

WP1. Governance: Developing Institutions and Policy for LETS

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Summary	
<p>To meet the climate objectives, large reductions of GHG emissions are needed. Such reductions and the very implementation of LETS will challenge both the economic and the political systems. Even if LETS is technologically possible, it will not be politically or economically feasible unless the economic and political systems are prepared to face the serious challenges imposed. WP1 applies theories from economics and political science to study various governance pathways, institutions and policies that are needed to make LETS possible and to reach the desired emissions reductions. In particular, WP1 will focus on two critical governance dilemmas; between democracy and efficiency as well as temporality and dynamic consistency. The aim of WP1 is twofold. The first aim is to present and assess how various governance models and policy pathways can handle such dilemmas and reduce conflicts of interest over values and goals between various groups and generations. The second aim is to present how institutions and policies can be reformed and new institutions can be designed in order to make the economic and the political systems prepared for the future challenges implied.</p>	
Sammanfattning	
<p>Omfattande reduktioner av växthusgasutsläpp kommer att krävas för att klimatmålen skall kunna uppnås. Dessa reduktioner kommer att utmana både det ekonomiska och det politiska systemet. Även om HET är tekniskt möjligt så kommer det endast att vara ekonomiskt eller politiskt genomförbart om de ekonomiska och politiska systemen är förberedda för dessa utmaningar. WP1 använder sig av nationalekonomiska och statsvetenskapliga teorier för att studera olika policyvägar, institutioner och styrmedel som är nödvändiga för att möjliggöra HET och för att nå utsläppsmålen. WP1 kommer i synnerhet att studera två kritiska nyckeldilemman; mellan demokrati och effektivitet respektive mellan temporär och dynamisk konsistens. Målet för WP1 är tvådelat. Det första målet är att presentera och analysera hur olika styrmodeller och policyinstrument kan hantera dessa dilemman och reducera intressekonflikter gällande värderingar och mål mellan generationer och olika intressegrupper. Det andra målet är att presentera hur institutioner och politik kan reformeras och hur nya institutioner kan byggas för att förbereda de ekonomiska och politiska systemen för de framtida utmaningarna.</p>	

Project idea and objectives

Large reductions in GHG emissions are necessary if the 2 °C temperature target is to be met. Scenarios discussed in this program suggest that it is technically possible, but that considerable policy efforts are needed. The objective of WP1 is to investigate how it is politically, economically and administratively feasible to meet this target. Critical choices have to be made regarding what modes to rely on and which specific instruments to adopt, i.e., to what extent policy should constrain individual action (i.e., public regulation), give actors incentives (i.e., market based instruments) or build trust among them (i.e., network governance). The analysis will consider governmental institutions as well as market solutions from the perspectives of political science and economics.

The hypothesis is that the transition towards LETS implies fundamental challenges to the economic and political systems and that the implementation of LETS is associated with two critical governance dilemmas. The first concerns the relation between democracy and efficiency. It asks how different governance mechanisms and policies can overcome conflicting interests and agendas between various groups and generations in democratic and legitimate ways while remaining effective and efficient. The second dilemma concerns temporality and asks what kinds of institutions are capable of implementing stringent and complex policies over long periods of time. While the central question for the project is; what type of governance, in terms of institutions and policies, are needed to make LETS possible, how these dilemmas are dealt with is crucial for the implementation of suggested solutions.

Practical relevance, outcomes and results

The governance dilemmas sketched above are fundamental for the entire structure of the political and economical system. A range of problematic but urgent questions that are of practical relevance come to the fore: Which institutional changes are required to implement necessary technological and political reforms? How can we ensure that the desired reductions are consistent over time? How shall we share the burden of reducing emissions? How can we ensure efficient implementation and effective outcomes while remaining inclusive and open to participation? How does society ensure that important democratic values are not violated and important groups held accountable when an overarching goal such as the climate objective gain priority? The aim of WP1 is to analyze these questions and to propose possible solutions to them, in particular how present institutions and policies can be reformed and new institutions can be designed to make the implementation of LETS smoother. More concretely, the WP aims to provide the following outcomes and deliverables:

- A detailed description of alternative governance pathways, institutional reforms and policy innovations that are needed for implementing LETS
- A detailed assessment of the feasibility and efficiency of such options in relation to key governance dilemmas such as legitimacy, democratic accountability and effectiveness, temporality and dynamic consistency.
- Proposals for institutional reforms and new institutional designs to enhance implementation and to reduce conflicts within society between groups and generations
- Recommendations on policies and mechanisms for the implementation of LETS

