Thoughts on the Political Economy of Climate Change Policy

Jonathan B. Wiener
Duke University & RFF

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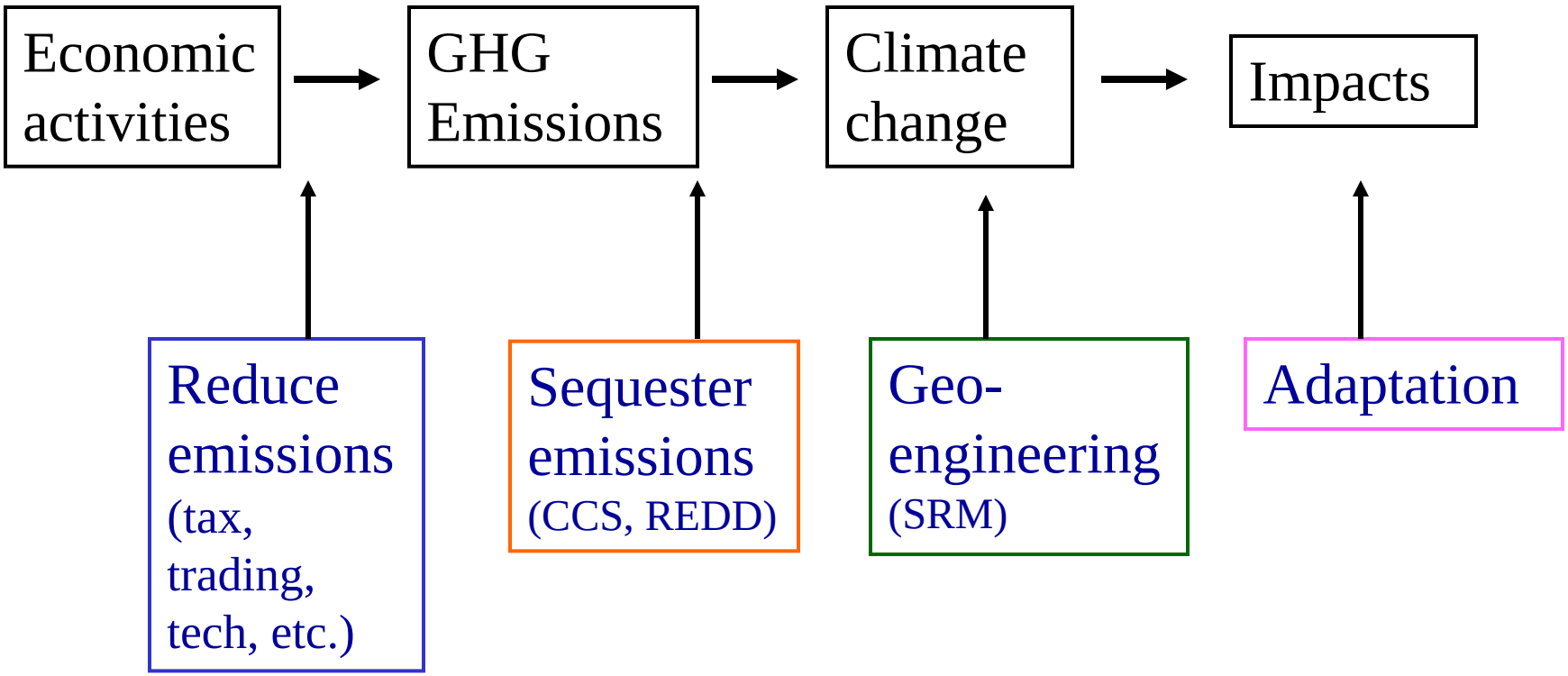
Key questions

- Positive politics: what actually gets adopted?
  - What drives policy action?
  - What drives the type of policy instrument adopted?
  - How different from optimal?
- Many factors, e.g.
  - Institutional structure, scale, voting rules?
  - Global interests?
  - National interests?
  - Group interests (= interest group politics)?
  - Public opinion?
  - Crisis events?
  - Policy entrepreneurs?

