

Short-Term Costs, Long-Term Gains: The Behavioral Challenge of Sustainability Regulation in the European Union

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The Paradox of Ambitious Sustainability Policy

The European Union (EU) recently positioned itself as one of the most ambitious regulatory actors in sustainability governance worldwide. With initiatives such as the European Green Deal, the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy for sustainable finance, the EU attempted to reshape the regulatory framework of economic activity fundamentally in member countries. The intention behind these policies is clear—sustainability should no longer remain a voluntary corporate commitment but become an integral component of economic governance in the EU.

Development of these sustainability related policies has also revealed a striking paradox. Regulatory initiatives are initially presented with considerable ambition and political momentum, but they often undergo significant revisions, huge delays, or partial softening during legislation or implementation. Political negotiations surrounding the CSDDD, for example, led to several adjustments that reduced the scope of corporate obligations significantly in comparison to earlier drafts. Similar debates emerged around the implementation timeline of the CSRD and the practical implications of the EU Taxonomy. At first glance, such adjustments appear to be the result of ordinary political compromise. The recurring pattern, however, suggests a much deeper structural tension in sustainability governance. Policies that promise substantial long-term benefits frequently encounter resistance once their short-term costs become visible.

I argue that the dynamics behind the softening of sustainability regulation can be better understood through lenses of behavioral economics and political decision-making. Sustainability policies typically generate diffuse long-term benefits, such as climate stability, resilient supply chains, and improved social standards, while imposing immediate and visible adjustment costs on firms and economic actors. In political systems characterized by electoral cycles such as the EU, economic competition, and public scrutiny, this temporal asymmetry creates a structural challenge for ambitious sustainability policy. Understanding this behavioral dimension is therefore crucial. The difficulty of sustaining ambitious sustainability policies does not necessarily derive from a lack of knowledge about environmental risks or social challeng-

es. It instead reflects the political and psychological difficulties of maintaining long-term commitments in the presence of short-term pressures.

The Rise of Sustainability Regulation in the European Union

Sustainability increasingly moved over the past decade from the margins of corporate responsibility to the center of economic policy, especially in European countries. The EU played a particularly prominent and dominant role during this development. With the launch of the European Green Deal in 2019, the EU articulated a comprehensive strategy to transform Europe into the world's first climate-neutral continent by 2050.

An essential component of this strategy involves integration of sustainability criteria into corporate governance, financial markets, and supply chain management. The Corporate Sustainability Reporting Directive (CSRD), for example, expands reporting obligations for European companies by requiring standardized disclosures on environmental, social, and governance (ESG). The directive seeks to enhance transparency and allow investors, regulators, and stakeholders to assess firms' sustainability performance more systematically and transparently (European Commission, 2021).

The CSDDD similarly establishes mandatory due diligence regarding environmental and human rights risks across corporate supply chains. Companies would be required to identify, prevent, and mitigate adverse impacts within their operations and value chains, extending corporate responsibility beyond the boundaries of individual firms.

Complementing such regulatory initiatives is the EU Taxonomy, a classification system designed to define which economic activities are environmentally sustainable. By providing a common framework for sustainable investment, the taxonomy redirects capital flows toward activities that greatly support the EU's climate objectives.

Combined, these initiatives represent one of the most comprehensive attempts worldwide to integrate sustainability into economic governance for nearly half a billion people in the EU. They reflect a broader and deeper transformation to the understanding of corporate responsibility, moving from voluntary commitment to legally binding obligation.

The ambitious scope of these policies has, however, generated considerable political and economic debate. Industry associations, national governments, and policy-makers have repeatedly raised concerns about administrative complexity, implementation costs, and competitive disadvantages. Several regulatory proposals have thus undergone significant revisions that reduced their scope or delayed implementation immensely. Such developments are not unusual during legislation, but the frequency with which sustainability policies have encountered resistance suggests that the underlying challenge is more fundamental.

Behavioral Explanations: Why Sustainability Policies are Politically Fragile

Insights from behavioral economics provide a useful framework for understanding why sustainability regulation often encounters political resistance significantly once implementation begins.

Present Bias and Temporal Asymmetry

One of the most robust findings in behavioral economics is the phenomenon of present bias—people systematically place greater weight on immediate outcomes than on future consequences (Thaler & Sunstein, 2009). This tendency leads to significant time-inconsistent decision-making, during which actors favor short-term benefits even when long-term outcomes would be much more advantageous.

In the context of sustainability policy, present bias creates a structural asymmetry between cost and benefit. The economic adjustments that new sustainability regulations require (e.g., investments in reporting systems, supply chain monitoring, and environmental technologies) are immediate and tangible. Firms must allocate resources, modify internal processes, and adapt strategic planning.

