

The Political Benefits of Inefficient Climate Policies

Matto Mildenerger



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Climate policy instruments tend to be judged by their efficiency: the ability to reduce carbon pollution at the lowest marginal cost. At first glance, this seems sensible. Transitions to a low-carbon economy will involve substantial adjustment costs. Businesses, workers, and publics will face economic disruption. How could we ever justify policy designs that impose *more* costs and spend *more* money to deliver the same level of carbon pollution reduction?

Yes, a move away from “efficiency” can be unsettling. Rhetoric about efficiency is deeply engrained in virtually every policy debate. Yet, a focus on short term efficiency has its pitfalls.

I suggest that serious decarbonization efforts may *benefit* from “inefficient” climate policies in the short run when these policies also nurture the growth of pro-climate political coalitions over time. Specifically, I highlight the problems of climate action getting locked-in to emissions trading schemes (ETS) that promise to deliver carbon emission reductions at least marginal costs. ETS coupled with carbon offsets offer attractive alternatives to costly domestic abatement targets. Underlying their arguments is an assumption that a ton of carbon pollution abated in one part of the world or in one part of the economy, is equivalent to a ton of carbon pollution abated in another part of the world or another part of the economy. This has obvious implications for environmental justice. But it can also have pernicious effects on long-term decarbonization efforts because it tends to reward the existing carbon-dependent industries and undermine the emergence of a low-carbon industry coalition.

Efficiency or Equity?

Our atmosphere makes no distinction between a molecule of carbon dioxide released by a coal-fired power plant in Wyoming or by a rainforest fire in Brazil. Yet, the choice to target Wyoming coal or Brazilian deforestation has substantial political repercussions: decisions about who should bear the cost of climate mitigation today reshapes who will have political voice during future rounds of climate policymaking.

In political terms, one ton of CO₂ reduced in one sector in one part of the world is *not the same* as a ton of CO₂ reduced in a different sector in a different part of the world. Why? These tons may have the same *direct* effect on atmospheric carbon stocks; however, they have different *indirect* effects on long-term political support for future climate reforms. The right to release carbon pollution into the atmosphere provides an implicit subsidy to particular economic actors. When a carbon polluter is allocated emissions allowances, or when a country/company decides to purchase emissions credits abroad instead of reducing emission at home, this helps maintain that actors’ profitability and enhances their longevity.

The policy of “subsidizing” specific polluting sectors even extends to carbon taxes. The tax, as we are told, work through the market by putting a price on pollution for everyone. But specific sectors are exempted from carbon taxes in virtually every carbon tax implemented anywhere in the world.

For example, Norway was the second country in the world to enact a carbon tax in 1991 but exempted most of its onshore industries (While these industries are now part of the EU Emissions Trading Scheme, they joined as clear economic winners under that policy’s allowance distribution scheme). At the same time, carbon taxes on the offshore oil industry were calibrated to avoid radical disruption to that industry’s growth. These exemptions stemmed from the outsized political influence of carbon-intensive industries within Norwegian policymaking debates.

But it gets more interesting. Reluctant to impose significant costs on domestic producers, the Norwegian government has championed such initiatives as the Climate and Forestry Initiative, to fund carbon pollution abatement opportunities outside of Norway. In this way, efficiency rhetoric has allowed successive Norwegian governments to maintain the political and economic status quo. Meanwhile, domestic emissions have increased 3.3% since 1990.

The Virtues of Inefficiency

Inefficient policies can sometimes reshape the distribution of political power when they explicitly redirect resources to new industries. Consider debates over whether renewable energy support policies are desirable after a country passes an emissions trading scheme. In the United States, conservative Democrats opposed the inclusion of a renewable energy standard in the 2009 Waxman-Markey bill because they believed it to be inefficient and superfluous. Australia's Clean Energy Finance Corporation, a government-initiated effort to finance clean energy deployment set up in parallel to the country's emissions trading scheme faced the same criticism. According to these critics, mandates for clean energy along with national carbon caps don't reduce net national emissions; instead, renewable energy deployment simply creates "slack" within allowance markets. Again, this is true in a direct sense. Yet, this criticism neglects a key fact: decisions about the distribution of climate policy costs, even under a cap, have significant political repercussions. When policymakers promote clean energy, regardless of whether a national carbon cap exists, they nurture new political actors whose policy preferences for future carbon policy probably differ from that of the fossil fuel dependent status quo sectors. For example, the renewable energy sector will probably mobilize to support and expand climate and energy reforms. This political benefit can be crucial to long-term decarbonization efforts even if renewable energy support policies are narrowly inefficient in the short run in relation to emission trading.

Moving Beyond Marginal Abatement Costs

In conclusion, public administration scholars need to go beyond merely comparing the marginal abatement costs of different policy instruments, the declaring the one with the lowest to be winner or the desired one. We need to ask whether in some contexts efficiency arguments offer cover for established carbon polluters to avoid domestic costs. Might policies that target higher-cost abatement opportunities allow new green energy coalitions to emerge? If it takes inefficient policies in the short-term to support the redistribution of political power, will long-term efficiency gains (from the increased political power of pro-climate coalitions) dominate these short-term costs?

The climate threat is not a single-round policy game. It will instead involve repeated rounds of policy bargaining over decades. Consequently, short-term policies must be designed and implemented in a way that generates strategic opportunities for future climate reformers. Sometimes it's the inefficient policies that unlock more effective – and eventually more efficient – decarbonization opportunities over time.

Matto Mildenberger is an Assistant Professor of Political Science at the University California Santa Barbara.