- Paper posted on workshop website: Wiener & Richman, "Mechanism Choice" (2010)

Political economy may vary for different policy options



Political economy may vary for different institutions

- No single decision maker choosing optimal policy.
- International
  - Treaties: by nations' consent. Need ~ perceived national net benefit to engage participation (Pareto-improving)
  - (unless coercion, e.g. hegemony, UN Security Council)
- National
  - Institutions & political economy vary across countries
  - Laws: by majority rule (or supra- or sub-majority?)
  - Laws can impose costs on dissenters (K-H effic. if B>C)
  - Interest groups (Effic.? Lowi, Becker. Ineffic., concentrated groups win? Olson, Wilson, North. Overclaimed? Oates & Portney, Breyer, Posner, Horwitz...)
  - Multiple institutions, checks & balances (e.g. Congress/agencies/courts)
  - Public opinion (voters; slope for interest groups to climb)
  - Policy entrepreneurs (innovations to increase net benefits; …shape preferences?)
  - Crisis events (spur outcry, punctuate change?)

Scale: Multi-level Climate Law

International

- Treaties: MP (1987), FCCC (1992), KP (1997), Copenhagen/Cancun/Durban …
- Liability for transboundary harm?

National: USA

- New legislation?
- CAA: SCt 2007; EPA regs …
- Energy law (CAFE, ARPA-E)
- NEPA, ESA, CWA, …

States, local

- RGGI; California & WCI; et al.
- Tort/Nuisance liability lawsuits (but SCt 2011)
- Land use, transportation law
- Other

Supranational: EU

- ETS (Phase I, II, III ...)
- Other climate policy

Member states

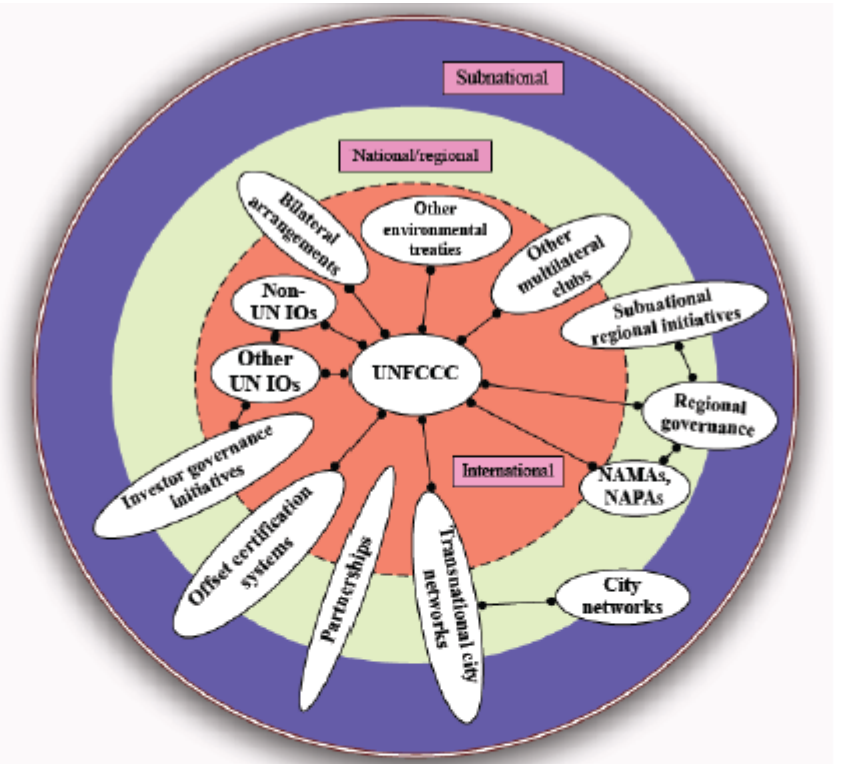
- UK
- Germany
- France
- Others
- Role in ETS

National:

Australia, Canada, Brazil, China, India, Indonesia, S. Africa, Russia, etc. …

States / provinces / local

Complex & proliferating climate policy institutions



Legend: (Note: these are not necessarily exhaustive lists of the examples, but either a representative set of examples or the principal ones)

