

# Economics and Environmental Policy Research Network

## Research Symposium

March 1<sup>st</sup> – 2<sup>nd</sup>, 2018

### Session Notes for Plenary V: Signaling Policy Predictability for Long-Term Investment in Clean Innovation

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#### 1. Context of Discussion

The presentations in this session covered three closely related topics:

##### 1. Path Dependency Analysis as a Tool to Uncover Durable Policy Solutions

Climate change can be seen as an example of a super wicked problem: it is irreversible; there is no one central authority; those seeking to end the problem are also causing it; and policies discount the future irrationally in that none of our current policies get us even close to our targets, but we assume we will find a solution in the future. Traditional policy analysis tools don't fare well when it comes to these kinds of super wicked problems, either failing to reach implementation, or succeeding but being vulnerable to reversal when political priorities change. Path dependency analysis is a tool that can help us identify more durable policy options among a set of alternatives. Path dependency analysis examines a number of different policy characteristics, including the immediate stickiness of the policy, the costs of reversing the policy over time, how benefits change over time, and what positive feedbacks exist over time. The analysis is centered on three diagnostic questions, namely

- What can be done to create stickiness making reversibility immediately difficult?
- What can be done to entrench support over time?
- What can be done to expand the population that supports the policy?

Examining past policies (e.g. Obamacare) illustrates how path dependency has explained the durability (or lack thereof) of past policies and supports the use of path dependency analysis in assessing the durability of proposed policies moving forward. In particular, there is an interest in examining how path dependency analysis can make Canada's climate change policies and climate finance commitments more durable given the country's historically vacillating commitment to climate change.

##### 2. Mechanisms to Help Stabilize a Low-carbon Policy Orientation

Achievement of a low-carbon economy will rely on the implementation of appropriate and durable policies. Crucial to the long-term durability of any policy is the perceived stability of the overarching direction of the policy towards a low-carbon future, as supported by the continuous signaling of movement in this direction. From a review of literature on path dependency, policy feedback, and transition pathways, this speaker developed a framework of different mechanisms that play a role in stabilizing a low-carbon policy orientation. These include:

- 1. *Increasing the political cost of reversal erosion:*

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- E.g. procurement and infrastructure spending: once you've already invested a lot of money, people have a higher commitment to finishing.
- E.g. linkages and entanglements- should attached low carbon policies into other more rigid framework. For instance BC carbon tax is linked to income tax rates, municipal revenue streams. For instance, linking your climate market with other provinces- withdrawing has reputational cost.
- E.g. automatic triggers and penalties. For instance, EPA's non-attainment status for air pollutants.
- E.g. Increasing transparency. For instance, additional monitoring and assessment that links long and short term goals and progress towards them.
- *2. Encouraging the development of supportive policy constituencies*
  - E.g. Resource allocation and incentives to have actors not just support a particular policy but for more in the future because the end result benefits them.
  - E.g. Problem framing
- *3. Embedding the low-carbon transition within a supportive ecosystem of institutions*
  - E.g. strengthening institutions and functions, perhaps using arms-length bodies.
- *4. Building societal legitimacy for the low-carbon transition*
  - E.g. education and engagement i.e. embedding low carbon actions in our identity as Canadians.

### 3. Assessing the Likelihood of Countries Fulfilling their Climate Commitments

Can we trust countries to fulfil their climate commitments? An assessment of “credibility” attempts to offers insights into the extent to which countries can be expected to fulfil their climate policies. Credibility, as used here, is defined as “the likelihood that policymakers will keep to their promises to implement the pledges or policies they announce”. Within the context of climate commitments, seven different determinants were identified as affecting credibility. These are: the existence of coherent and comprehensive legislation and policy; the existence of dedicated public bodies supported by consultative mechanisms; history of past policy reversal; track record of delivering on past climate change commitments; transparent, inclusive and effective decision-making process; supportive private bodies and climate-aware public opinion. These determinants were evaluated qualitatively for EU member states, looking specifically at their credibility with respect to their commitments to decarbonize their power sector. Among the most credible countries were Denmark, the UK and Germany. France, Spain and Italy showed medium credibility performance, and Poland and the Czech Republic performed poorly. Such an analysis can help identify specific areas where individual countries should focus their efforts to improve the policy implementation framework underlying their climate commitments.

## 2. Research Questions Identified

The following specific research questions/ideas emerged from the discussion:

- When developing climate policies, there needs to be a link between near term actions and far-off effects. **How do we balance short-term actions that fit into much longer term sequence of effects and outcomes?**

- A policy requires both long-run predictability and the flexibility to be adapted as conditions change. **How do we resolve and balance this stability and adaptability?**
- **How much policy stickiness is too much?** Stickiness/lock-in is useful, but there can be too much of this. i.e. we get stuck. E.g. BC carbon tax: the province becomes dependent on the inflow of money from this tax. How do you increase the price of the tax now without impeding competitiveness? How to raise ambition without decreasing revenue, which they are now dependent on?
- **How to link heterogeneous carbon pricing systems across Canada and the world? How can we ensure there is some convergence of these systems if they are all locked in?**
- **How far in the future do we lock in legal requirements? What is the ideal price trajectory? How far in the future to set it for?** (The ideal future standard is not yet known, hence we may be stuck to a sub-optimal path). If our horizon is too short, it doesn't give enough clarity about the long-term policy direction. If our horizon is too long, businesses don't find it relevant for them now.
- Robust accountability measures are critical for the longevity of any policy measure. **Are we setting up accountability measures to reinforce or to criticize policy?** There is an inherent tension here, because if accountability measures open people up to criticism, they will do as little as possible, thereby hoping to avoid criticism.
- **What is the role of federalism in climate policy?** I.e. how does one integrate down the various levels of climate policy actors: federal, provincial, municipal... Can we explore Canada as a microcosm of the world, where we are trying to link various levels of actors and institutions? What can we learn in terms of things going right and things that could go better?
- **Can we come up with GDP-like measure for climate policy?** I.e. if we stop publishing GDP measures, people would be outraged. What is an equivalent regularly published statistic for climate policy?
- **What can we learn from cases of stickiness implementation like the BC Carbon tax? Why did or did it not reach the next level?**
- **Can we tease out examples from history to ask what the characteristics are of durable institutions/arrangements that survived versus those that didn't?** Are historical examples worth examining closely given that there were so many possible pathways and factors that could have resulted in a certain outcome?
- **What insights do we obtain from thinking outside of the path-dependencies of our current situation?** For instance, the EU has focused on the financial system as a way of normalizing a low-carbon economy. This choice is in itself is a path dependency. Can we envision a world where this was not chosen as the core focus and does it teach us anything?
- **Can we develop a robust conceptual definition of policy change vs reversal?** To what extent does this separation require the integration of insights from law, governance and economics? How could

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we operationalize and measure these two concepts? (e.g. from CCLW database) What insights are obtained if we are able to compare data on policy changes versus policy reversals? To what extent can we learn from well-designed policies that enable change (versus badly designed policies that lead to reversal or result in litigation cases for revoking of contracts between governments and private entities)? What is the relationship between policy reversals and credibility of a country, in terms of implications on future low-carbon investments by the private sector?

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