

# What makes for efficient adaptation?



NERA  
ECONOMIC CONSULTING

- Focus on poor countries and their challenges of adaptation
- Emphasize value of lessons from economic development for adaptation
- Not an unbiased survey
  - What would Easterly or Bates have to say if they were here?

# Points of view on how to promote adaptation, and how they can fail



NERA  
ECONOMIC CONSULTING

- National or international government agencies to do long term planning and disaster response (IPCC)
  - Private decisions anticipating risks also matter
  - Adaptation is fundamentally local whether public or private
- Markets (neo-conservatives and carbon market advocates)
  - Markets have always existed
  - Question is whether they work efficiently and in a way that promotes sustained growth in per-capita income
  - Just creating new property rights and markets can be harmful (Easterly)
- Aid (UNFCCC)
  - Has rarely been effective in alleviating poverty (Easterly)
  - Impose plans of outsiders rather than enabling local knowledge and initiative

# Efficiency of private response



- Rational farmer approach (Mendelsohn)
- Open access systems (Neoclassical)
  - Normal operation of markets and private decisions responding to expected and unexpected change
  - Distortions from public (free) provision of risk mitigation and insurance
- Limited access systems (Bates)
  - Markets generally closed and manipulated to redistribute income to constituencies required to support the regime
  - Exploitation of agricultural sector in Africa
    - Disruption of property rights and conflict
    - Price distortions
  - Farmers know how fertilizer works, they cannot afford or profit from it

# Public investment in adaptation



NERA  
ECONOMIC CONSULTING

- Efficiency of public good provision in open access societies
  - Public good provision is at a high level due to electoral review
    - **Democratically elected politicians gain votes most efficiently by providing public goods** (Bates)
    - More votes per \$ than patronage (Shirk, Bueno de Mesquita, “The Last Hurrah”)
    - And reasonably effective, because recipients can see if it works (Easterly)
  
- But public good provision will not be perfect
  - Planning public investments is hard and can cause (neoclassical):
    - Crowding out
    - Perverse incentives
  - Electoral choice (Institutional)
    - Creates likelihood that plans will change
    - Biases choices toward projects that provide benefits to constituencies required to support the regime – just like mitigation (Acemoglu)
    - Future generations not an effective constituency (seawalls vs migration)

# Limited access societies



- Action will be limited to that which promotes the continued dominance of the ruling group (Acemoglu)
  - How to provide sufficient rewards to minimum supporting coalition in a small selectorate (Bates)
- Little provision of public goods in general
  - **Dictators do best for themselves by providing private goods to minimum coalition of supporters** (Bates)
  - LAO may do public works as patronage (i.e. create demand for heavy industry output) with public good provision a random outcome
- Adaptation aid, like development aid, will be redirected to patronage and sustaining undemocratic rulers
  - If climate change appears to be destabilizing, rulers have authority to make necessary investments to stay in power
  - If directed to adaptation, it will protect the ruler's constituents not most vulnerable (Bates)

# Prescriptions and likely effects



- Create national and international institutions for long term planning and emergency response
  - Solution for economic development (Myrdal 1950)
  - It did not work (Easterly 2000)
  - UN inefficiency and corruption make it even worse if it is the venue (Easterly)
  
- Need for subsidiarity (Easterly)
  - Development proceeds from the bottom up
  - Aid works only when it addresses individual, local situations and is channeled outside corrupt governments
  - Everything we know about the geographic scale of climate impacts says the same about adaptation

# How traditional aid hurts (Easterly)

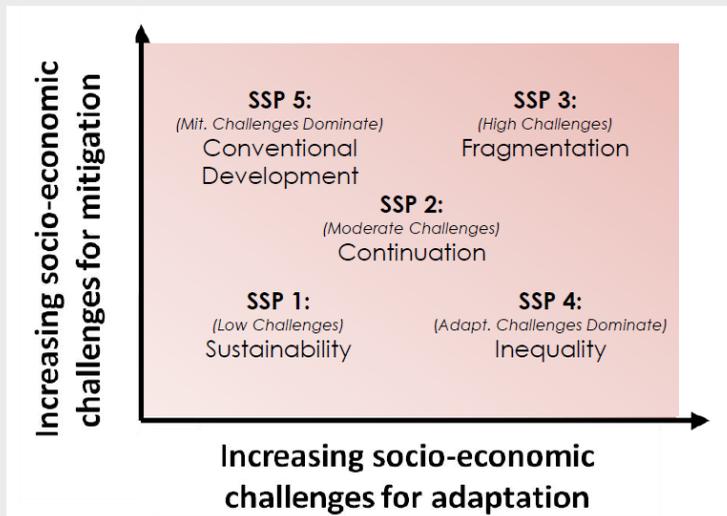


- Diverts the limited capacity for philanthropy into wasting its energy on useless actions
- Incentivizes donors to pretend there is progress as a result of their activity
- Prevents democratic reform by providing a source of revenue for the dominant ruler to pay off minimum constituencies through patronage and corruption
  - A resource curse that any country can achieve
  - Distorts how adaptation takes place by motivating rulers to gain electoral support by using funds either for patronage or for excessively large projects (or both)
  - Inhibits the process that might work: transition to open access which would support bottom up adaptation and increased public goods provision (Botswana, Ghana, Uganda)