In contrast, the benefits of sustainability policies are long-term and collective. Climate stabilization improves environmental quality, and more resilient global supply chains unfold over decades rather than years. Such benefits appear, to most people, abstract or uncertain in the short-term. This temporal asymmetry leads to a predictable political dynamic—ambitious policies receive strong support during agenda-setting, when long-term objectives dominate public discourse, but when concrete implementation begins and adjustment costs become visible, political support weakens.

Risk Perception and Uncertainty

A second behavioral factor concerns perceptions of uncertainty. Behavioral research suggests that people evaluate uncertain outcomes differently depending on whether they involve gains or losses (Kahneman & Tversky, 2013). In policy contexts, people demonstrate loss aversion, meaning potential losses are perceived more significant than comparable gains.

Sustainability policies often involve exactly this type of

asymmetric perception. Economic actors perceive regulatory costs (e.g., increased reporting obligations or supply chain restructuring) as certain losses. In contrast, potential benefits of sustainability (e.g., reduced climate risks or long-term economic resilience) are perceived as uncertain and probabilistic. This imbalance of perceived risk makes it politically challenging to maintain support for ambitious sustainability policies, particularly under economic uncertainty.

Political Time Horizons

Political decision-making introduces an additional layer of complexity. Democratically elected governments commonly operate within short electoral cycles, creating incentives to prioritize policies with visible short-term benefits. Long-term structural reforms, in contrast, generate costs during implementation while producing benefits only after several years.

Political economists have long pointed out that such time inconsistencies undermine policies that require sustained commitment (Alesina & Tabellini, 1990). Sustainability transitions are particularly vulnerable to this dynamic because their benefits typically extend beyond individual electoral cycles. Policymakers thus support ambitious sustainability goals initially but later adjust regulatory measures when economic or political pressures increase.

Sustainability Regulation as a Case of Political Adjustment

Recent debates surrounding EU sustainability legislation illustrate these dynamics. Negotiations over the CSDDD, for example, revealed substantial disagreement among member states regarding the scope of corporate obligations. Several governments from member states expressed concerns about potential administrative burdens for companies, particularly small and medium-sized enterprises. Implementation of the CSRD similarly raised questions about reporting complexity and compliance costs. Many stakeholders acknowledged the importance of transparency in sustainability reporting, but the practical challenges of implementing new reporting standards led to calls for transitional periods and simplified procedures. From a traditional policy perspective, such adjustments simply reflect the normal process of legislative compromise, but the pattern is consistent with the behavioral dynamics described above. As soon as sustainability policies move from political vision to practical implementation, the balance between perceived costs and benefits changes. Economic actors begin to evaluate the immediate implications of their operations, and policymakers must respond to concerns from industry and voters. Under these conditions, political incentives to moderate or delay ambitious regulations strengthen. This does not necessarily imply that sustainability policies are ineffective. Rather, it suggests that the process of sustainability governance is inherently dynamic. Regulatory frameworks evolve as policymakers attempt to balance long-term environmental objectives with short-term economic realities.

Implications for Sustainability Governance

Recognizing the behavioral dimension of sustainability policy has several important implications for policymakers and scholars. First, effective sustainability governance requires more than ambitious regulatory design. Policymakers must also consider how individuals and organizations perceive the timing of costs and benefits. Policies that generate substantial short-term burdens experience political resistance even if their long-term benefits are widely acknowledged. Second, communication strategies play a crucial role. If the long-term benefits of sustainability policies remain abstract or uncertain, public support erodes once implementation begins. Policymakers thus must communicate the economic and social advantages of sustainability transitions in ways that are concrete, credible and understandable. Third, institutional stability is essential. Sustainability transitions unfold over long time horizons, often spanning several decades. Creating stable regulatory frameworks reduce uncertainty and encourage firms to invest in sustainable technologies and business models even during early stages. Fourth, management and public policy scholars benefit from integrating behavioral insights more systematically into the study of sustainability governance. Understanding how decision-makers perceive time, risk, and uncertainty sheds new light on the political dynamics of sustainability transitions.

Conclusion: Sustainability Policy and the Challenge of Time

The EU's sustainability agenda represents one of the most ambitious regulatory experiments in contemporary economic policy. Through initiatives such as the European Green Deal, the CSRD, and the CSDDD, the EU has attempted to embed sustainability principles into the institutional architecture of modern markets. At the same time, political debates surrounding these policies illustrate the difficulties of maintaining ambitious sustainability commitments in practice. Adjustments, delays, and regulatory compromises are not merely technical details of legislation, they reflect deeper behavioral and political dynamics.

Sustainability transitions require societies to accept short-term adjustments in exchange for long-term collective benefits. Human decision-making, both at the individual and political levels, however, is biased toward the present, a temporal tension that lies at the heart of contemporary debates about sustainability governance. If sustainability policies are to remain effective over time, policymakers must address not only technological and economic challenges, but the behavioral dynamics that shape political decision-making. In this sense, the success of sustainability transitions depends as much on understanding human behavior as on designing regulatory frameworks.

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