

Economics for the Environment: Climate Change and Beyond
Hosted by the Lawrence Foundation and CASE&E
March 19-20, 2007, Santa Monica, CA

Summary

The Lawrence Foundation and the Center for the Applied Study of Economics and the Environment (CASE&E), hosted a two-day workshop, *Economics for the Environment: Climate Change and Beyond*. This workshop furthered the dialogue and cooperation between funders, NGOs, and economists toward building a new and applied progressive economics of the environment. This work began at a previous meeting in Santa Monica in March 2005. CASE&E was born from the ideas developed at the 2005 Santa Monica I meeting. The purpose of our Santa Monica II meeting was two-fold. First, we wanted to evaluate the progress of CASE&E's initial suite of activities and to discuss plans for organizational growth and improvement. Second, we wanted to identify the important research issues surrounding climate change that CASE&E's new taskforce of climate economists should address during their upcoming summer climate economics workshop. The following is a summary of the key points and ideas raised over the two-day workshop.

On the need for a new economics of the environment:

CASE&E presented its critique of conventional/neoclassical economics and offered its vision of a new progressive economics of the environment that is rooted in a commitment to social justice and is applicable to the real world issues that policy makers and NGOs confront. This critique and vision is further articulated in CASE&E's statement, *Real People, Real Environments, and Realistic Economics*, which is available on our website www.case-and-e.org.

All were in agreement that a new progressive economics of the environment was needed, and that climate change was the best example of why conventional economics is ill-suited to envisioning solutions to real-world environmental problems. Given the primacy of climate change, it appears that *now* is the right time to begin making inroads into the economics profession.

It was clear that a new vision for the future and new metrics that reflect our values are needed. The environmental community needs an integrated economic strategy, one which coordinates policy change across sectors. All felt a sense of urgency. The real world is about to intervene in our plans, and the economics profession and the big environmental NGOs are not well-positioned to respond.

This brought us back to CASE&E's basic goals: 1) To develop better applied theory and research within the economics profession; and 2) To involve progressive environmental economists more actively in policy development, through dialogue and cooperation with environmental advocates. The first is a longer term goal, and is reflected in our graduate

student internships, dissertation fellowships, summer institute, and CASE&E's participation in professional academic conferences. The second is a shorter term goal, and is reflected in our Green Economist Directory and Climate Economics Task Force.

On evaluating the progress of CASE&E's initial suite of activities:

The general consensus was that our dissertation fellowships and graduate student internships were good mechanisms for reaching out to the next generation of economists, and helping to steer them in the direction of practical research. Finding graduate students in mainstream economics programs who understand CASE&E's approach to economics is difficult. It is also challenging for NGOs who are unaccustomed to working with economists to identify ways of using economics interns productively. These points confirm the need for CASE&E's programs in the first place. Expanding our summer workshop for graduate students, where we train students in alternative methods of analyzing economics and the environment, will improve, and expand, upon the goals of our fellowship and internship programs.

Our Green Economist Directory is up-and-running with a growing list of progressive economists who are willing to work with environmental groups on a pro-bono or fee basis. The key now is to get NGOs to effectively use this network. This likely involves educating NGOs about how progressive economic arguments for environmental protection can support their advocacy work, and why these arguments are different than the perspectives offered by mainstream economic think tanks (e.g. Brookings or Resources for the Future). Important questions were raised regarding CASE&E's role as a "broker" between economists and the environmental community that wants to work with them, or "facilitator". Currently, CASE&E can best facilitate the relationship between progressive economists and the broader progressive movement. A possible model for the future could have CASE&E "hired" by NGOs to conduct research, where CASE&E then uses one of the economists in its network to conduct the research. We heard from the NGOs present that this model might be more convenient for NGOs, in that it resembles how they currently use established think tanks for consulting services. However, this model would push CASE&E much further in the direction of a "think tank" with its own brand of research product.

On CASE&E's Organizational Growth and Future Activities:

The plan for 2007-2008 is to roll out CASE&E as a broader and more public institute. This means scaling up our existing programs and expanding in new directions that solidify and publicize our alternative approach to environmental economics. The funders and NGOs present encouraged us to engage more directly in advocacy. Toward that end, we will begin populating our webpage with position papers and related materials. The NGO representatives impressed upon us that what they sorely need from progressive economists are often materials that we can develop in relatively short fashion – for example, a primer on the implications of taxes vs. tradable allowances, a summary of the problems and biases inherent to cost-benefit analyses of climate change. These are materials that require little additional research on our part, but need to be packaged and

presented to NGOs in a way that is accessible and useful. If CASE&E moves in the direction of publishing more of its own research, the question of whether we grow CASE&E into a think tank in the long term takes on more importance. At this point, CASE&E lacks the requisite resources to function as a “think tank”.