UNFCCC	Kyoto Protocol, Clean Development Mechanism, International Emissions Trading
Other UN Intergovernmental organizations	Intergovernmental Panel on Climate Change, UN Development Programme, UN Environment Programme, UN Global Compact, International Civil Aviation Organization, International Marine Organization, UN Fund for International Partnerships
Non-UN IOs	World Bank, World Trade Organization
Other environmental treaties	Montreal Protocol, UN Conference on the Law of the Sea, Environmental Modification Treaty, Convention on Biological Diversity
Other multilateral "clubs"	Major Economies Forum on Energy and Climate, G20, Asia Pacific Partnerships on Climate and Energy, REDD+ Partnerships
Bilateral arrangements	e.g. US-India, Norway-Indonesia
Partnerships	Methane to Markets, Renewable Energy and Energy Efficiency Partnership, Climate Group
Offset certification systems	e.g. Gold Standard, Voluntary Carbon Standard, Climate Change and Biodiversity Alliance standard
Investor governance initiatives	Carbon Disclosure Project, Investor Network on Climate Risk
Subnational regional initiatives	Regional Greenhouse Gas Initiative, Western Climate Initiative, Midwestern Greenhouse Gas Reduction Accord
City networks	US Mayors' Agreement, Transition Towns
Transnational city networks	C40, Cities for Climate Protection, Climate Alliance, Asian Cities Climate Change Resilience Network

Source: Matthew Paterson, Univ. Ottawa

Climate science & Political economy

1. Impacts distant in space & time; Politics focus on here & now.
2. Shared global benefits of GHG emissions abatement (but local costs). = Incentive to "free ride" on others' abatement, = collective action is difficult. (SRM = lower cost … too low = hasty 1st movers?)
3. Impacts vary across countries. Some may perceive small losses or even gains from (modest) climate change. = Collective action is even more difficult. = Impacts studies are key to politics.
4. GHGs mix globally in the atmosphere. Sources of emissions are widespread, and mobile in integrated world economy. = Partial policies yield "leakage" (envt'l & political). Need broad participation.
5. Multiple GHGs. Multiple sectors. = Narrow policies yield "risk-risk tradeoffs." Need comprehensive policies.
6. International law of treaties: by consent (no global sovereign or world government). = Need perceived national net benefit to engage participation. Co-benefits. Adverse effects. Side payments.
7. Costs of abatement vary across countries. = save via emissions trading. Plus, allowance allocation can offer side payments to join.
8. Uncertainty; learning over time. Need "laws that learn" – updating.
9. Crises & catastrophes: do they spur political action ??

Political economy in the US

- Congress – bills in 2003-2010. Now, stalemate? Local extreme impacts? Fiscal deal?
- President & EPA regulations (optimize, or threaten to prod Congress?)
  - GHG Reporting Rule
  - CAA 201: Mobile sources rule
  - CAA 111: new sources; existing sources (111(d)). Trading?
  - CAA 115 ? CAA 615 ?
- Interest group politics: overclaimed? evolving? E.g.:
  - Envtl groups: shifted on cap & trade (but so did Repubs).
  - Coal industry: vs. climate; vs. shale gas; if CCS; …
  - Insurance industry. Renewable industry. Military. Etc.
  - Coalitions: Baptists & Bootleggers (raising rivals' costs).
- Public opinion: evolving? Economy. Framing.
- Role of crisis events? Katrina. Sandy. BP Deepwater spill.

Political economy in the EU

- 1990s: favored tax, opposed trading
- 2001- : adopted trading (EU ETS)
- Why the switch?
  - Learning from US SO2 trading success during 1990s
  - Policy entrepreneurs in Europe
  - Voting rule for adoption (~ unanimity of member states), and ability to embed side payments in varying allowance allocations
  - Critique of US approach shifted after US withdrew from KP
  - Other?
- Managing the ETS
  - Role of Member States: initial allocations; parallel national policies
  - Low prices; so, tighten cap, backloading auctions?
  - Adding other sectors, other gases? e.g. Aviation controversy
  - Other climate policies outside ETS (e.g. renewable feed-in-tariffs)

