The influence of lobbying on climate policies; or, why the world might fail

John C. V. Pezzey

Environment and Development Economics / Volume 19 / Special Issue 03 / June 2014, pp 329 - 332
DOI: 10.1017/S1355770X14000345, Published online: 05 June 2014

tradeoffs are often at a local level and the devil is in the detail. To get to the heart of these requires a profound understanding of biophysical and chemical processes as well as the determinants of individual behaviour in a context where rationality does not always apply but where it cannot at the same time be ignored. The links between institutions and policies are complex, as the literature in development economics is now showing us, and we need to study lots of individual cases where environmental regulations accompany other policies to see what works and what does not.

To be sure, we have had some excellent pieces of work that are along these lines and a number of then can be found in this journal. But we need more. That is our challenge for the next 20 years.

The influence of lobbying on climate policies; or, why the world might fail[13]

JOHN C. V. PEZZEY

Fenner School of Environment and Society, Australian National University, Canberra, ACT 0200, Australia. Tel: +61 2 6125 4143.
Email: jack.pezzey@anu.edu.au

doi:10.1017/S1355770X14000345

How can the malign and growing influence of lobbying on global climate policies be checked? In this short piece I link some wide-ranging suggestions for academic research by environment and development economists that is needed to further this aim, with the key idea in Acemoglu and Robinson's (2012) *Why Nations Fail*. Their book argues strongly that sustained, very long-term economic growth through national industrial revolutions requires 'inclusive institutions' that distribute political power broadly over a nation's economic, class and geographical sectors. This is because long-term growth needs technical innovations, which cause creative destruction (structural adjustment) of existing technologies, which in turn harms the interests of existing elites. If elites are too powerful, they will block new technologies, so as to keep their powers to extract rents from the rest of society, and the nation will then fail (to grow sustainably).

To apply this idea to world development, I will assume the aim is to sustain growth in wellbeing, not in GDP; and that uncontrolled 'carbon' (greenhouse gas) emissions will seriously damage wellbeing, particularly of poor people in developing countries (Mendelsohn *et al.*, 2006). Any

[13] The author thanks Paul Burke, Richard Damania, Tristan Edis, Clive Hamilton, Dieter Helm, Axel Michaelowa, Deborah Peterson, Mike Raupach, Will Steffen and Gert Svendsen for helpful comments. The usual disclaimer applies.

reasonable target for carbon control then needs a 'climate-technology revolution' in the world economy (Barrett, 2009), hence globally inclusive institutions to enable globally creative destruction.

Prospects for that are dim. Government provision of education, clear and enforceable property rights, etc., were important enablers of past industrial revolutions, but more important was national governments *allowing* innovation in response to free-market relative prices. By contrast, a climate-technology revolution needs new, global governance for *driving* innovation, including creating sustained, substantial and widespread carbon pricing schemes if the revolution is to be remotely cost-effective.

But global climate governance is weak, and recently seems to be getting weaker. Reasons include falling public concern for environmental issues since the 2008 global financial crisis, and rising denial of climate science (Jacques *et al.*, 2008), but the reason focused on here is the resurgence of lobbying (rent-seeking) by energy-intensive companies. In accordance with Olson's (1971) general principle, lobbying is made easier by these companies' concentration compared to environmental interests, which are spread over billions of consumers, hundreds of countries, and many generations. Such lobbying furthers the interests of the planet's elites – elites which, from a global perspective, include most voters in rich countries – and in recent years lobbying seems to be increasingly calling the tune by blocking effective climate policies. Elites are thereby still allowed to emit almost as much carbon as they please, and to extract current, private benefits in return for costs imposed on future generations, especially poor people in developing countries.

So what 'economic research' (interpreted broadly here!) could help make global climate policy institutions more inclusive? One suggestion is that research should focus less on 'pure', theoretically welfare-maximizing carbon price mechanisms, which auction all tradable carbon permits or allow no carbon tax thresholds, and more on politically pragmatic mechanisms that allow free permits or thresholds to be any fraction of controlled emissions (e.g., Pezzey and Jotzo, 2012). Pure mechanisms, assuming their carbon price is high enough to cut emissions substantially, are likely to fail politically, at least initially, solely because of lobbying resistance to the resulting revenue transfers to government (Pezzey and Jotzo, 2013), before even considering resistance to the creative destruction that would follow any substantial pricing. Most recent literature (e.g., Tietenberg, 2013) broadly accepts such policy realism, and key papers have highlighted the tight limits needed on free permits or tax thresholds to avoid the injustice of giving polluters large windfall profits (e.g., Bovenberg and Goulder, 2001; Sijm *et al.*, 2006), but several authors still study or even recommend pure mechanisms.

However, to risk over-generalizing from mainly Australian and American policy developments, recently increased lobbying seems to be making widespread carbon pricing, however pragmatic, ever less likely. What can climate economists do about that? One answer would be counter-lobbying. Many lobbying claims about probable dire effects of carbon pricing are wildly exaggerated, and readily refuted by routine economic modelling or case histories. But communicating this effectively needs rapid, tireless,

media repetition of the nearly obvious – far from the original research expected from academics. A Sceptical Climate Economics website, to match SkepticalScience.com, might help, but it would be laborious to maintain, as policy debates are predominantly national and ever-shifting.

