

Political Economy of Climate (In)Action

Thiemo Fetzer

MEGEO

06/10/2023



European Research Council
Established by the European Commission

I am going to try to fill some gaps here

On the corrosive effect of crisis

breeding short-termism

A tale of two countries

informational and performative state capacity

Political economy in action

make action incentive compatible

On austerity, Brexit and the long arc of protest

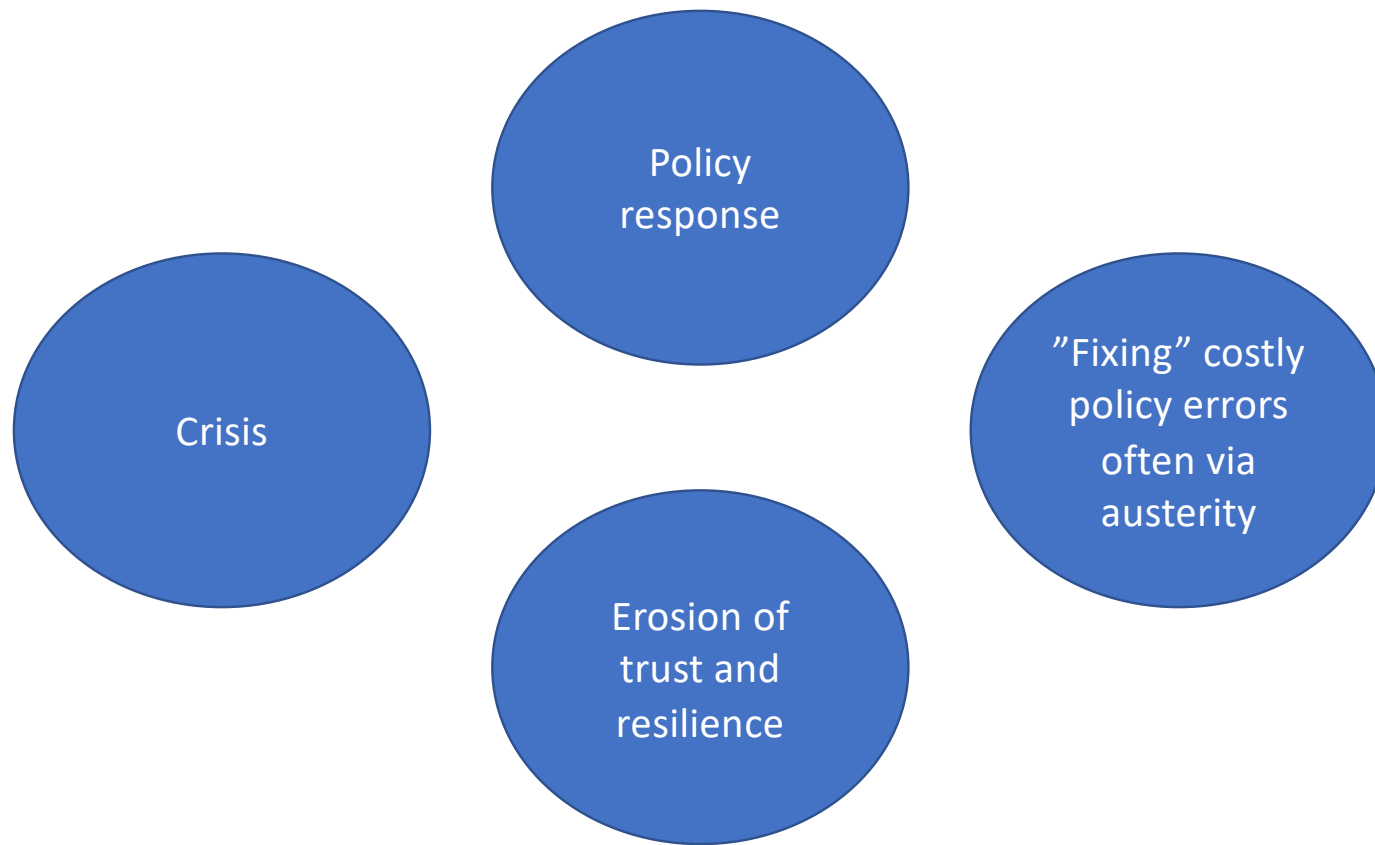
the gaps in between

Transnational dimension

data, code and capabilities

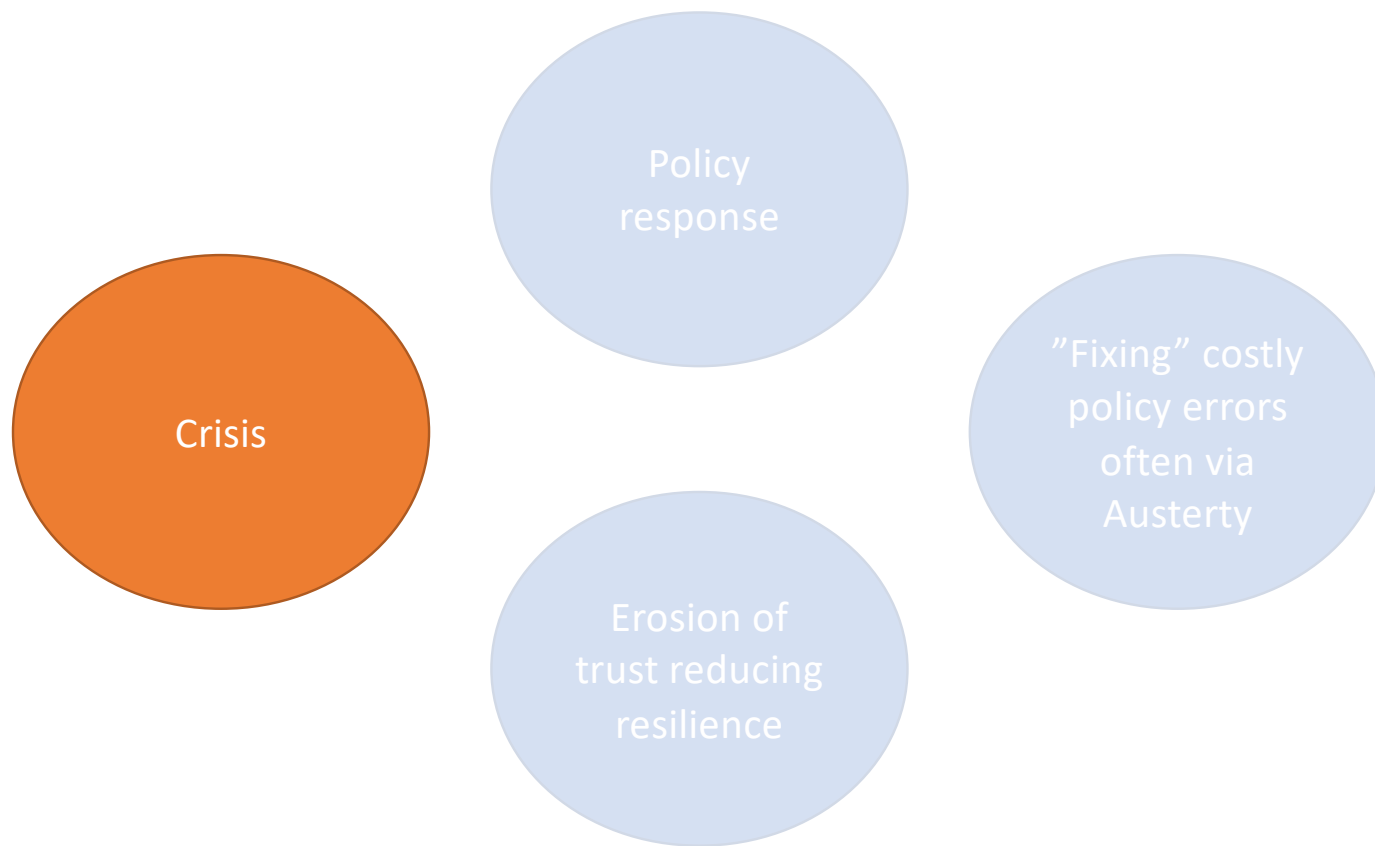
On the corrosiveness of crises

Vicious cycles around crisis erodes our Western liberal economic and social order



From a talk at the New School, March 2023 and internal Warwick presentation 2022.