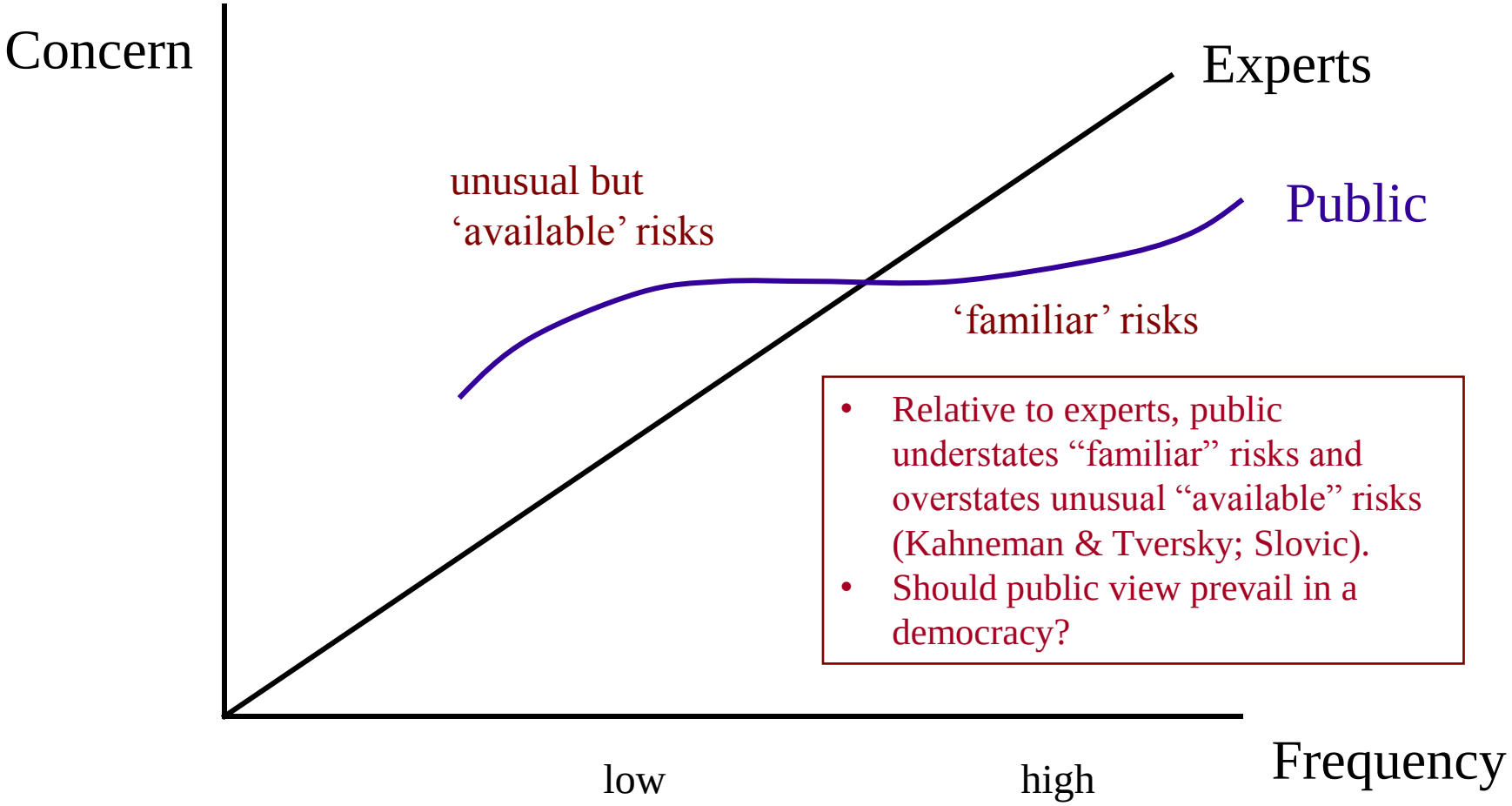
Political economy in China

- Emissions growth; combating poverty
- Climate impacts: +/- ? evolving science; drought; coastal sea level
- Co-benefits: public health, PM, black carbon
- Regional politics
- Political instability: envt'l disasters spur protests; history of dynastic change and war; 'mandate from heaven'
- Impacts on LDC allies
- Renewables e.g. wind, solar; Energy R&D e.g. batteries
- Intensity targets
- Trading
  - CDM credits
  - Trading markets in 7 cities beginning 2013, national by 2016