Well-targeted academic research can nevertheless greatly help others' counter-lobbying efforts. For example, Bohringer *et al.* (2006), Helm (2010) and (Michaelowa, 2013) showed how lobbying pressure – from renewable (especially wind) energy proponents as well as carbon-energy companies, as Helm and Michaelowa stress – has led to huge differences in effective carbon prices between economic sectors, and hence to inflated total costs. Research can also clarify the strong case for localized assistance to workers made redundant by the structural adjustment inherent in a climate-technology revolution, in contrast to the weak case for compensation for shareholders' profit losses. (In Australia, the wealthiest fifth of households own about two-thirds of Australian companies, and foreigners own about a third of listed companies.) Such work by academics is fairly rare, however. I found only five empirical papers relevant to climate policy lobbying or rent-seeking in all the years of the seven main environmental economics journals, plus seven in relevant policy journals, and no papers in any Web of Science journals with an abstract mentioning both 'adjustment cost' and its climate-related cousin, 'carbon lock-in'. More on either topic would help, although showing the influence of lobbying on policy, as Markussen and Svendsen (2005), Pezzey *et al.* (2010) and Svendsen (2011) claimed to do, will always be hard, as many lobbying motives and mechanisms remain well hidden for obvious reasons (Winters and Page, 2009).

Beyond academic economics lies a very different question: how can we *reduce* lobbying, not just study it? Here is one idea, albeit far-fetched. On moving in 1999 from Britain, which bans paid political advertising on television and radio, to Australia, I was dismayed by the unquestioning local acceptance of such advertising. Its growing lobbying power was highlighted by three mining industry advertising campaigns in 2009–2012, two of them against carbon pricing proposals (McKnight and Hobbs, 2013). But as these authors note, unlimited spending on political advertising in Australia is probably protected constitutionally. This is incontrovertibly so in America since the Supreme Court's *Citizens United* ruling, which 'trumpet[s] an absolutist vision of the First Amendment that allows corporations to spend unlimited sums independently to support or oppose candidates for office' (Hasen, 2011). Given the pivotal role that America must play in any effective global climate policy, such influence buying by elites is a serious concern for vulnerable developing countries. It points to the ultimate need for further amendment to the US Constitution, to somehow balance freedom of speech with the need to avoid world development failure. Climate economists may be fairly powerless to advance such a sweeping change, but they should not ignore its importance.

References

Acemoglu, D. and J. Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, New York: Crown Business.

Barrett, S. (2009), 'The coming global climate-technology revolution', *Journal of Economic Perspectives* **23**(2): 53–75.

Bohringer, C., T. Hoffmann, and C. Manrique-de-Lara-Penate (2006), 'The efficiency costs of separating carbon markets under the EU emissions trading scheme: a quantitative assessment for Germany', *Energy Economics* **28**: 44–61.

Bovenberg, A.L. and L.H. Goulder (2001), 'Neutralizing the adverse industry impacts of CO_2 abatement policies: what does it cost?', in C. Carraro and G. Metcalf (eds), *Behavioral and Distributional Effects of Environmental Policies*, Chicago, IL: University of Chicago Press.

Hasen, R.L. (2011), '*Citizens United* and the illusion of coherence', *Michigan Law Review* **109**: 581–623.

Helm, D. (2010), 'Government failure, rent-seeking and capture: the design of climate change policy', *Oxford Review of Environmental Policy* **26**: 182–196.

Jacques, P.J., R.E. Dunlap, and M. Freeman (2008), 'The organisation of denial: conservative think tanks and environmental scepticism', *Environmental Politics* **17**: 349–385.

Markussen, P. and G.T. Svendsen (2005), 'Industry lobbying and the political economy of GHG trade in the European Union', *Energy Policy* **33**: 245–255.

McKnight, D. and M. Hobbs (2013), 'Public contest through the popular media: the mining industry's advertising war against the Australian Labor Government', *Australian Journal of Political Science* **48**: 307–319.

Mendelsohn, R., A. Dinar, and L. Williams (2006), 'The distributional impact of climate change on rich and poor countries', *Environment and Development Economics* **11**: 159–178.

Michaelowa, A. (2013), 'The politics of climate change in Germany: ambition versus lobby power', *Wiley Interdisciplinary Reviews – Climate Change* **4**: 315–320.

Olson, M. (1971), *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, MA: Harvard University Press.

Pezzey, J.C.V. and F. Jotzo (2012), 'Tax-versus-trading and efficient revenue recycling as issues for greenhouse gas abatement', *Journal of Environmental Economics and Management* **64**: 230–236.

Pezzey, J.C.V. and F. Jotzo (2013), 'Carbon tax needs thresholds to reach its full potential', *Nature Climate Change* **3**: 1008–1011.

Pezzey, J.C.V., S. Mazouz, and F. Jotzo (2010), 'The logic of collective action and Australia's climate policy', *Australian Journal of Agricultural and Resource Economics* **54**: 185–202.

Sijm, J., K. Neuhoff, and Y. Chen (2006), 'CO_2 cost pass-through and windfall profits in the power sector', *Climate Policy* **6**: 49–72.

Svendsen, G.T. (2011), 'Evaluating and regulating the impacts of lobbying in the EU? The case study of green industries', *Environmental Policy and Governance* **21**: 131–142.

Tietenberg, T.H. (2013), 'Reflections – carbon pricing in practice', *Review of Environmental Economics and Policy* **7**: 313–329.

Winters, J.A. and B.I. Page (2009), 'Oligarchy in the United States?', *Perspectives on Politics* **7**: 731–751.