CASE&E will focus its activities in 2007-2008 on climate change. This focused attention on an issue of policy importance is a model CASE&E will replicate in the future. We’ve created a “climate economics taskforce” that consists of economists on the steering committee of CASE&E, as well as reputed economists with expertise in areas pertinent to climate change. Day one of our workshop was devoted to identifying a research agenda and action plan for our climate economists. A summary of that research agenda is presented below.

On the climate economics task force:

The purpose of the climate economics taskforce is to provide timely economic analysis to NGOs and policy makers working on climate policy in the U.S. At the workshop in Santa Monica, we needed to identify a research agenda for our taskforce, which is scheduled to meet early this summer, and a plan for disseminating the results of that research to policy makers and the media.

Our discussion of climate economics opened with a session on the Stern Review. While it is a ponderous and imperfect document, it is “much less wrong” than conventional economic analyses of climate change. Above all, it gets two big things right. First, if discounting of future costs and benefits is to be used, the appropriate discount rate is much lower than economists often assume (Stern uses 1.4%, while many economists use rates around 6%). Second, it provides a much-expanded treatment of scientific uncertainty, with a sophisticated computer model that gives greater weight to the “tails of the distribution” – i.e., the unlikely, but not impossible, worst-case outcomes. On the other hand, the Stern Review shares some of the problematical assumptions of standard economics, e.g. the assignment of somewhat arbitrary monetary valuations to health and environmental benefits, and the assumption that cost-benefit analysis is the right way to make decisions of this sort. Numerous details could and should be questioned; we discussed the issue of whether the data in the Review could support arguments for emissions reductions going beyond the Review’s own targets.

More broadly, we identified many areas related to climate policy that deserve further research. These can be categorized as issues related to action vs. inaction, issues related to implementation, and issues related to public perception and discourse on climate policy. Research issues related to “action vs. inaction” would include debunking existing cost-benefit studies, demonstrating the relatively low costs and potential net benefits of reducing carbon emissions, and arguing for a precautionary approach to climate policy. Research issues related to “implementation” would include estimating the public investment in renewables and energy efficiency that would be needed to reduce carbon emissions, analyzing the efficiency *and* equity properties of carbon taxes vs. tradable allowances, identifying the “optimal” and “fair” level of emissions reduction for the U.S.,

addressing the role of offsets in climate policy, and revisiting U.S. participation in the Kyoto Protocol. Research issues related to “public perception and discourse on climate policy” would include analyzing what strategies have worked in California, in the RGGI states, and in other countries where climate policy has been implemented, using real-time models and simulations to demonstrate the effects of climate policy in ways policy makers can grapple with, and conducting a survey of climate economists to identify the consensus within the economics profession on climate policy.

The purpose of meeting with NGOs and funders in Santa Monica was to ascertain what they needed from a progressive climate economics taskforce. We learned that they want us to engage actively with Capitol Hill, to help the progressive movement to coordinate an integrated climate strategy, to provide climate economics educational materials, and to serve as a “rapid response team” to the arguments of the climate skeptics.

We decided to charge our climate economics task force with devising an integrated climate policy strategy that NGOs can use to lobby on Capitol Hill and that can be disseminated to the press to debunk the arguments and proposals that conservative think tanks and industry use to campaign against progressive climate reform. Toward this end, members of the task force will each write a two-page briefing on their area of expertise. We’ll synthesize these briefings and organize a day of congressional briefings and meetings with key decision makers. We also plan to brief representatives of the NGO community while in Washington DC.

Economists participating in this year’s workshop included:

Frank Ackerman, Research Director, Global Development and Environment Institute, Tufts University, CASE&E Steering Committee

Paul Baer, Research Director, EcoEquity

David Batker, Executive Director, Earth Economics, CASE&E Steering Committee

Eban Goodstein, Professor of Economics, Lewis & Clark College, CASE&E Steering Committee

John "Skip" Laitner, American Council for an Energy-Efficient Economy

Astrid Scholz, Vice-President, Ecotrust, CASE&E Steering Committee

Kristen Sheeran, Associate Professor, St. Mary's College of Maryland, CASE&E Steering Committee

Funders participating in this year’s workshop included:

Martin Collier, Glaser Progress Foundation

Bruce Hirsch, Clarence E. Heller Foundation

Jeff Lawrence, Lawrence Foundation

NGOs participating in this year’s workshop included:

Chris Busch, Union of Concerned Scientists

Erich Pica, Friends of the Earth