaged in environmental reporting.

Corporate Environmental and HSE Reports by 1100 Companies By Country (%)

	Germany	U.K.	U.S.A.	Netherlands	France
1996	28	27	44	20	
1999	36	32	30	25	4
2002	32	49	36	35	

The initiatives of the British government may not have been totally successful. However, they did move the UK to the top of the class in a comparatively short period. Similarly, we can argue that the difficulties in establishing the CCL are less important than the fact that the agreements were actually made. The failure to adopt Green Tier in its entirety in Wisconsin might be less

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<sup>55</sup> *Bull and Bear Newsletter* Vol. 2 No. 13 June/July 2002 at 23 "UK: New Legislation Proposes Mandatory Corporate Reporting."

significant than the trend towards cooperation at a sectoral level that is evident in the BRAT program and agreements with specific companies such as Wisconsin Energy. A more complete reading of the situation may well suggest therefore that pressures to adopt new policy techniques had a greater impact than we might have anticipated. Attempts at policy transfer between very different political economies may fail yet still have important consequences shifting policy much further than would have been likely in the normal course of incremental policy making.