# Implications for design of SSPs



## SSP Logic



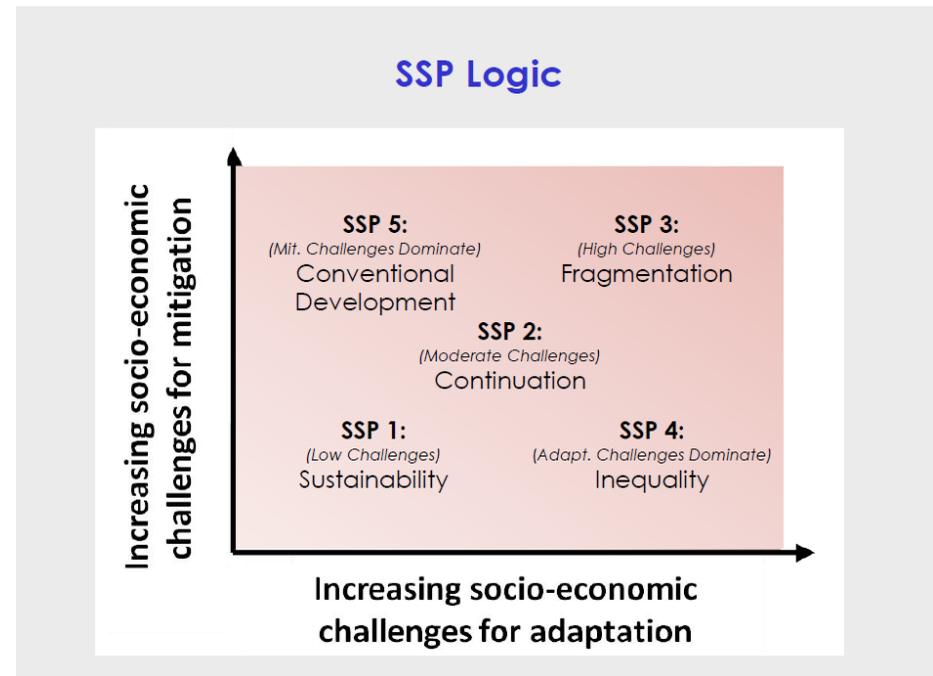
	Mitigation	Adaptation	Uncertainties	Global Action
OAO	Hard or moderate, pluralism limits action	Easy	Third best policies, strength of climate constituency	Mitigation not in economic interest even with global action, transfers pure altruism
Stable LAO	Hard because of high baseline, entrenched interests	Public easy if it sustains rulers, private questionable	Interest in adaptation, further institutional change,	Necessary to agreement, conflicting national interests
Fragile LAO	Hard or unnecessary because of low baseline growth and emissions	Hard	Direction of change: failed states and conflict or progress toward OAO – Sudan vs Uganda	Benefits from other regions mitigation, aid will not increase adaptation

All SSP's are excessively aggregated, different countries, different institutions, different outcomes.

# Implications for SSP Narratives



- In SSP1, climate change is modest because of entirely unrelated (but largely eschatological) developments, while in SSP4 it is modest because of state failure
- In SSP3 and 5, only philanthropic motivations lead to sufficient emission reduction by major emitters to achieve low forcing worlds
- SSP5 is hard to justify unless LAO transition to OAO
- SSP3 is current condition



# Policy analysis and integrated assessment must start to think about these issues



NERA  
ECONOMIC CONSULTING

- What kinds of information are valuable in a mosaic world where planning and aid are ineffective?
- How have countries like Botswana, Uganda and Ghana moved to more open systems and income growth?
  - Are their governments capable of efficient adaptation investment and private responses?
- “Speaking truth to power:” Is the community willing to shine some light on the least useful or most harmful policy approaches?

# References



- Daron Acemoglu, “Why not a political Coase theorem?” Journal of Comparative Economics
- Robert Bates: Markets and States in Tropical Africa
- Robert Bates: When Things Fell Apart
- Paul Collier, The Bottom Billion
- William Easterly, The White Man’s Burden: Why the West’s Efforts to Aid the Rest of the World Have Done So Much Ill and So Little Good
- Bueno de Mesquita, et al. The Logic of Political Survival
- Susan Shirk, The Political Logic of Economic Reform in China
- Barry Weingast, Snowmass presentation 2011