Deliverables		
D1.1	March 2009	Theories for sustainable and dynamically consistent governance
D1.2	April 2009	Workshop on key governance dilemmas associated with LETS
D1.3	Jan 2010	Publication: Dynamically consistent policy review
D1.4	June 2010	Publication on alternative governance models and policy pathways
D1.5	Dec 2010	Study on policy and sector integration, e.g. the EQOs
D1.6	Dec 2011	Study on new institutional designs in climate policy
D1.7	June 2011	Report on policies and measures for implementation of pathways for LETS

D1.8	Autumn 2012	Synthesis report on governance and dynamic consistency (based on WP1-4)
D1.9	Autumn 2012	Final seminar/workshop on political and economical consequences and possibilities of LETS

Communication activities and target groups

Internal communication activities will take place between the members of this WP and across WPs in a series of workshops during the research period. Selected participants from the target groups will be invited to participate at each of these events. Research results will be communicated both to a scientific audience, for example through participation in research conferences and by publishing in international peer-reviewed journals. Research results will simultaneously be published in an accessible and condensed form (e.g. debriefings) on the website, in newsletters and to the media. The outcomes of the project are intended for policy makers, governmental and non-governmental organizations that are interested in building necessary institutions to meet the required reductions in GHG emissions by 2050.

How the project relates to the programme objectives and other projects

WP1 will investigate what type of governance, in terms of institutions and policies, that are needed to make LETS not just technically possible but also politically feasible. The research questions addressed in WP1 relate closely to the storylines developed in WP0, since they set the framework for what type of societal challenges, governance dilemmas and institutional reforms that will be studied. WP1 also relates to the other work packages, since it is impossible to implement new technologies, plan and re-build infrastructure or cities, etc. unless the basic governance institutions and policies are in place. In this sense, WP1 is horizontally connected to the other work packages, which examines more specifically issues about planning instruments (WP2), energy and innovation policy (WP3) as well as network governance and voluntary instruments (WP4). Therefore, WP1 aims to address its research questions dynamically and in cooperation with all of the other work packages.

Review of the research field (Theory)

In this WP alternative governance models and policy pathways will be analyzed with two central governance dilemmas associated with large societal transformations in mind; democracy vs. effectiveness, and temporality vs. dynamic consistency.

The environmental governance literature and green political theory become useful in this project by pointing to alternative governance pathways based on past experiences of ecological and sustainability governance. For example, Dryzek (2005) distinguishes three main problem-solving approaches in contemporary environmental governance; administrative rationalism; economic rationalism; and democratic pragmatism. The limitations of each approach are, we argue, where we need to look for possibilities to improve governance. Administrative rationalism ('leave it to the experts') is hierarchical in its structure. Learning and reflection is hard to achieve and sector integration difficult. Economic rationalism leaves governance to the market and accountability becomes a key concern. Democratic pragmatism ('leave it to the people') raises questions about ecological citizenship (Dobson 2003) and how to assure public acceptance and democratic values while reducing environmental pressures.

Green political theory discusses how the political system can accommodate a green agenda (e.g. Eckersley, 2004; Dryzek et al, 2003) and suggest that the imperative of the state must be changed in order for sustainable transformations towards LETS to become possible. Ecological modernization, that underpins the technological scenario of this program, could be such an imperative. Meadowcroft (2005) sees the welfare state as having this potential. It is well equipped to negotiate social relations and can respond to as well as compensate for the failure of both markets and voluntary action. Christoff (2005) also puts faith in welfare states

and considers Sweden as having a particular political and administrative potential for coping with the transformations required. However, the faith in the reformist state and, hence, the imperative of ecological modernization, needs to be put to test. We suggest it is relevant to examine alternative governance pathways and institutional innovations by building on models for ecological governance in contemporary green political theory. This raises questions on how models such as the environmental welfare or the green liberal state do compare to more authoritative and technocratic approaches, and how they hold up to requirements for drastic and quick social changes. In more concrete terms:

The way from goals and objectives to institutional practices and actual outcomes is fraught with complexity, difficulties and uncertainties (e.g. Kingdon, 1995; Kronsell, 1997). Policies may also encounter difficulties because they come in conflict with other objectives, effect important and powerful groups or are particularly costly. Environmental governance being a typical “multilevel endeavour” adds to this complexity (e.g. Lundquist, 2004). The choice of policy type and governance mode is highly important and evidence from research on environmental policy making confirm that such choices also matter for environmental governance. Pros and cons of various types of policies are discussed in the literature (e.g. Carter, 2007; Jordan et al, 2003; Faure et al, 2003). Policies relevant for implementation of LETS specifically concern the energy and transport field and are likely to demand substantial policy changes “including extensive strategic planning, cross-sectorial integration” and “the use of a mixed package of policy instruments” (Carter, 2007:341). Dryzek (2005) see Swedish environmental policy as exhibiting such integrative ambitions. Attempts to integrate across transport modes and the “Transportstyrelse” proposal are other examples (Kronsell, 2008).