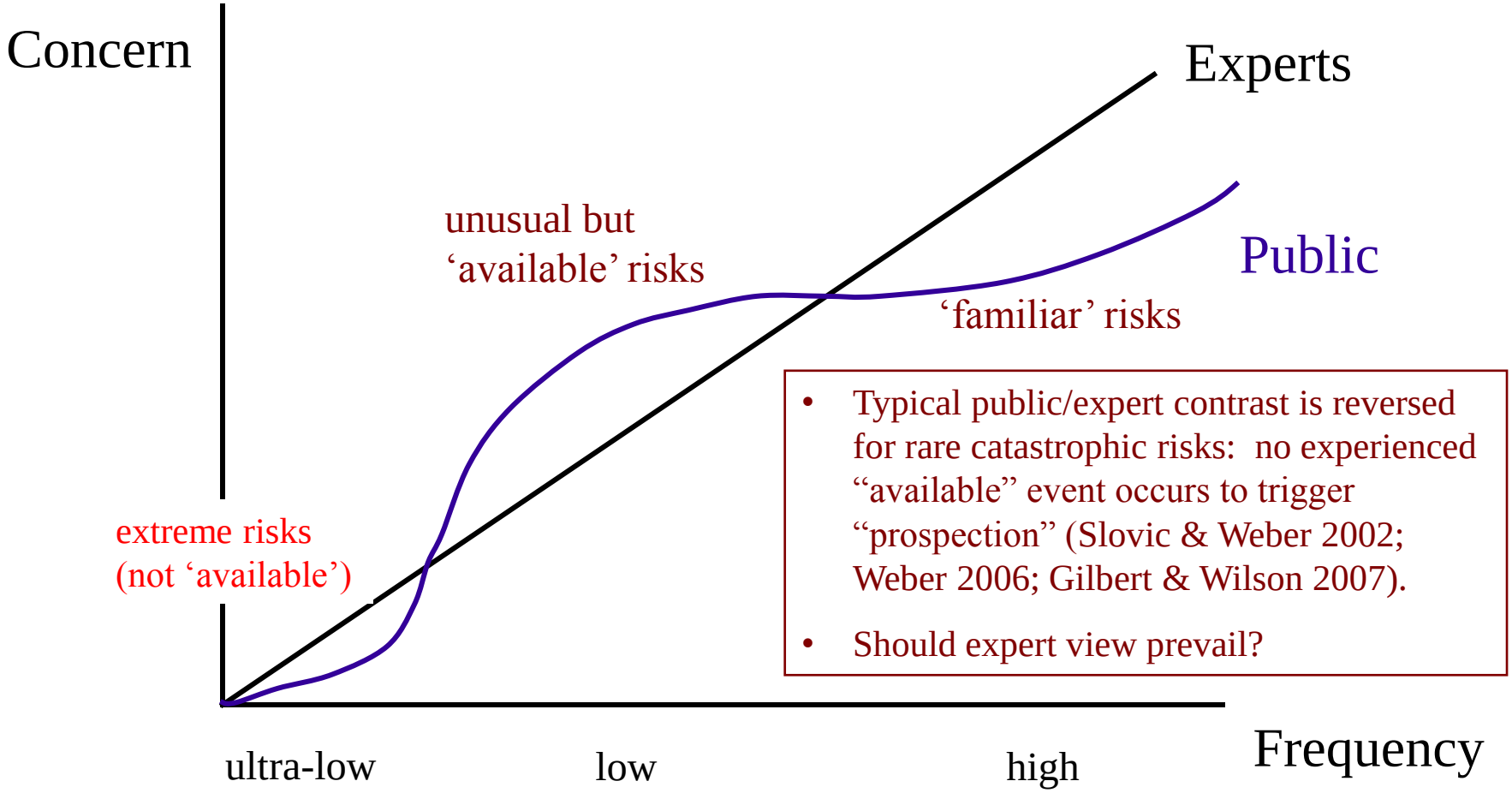
Crises / catastrophes and Political economy

- Do crisis events spur policy action?
  - Gradual impacts may yield complacency and/or adaptation
  - Crisis events may stimulate outcry, galvanize action
    - Relative to baseline risk. Safer society = crisis looks more scandalous.
    - Framing: identified victim, villain
    - Policy experts may learn from the crisis (or seize its opportunity)
  - But not always:
    - Some crises yield little policy change (or only cosmetic). Katrina, Sandy?
    - Some policy changes do not arise from crises. SO2 Trading.
  - Which type of policy instrument?
    - E.g. crisis outrage may hinder use of economic incentive instruments.
- Truly mega-catastrophes may not spur policy change
  - Ex ante: political market failure = neglect
  - Ex post: too damaging, wipe out policy institutions

Perceptions and the Politics of Risk



Un-availability:
A twist in perceptions?



- Typical public/expert contrast is reversed for rare catastrophic risks: no experienced "available" event occurs to trigger "prospection" (Slovic & Weber 2002; Weber 2006; Gilbert & Wilson 2007).
- Should expert view prevail?