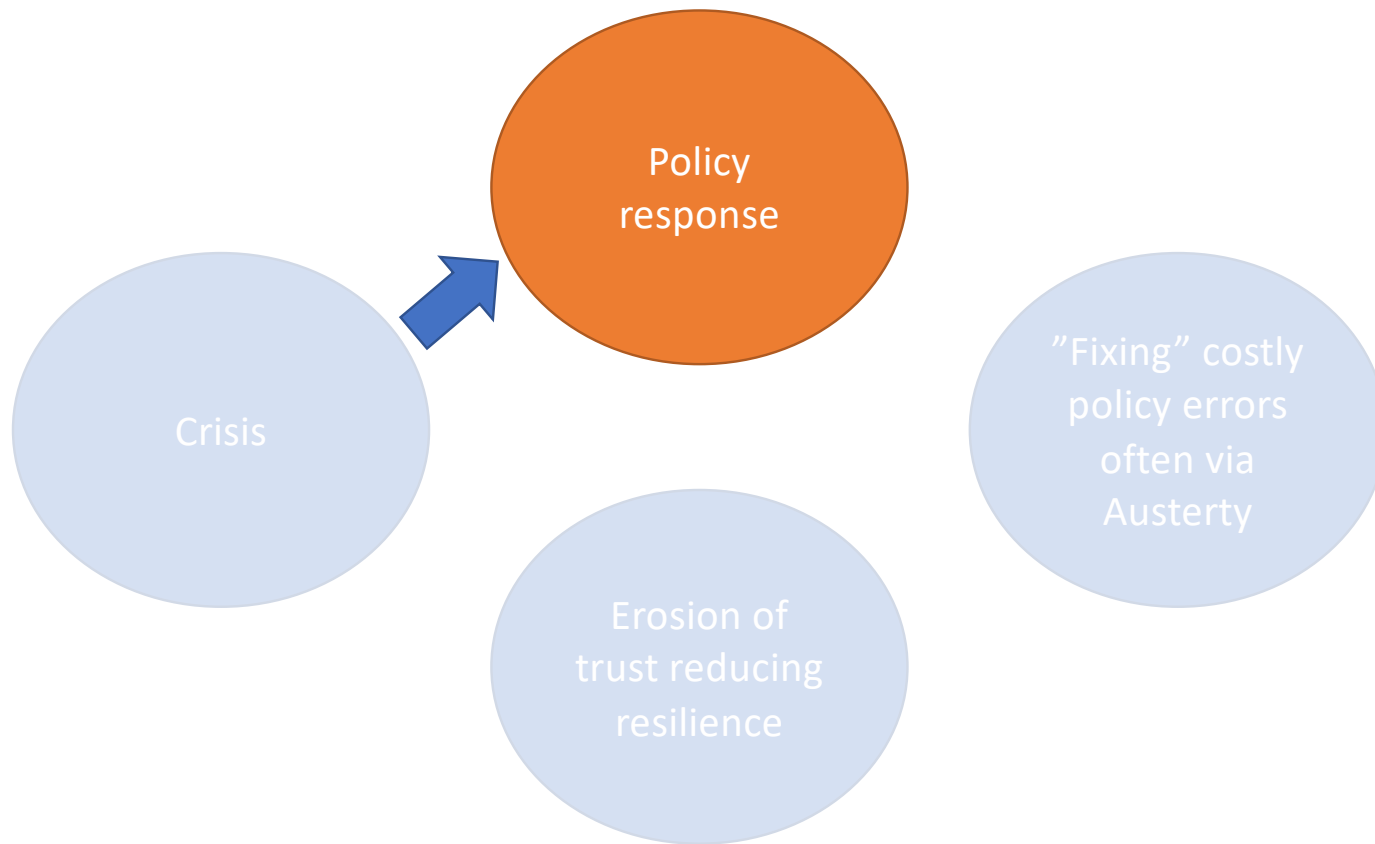
Vicious cycles around crisis erodes our Western liberal economic and social order



Crisis that I remember

- Global Financial crisis
- Eurozone Debt crisis
- Austerity crisis
- COVID-19 pandemic crisis
- Energy crisis
- Global heating crisis
- Demographic crisis
-