Another dilemma relates to temporality and dynamic inconsistency of policies with long-term objectives. It emphasizes the difficulties to gain popular support for policies that impose immediate costs on society while payoffs come many years later. Kydland and Prescott (1977) pointed to the difficulty in implementing such policies when it is done in small steps over a long period of time. Politicians may promise large future reductions in emissions but when it is time to realize the decisions, preferences in the electorate and society may have changed. The political focus is likely to change, away from reductions in emissions towards other considerations, such as unemployment; the Swedish nuclear programme is an example.

Behavioural change is necessary for the required emissions targets to be met. Firms must invest in new technology and consumers must change their consumption pattern. A way to create incentives for change is by making long-term policy commitments that provide stability and predictability. It is crucial that such commitments are credible otherwise they will not lead to the necessary behavioural changes which in turn, may cause policymakers to reconsider previous policy commitments. The equilibrium outcome is an inferior policy where original policies are replaced by less ambitious ones (Kydland & Prescott 1977). Helm et al. (2003) find this dilemma to be highly relevant in environmental policies. Thus, policies are dynamically consistent only when future policy commitments are taken seriously in society. This problem has been explored in monetary theory and a common solution is to let independent institutions like central banks implement the policies. Such institutions have autonomous status due to a base in legislation that sets them up as independent. Their tasks are limited and focused which leads to stability and predictability, i.e. dynamic consistency. This sets them apart from political institutions where, typically, a range of considerations and various interests are taken into account. This project will study how policies and institutions can become dynamically consistent and create credible and stable future mitigation policies.

Another concern is how reduction targets can be implemented at least possible cost to the economy. Carbon emissions trading is a key tool in the Kyoto protocol that is likely to remain an important mechanism also in the future. How can auction rules and trading mechanisms be designed as to ensure both efficiency and integrity? An example of the problem of rule

manipulation is the design of auction rules, on e.g. carbon permits, where incentives to state false bids exist for many types of mechanisms. An exception is the Vickrey-Second-Price-Auction, later generalized by Andersson and Svensson (2008). This raises the question how to form economic mechanisms that induce truthful revelation, agent based consistency etc.

The appeal for dynamic consistency through institution-building obligates us to raise questions related not only to efficiency but also to democratic values. If climate policies are to be implemented by independent institutions, such that the policy and the outcome are the same, a fundamental problem is to whom are the institutions accountable? Who defines its targets and how do we ensure that democratic values are not compromised? How can these institutions and policies assure fairness regarding conflicts of interest between generations and groups in society?

Description of work: Implementation, Research Approach and Methodology

WP1 will cover a general analysis of governance dilemmas and theories of the green state as well as an assessment of specific policy instruments and institutional designs. The assessment of policy instruments includes existing instruments that seem promising, and new innovative instruments that have not yet been tried.¹ WP1 comprises the following research tasks:

1. Alternative governance models and policy pathways towards LETS: To review theories of ecological governance and to analyze key governance dilemmas in order to identify and assess alternative governance institutions and policy pathways that support the necessary transitions and leads to desired emissions reductions.
2. Dynamic consistent policy review: To review dynamically consistent policies for the transition towards LETS and to explore new institutional designs with the purpose to safeguard dynamic consistency in environmental and climate policy. This institution could be designed in various ways; one option is to take inspiration from monetary policy (i.e. central banks), another relates to auction rules for emissions trading.
3. Policy innovation and integration for LETS: To study the role of the Environmental Quality Objectives (EQOs) as a case of an institutionalized policy and a path for implementation that can enhance policy and sector integration, in particular through the current EET strategy. The EQOs also introduces to policy the notion that responsibility goes across generations. This case present us with the possibility to analyze whether the EQO reform, which Lundquist (2004:64) calls a “silent revolution”, can be considered an innovative form of policy in both these respects.
4. Alternative policies and measures for the implementation of LETS: To identify and assess possible policy recommendations, the research findings in WP1 and the other work packages will be appraised through a seminar series that runs throughout the program period. The main objective is to communicate and synthesize findings across the research team and the WPs as well as to allow for input from key stakeholders.

Research approach and Methodology

This WP will apply existing theories and empirical work on environmental governance and in policy studies to assess the potentials of the objectives for the implementation of LETS. In addition, this WP also aims to implement theories and methodologies from other fields of economics and political science that are not primarily intended for analyzing effective, consistent and legitimate low-carbon energy and transportation policies (e.g. from monetary policy, social choice and political theory, among others). Some empirical and econometric methods will also be applied. Some studies will be qualitative with a comparative ambition. Normative models derived from green political theory will be used to analyze the scenarios that form the starting point of the overall project.

¹ Contemporary examples include auctioning of emission allowances; personal carbon allowances (considered in the UK); tradable green certificates (TGCs); and independent energy agencies, such as the Danish Electricity Saving Fund.

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