Overwhelming:
Mass impact and 'psychic numbing'
(Slovic, *Judgment and Decision Making* 2: 79-95 (2007))

Expected value:

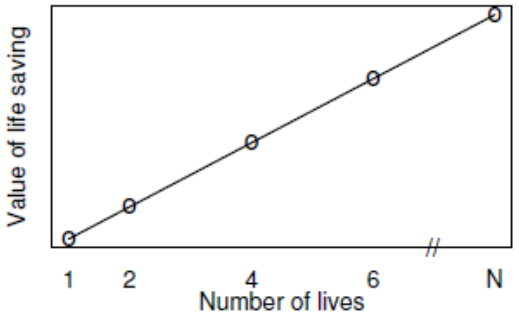


Figure 2: A normative model for valuing the saving of human lives. Every human life is of equal value.

Catastrophe premium:

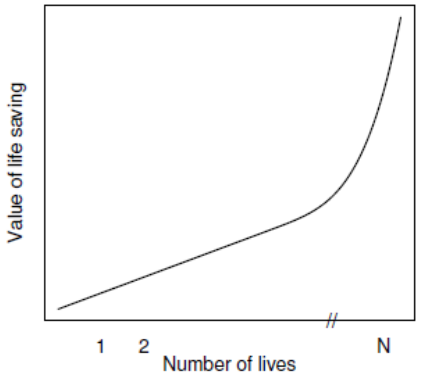


Figure 3: Another normative model: Large losses threaten the viability of the group or society (as with genocide).

Diminishing marginal concern:

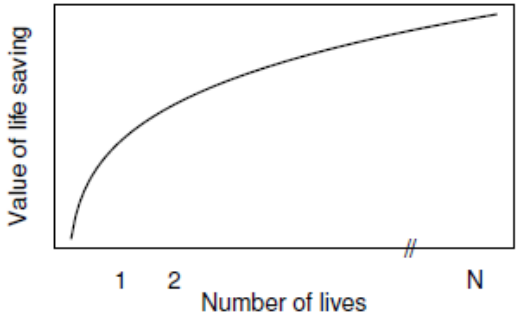


Figure 4: A psychophysical model describing how the saving of human lives may actually be valued.

Mass numbing:

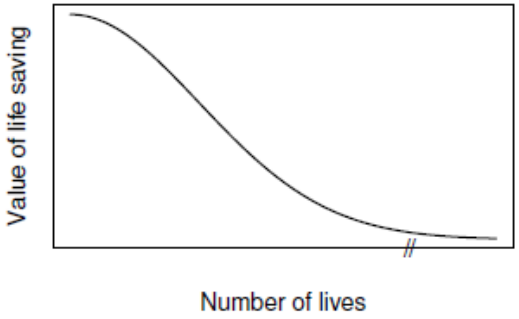


Figure 11: A model depicting psychic numbing — the collapse of compassion — when valuing the saving of lives.

Underdeterrence

- Catastrophe may damage or wipe out institutions.
  - Less or no opportunity for learning from the crisis, ex post.
  - Deterrence via ex post sanctions may not be credible, ex ante.

- If institutions survive:
  - Liability in excess of firm's assets yields underdeterrence.
  - Moral hazard yields underdeterrence. Ex ante anticipation of relief or compensation can undermine incentives for precaution. E.g. underpriced insurance, bailouts, disaster relief.

