

Energy Modeling Forum

Workshop on Climate Change Impacts and Integrated Assessment

Institutions, Economics and Climate Policy in a Mosaic World: Introduction & Scene Set

**How Integrated Assessment (IA) might learn from
New Institutional Economics (NIE) and vice versa**

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Objectives for the Session

- **Consider NIE perspectives on the role of institutions and organizations (especially national) for economic growth and adaptability**
- **Implications and insights for:**
 - **Viable (real world) climate policy choices and implementation**
 - **Design of baseline and other GHG emissions and socioeconomic scenarios**
 - **Emissions offset and adaptation programs**
- **Ways to bring NIE perspectives into scenario development and IA estimates of costs and benefits of climate policy**
- **Aspects the NIE community may wish to consider regarding the response of nations and their institutions to the twin stresses of evolving climate change and climate policies**

Broker cross fertilization between and within the climate and NIE communities

Mosaic World

- **A world in which nations and regions establish climate objectives and policies based on national circumstances and priorities**
- **Implementation depends on national policies and enforcement**
- **Economies and global GHG progress remain linked through, e.g.**
 - Formal bi- and multi-lateral linkages (in some cases)
 - Trade and investment
 - International offsets
 - Research and development
 - ...
- **As contrasted with, e.g.**
 - Cap & Trade World: Progressive evolution to a global system in which
 - + Nations with targets take on stronger targets
 - + Nations without targets graduate to take them on
 - + Linked cap-and-trade systems with offsets lead to a common carbon price
 - A Favela world of partially planned and unplanned policies

- Considers the real world of national policies
- Moves from idealized 1st best world

New Institutional Economics

- **Considers the way in which societies organize and exercise political power, especially to govern, especially use and threat of violence, public and private law, and the economy.**
- **Institutions are the formal and informal “rules of the game” that shape behavior by providing \pm incentives, e.g. laws, beliefs**
 - Political power conveys the ability to change institutions and organizations, e.g. laws, judiciary in courts, expropriate property, ...
- **Provides insights into the differing behavior of *open access* and *natural states* based on their differing beliefs, institutions and organizations**
 - Open Access societies (most OECD) enable formation of political, social and economic organizations, exercise power through impersonal coalitions; opportunities are based on rights extended to entire classes, e.g. citizens
 - Natural States limit number and character of organizations and exercise power through dominant elites dependent on personality; opportunities are based on privilege

Open access societies by and large promote more sustained economic growth and are more flexible and adaptable to change

Perspectives on Long-term Change

- **Over time fundamental changes will occur from many drivers, including climate change and climate policy:**
 - Understanding of risk
 - Experience with policy and technology
 - Preference
 - Institutions
 - ...
- **Institutional behavior and change affect base case, and response**
- **Opportunity cost of inadequate institutions will be a factor that may drive major institutional change**
- **However, there can be very significant (even disruptive) economic and social “transaction” costs to changing institutions**
- **Open access societies appear to be more resilient and adaptable; Natural order societies more brittle and fragile**

Enabling Frameworks for Business Contribution

To fulfill its potential most effectively, business requires a proper enabling framework that includes:

- Rule of law and good governance
- Honest, impartial judicial system
- Transparent, uniformly enforced regulations
- Stable regulatory and fiscal policy
- Protection of intellectual property
- Honoring of contracts
- Free, open markets
- Safe and stable communities
- Partnership and multilateral cooperation
- Vibrant society: education, communication, research ...



Response to climate risks must promote innovation, development and deployment of advanced technologies for mitigation & adaptation on a global scale

Ongoing and Emerging Business Issues

- Differentiated national obligations and policies
- Border adjustments & trade
- Offsets
- Competitiveness implications of major wealth transfers
- National treatment of domestic and foreign companies, and of state-run vs private companies
- Calls by some developing countries to relax IPR
- New measurement, reporting and verification procedures
- Environmental effectiveness

Different constituencies may share these or highlight other issues
Business issues are important both politically and for effective implementation

Agenda

Wednesday Morning:

9:00 New Institutional Economics Introduction and Overview

- (9:00) An overview New Institutional Economics, Lee Alston (U CO),
- (9:30) Institutions and economic growth: the rise spread and limits of sustained economic growth, John Wallis (U MD),
- (10:00) Implications for climate policy, Lee Lane (Hudson Institute)

10:30-11:00 Break

- Panel Discussion all

12:00-1:00 Lunch

Agenda

Wednesday Afternoon:

1:00 **What NIE has to say about real world climate policy: how institutions condition policy choice, design and implementation**

- (1:00) US Energy and Climate Policy, Barry Weingast (Stanford)
- (1:45) Panel Discussion: How and how well do IA models represent national policies and implications for international response, Leon Clark (Batelle, U MD), Elmar Kreiglar (Potsdam Institute), David Montgomery (NERA)
- (2:30) Open discussion all

3:30-4:00 Break

4:00 **Incorporating institutional thinking into climate baseline and other emissions and socio-economic scenarios**

- (4:00) The role of scenarios in describing climate futures Jae Edmonds (U MD)
- (4:15) What information should socio-economic scenarios provide, John Weyant (Stanford)
- (4:30) Can NIE research narrow the range of plausible scenarios or help identify inconsistent assumptions. John Wallis (U MD)

5:00 open discussion all

Agenda

Thursday Morning:

8:15 Introduction and overview David Montgomery (NERA)

8:30 **NIE perspectives on offset and adaptation programs**

- REDD: governance and feasibility, Lee Alston (U CO)
- Adaptation, aid and violence in Africa, Robert Bates (U MD)
- Discussants Barry Weingast (Stanford), Richard Tol (ERISA)

10:30-11:00 Break

11:00 **Panel discussion how to bring NIE perspectives into climate scenario process and modeling cost and benefits of climate policy**

Ottmar Edenhofer (Potsdam Institute, Co-chair IPCC WG III)

Chris Field (Carnegie Institution, Co-chair IPCC WG II)

John Weyant (Stanford)

Barry Weingast (Stanford)

Richard Tol (ERISA)

12:15 **Possible topics for 2012** Brian Flannery (ExxonMobil), David Montgomery (NERA),
Lee Lane (Hudson Institute)

12:30 Lunch

Thank You