The importance of Environmental Economics lies on the fact that absolutely all economic activities performed by mankind are intrinsically linked to the environment, which provides all sorts of resources and also acts as a sink for our waste. Therefore, in order to keep paving the path of economic growth, it is mandatory to acknowledge, value, and consider the goods and services provided by the Earth’s environmental systems, to sustain the supply of resources and energy without breaking the equilibrium of the fragile natural environment.

Environmental Economics combines the study of environmental science with its interactions with human economic markets. It encompasses the understanding of the capacities and vulnerabilities of the planet, to adapt and respond to different challenges; considering natural resources as fundamental assets for the global economy, it explores the common interaction of economic analysis with market failure, externalities, property rights, and valuing the environment as a capital asset.

Typical problems that Environmental Economics can face these days are, for example, assessing how emissions policies and regulations can impact the productivity of businesses; how emissions regulations impact technology use, location and regional competitiveness when applied unilaterally; the role of the European Emissions Trading Scheme in reducing the global GHG emissions; allocating fishing quotas to protect certain species in a region; or finding the most appropriate market base instrument to control the use of fossil fuels in a country (tradable permit system, targeted subsidies or environmental taxes).
Environmental Issues

Market failure in Environmental Economics arises when among other things, the property rights attached to commodities and resources are inefficient or incomplete. Additionally, environmental degradation is an indicator of market failure, resulting from externalities associated with the consumption or production process of a public good or by an overuse of free access resources.

Other kind of environmental problems arise due to government failure allocating the right value to environmental resources, usually through the distorting effect of public subsidies. In an economist’s point of view, a perfect competitive market is one which has an efficient allocation of natural resources directed by the “invisible hand” of market price, with individuals seeking their self-interest and companies and organizations trying to maximise the social good as well as their own.

If Environmental Economics is so important, why was it not considered before?

Actually, it was: looking back, the first economic activities were strongly linked to the natural environment. People treasured their land and animals because they lived from them through agriculture, livestock, hunting, and fishing. We can even see that today, in primitive settlements of aborigines in South America. All their economic activity depends of nature, so in return, they mind it; they even ask for permission from “Nature” before cutting a tree and they do so in a very sustainable way, cutting only if it is extremely necessary and planting another one in its place.

Why have we only heard about environmental economics in the past four decades?

Classical and neoclassical economic schools of thought failed to address environmental issues of production and consumption, such as, allocation of resources, environmental impacts, and pollution, because they considered these matters as mere social issues.

The consequences of lacking environmental concern from corporations and governments became evident during the ’70s, when the level of environmental damage and pollution increased around the globe, and the instability of non-renewable resources was clear after the first oil crisis. As a result, the Environmental Principles and Policies emerged as a response to internalize the environmental problems to the economy, such as The Polluters Pay Principle, The Principle of state Sovereignty and Transnational Environmental damage, The Preventive Principle, The Precautionary Principle and later, The Sustainable Development Principle.

Currently, Environmental Economics plays a significant role facing contemporary environmental issues, at both national and international levels. It is essential to understand the causes and consequences of the misuse of natural resources, environmental degradation, contamination and climate change. It is the central piece for designing environmental policy-making around the globe.
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