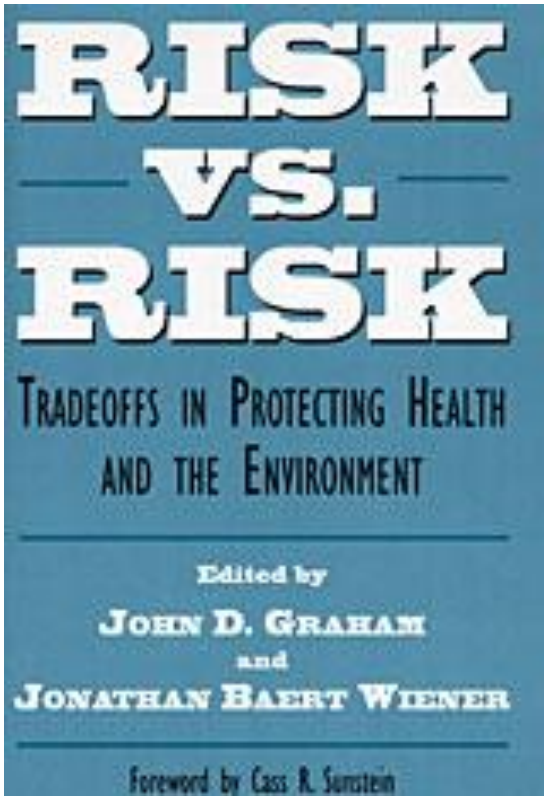
Challenges of Catastrophic Risk

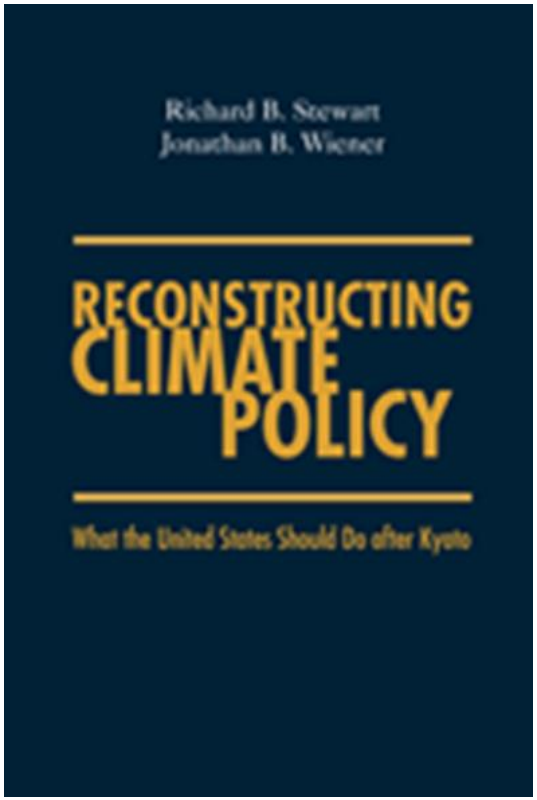
- Inattention: Public perception and political systems tend to neglect rare catastrophic risks.
  - Need greater attention to extreme catastrophic risks, to help correct the political/perception gap (as conventional regulation attempts to correct market/commons failures).
  - Simulations to enable learning.
  - Should experts prevail over public? Supply 'availability' to public?

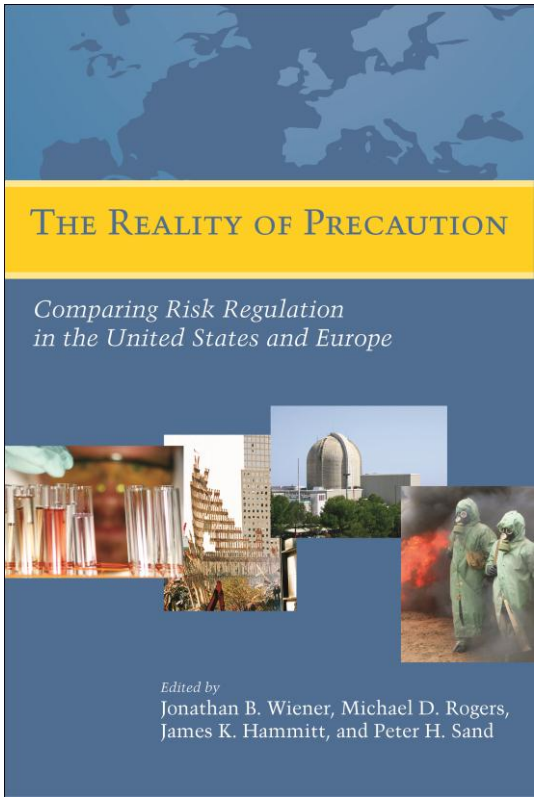
- Risk-risk: policies may yield catastrophe-catastrophe tradeoffs.
  - Global policies, or actions by first-movers with incentives to prevent catastrophic risk, may yield adverse effects (on others). E.g. climate geoengineering (SRM). Need governance to restrain harmful action.

- Triage: shouldn't overreact to worst-case scenarios.
  - Need to set priorities: as cognizable $p \rightarrow 0$, number of scenarios $\rightarrow \infty$. Which of several extreme risks should we address? E.g. climate, pandemic, war, asteroid collision, back contamination, strangelet, …

Thank you.







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