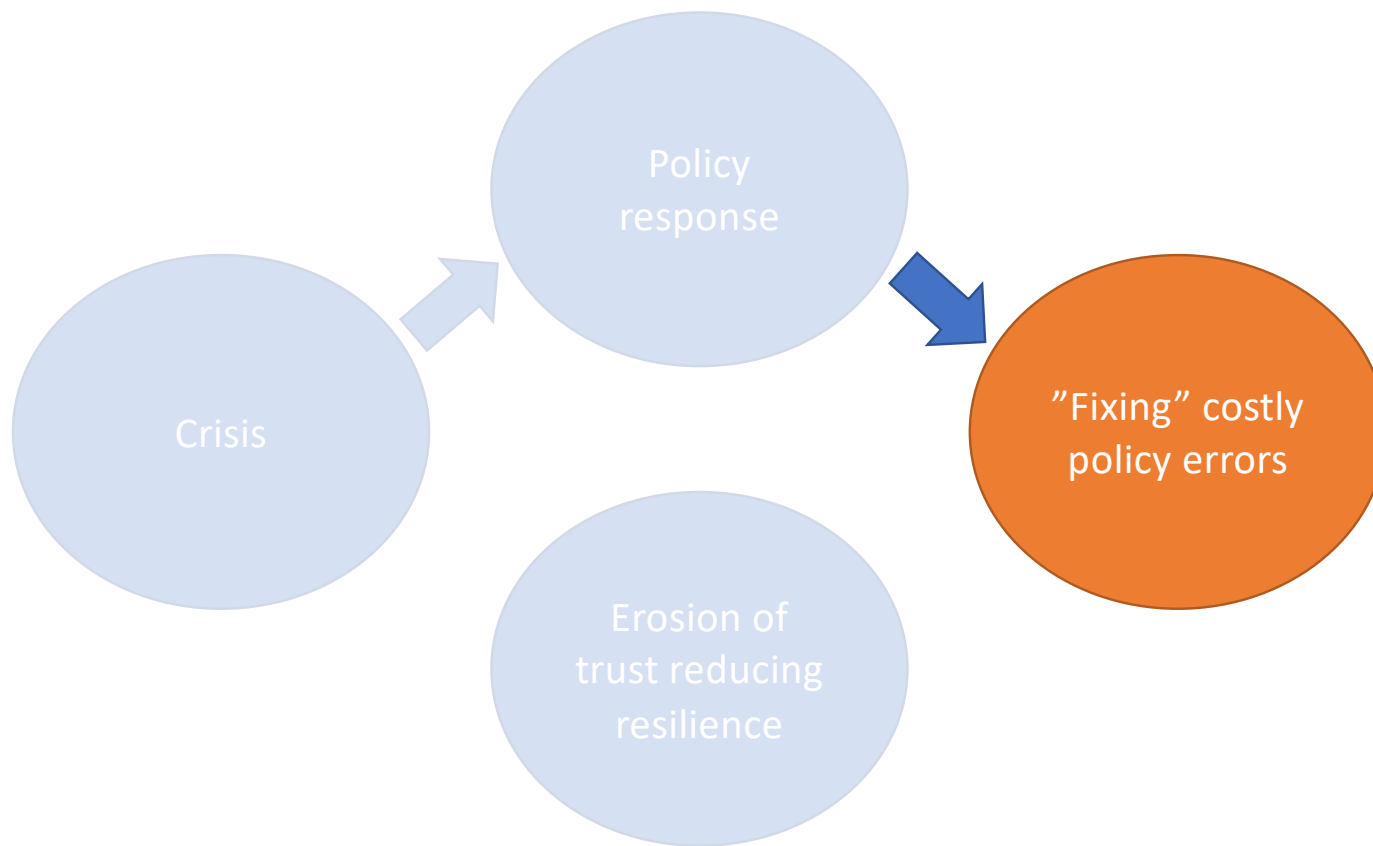
Vicious cycles around crisis erodes our Western liberal economic and social order



Policy response typically

- Regressive in nature
- Facilitating or encouraging outright fraud
- Benefiting larger firms more than smaller firms
- Further eroding state capacity
- Further skewing relative prices (intergenerationally, and intra-generationally)

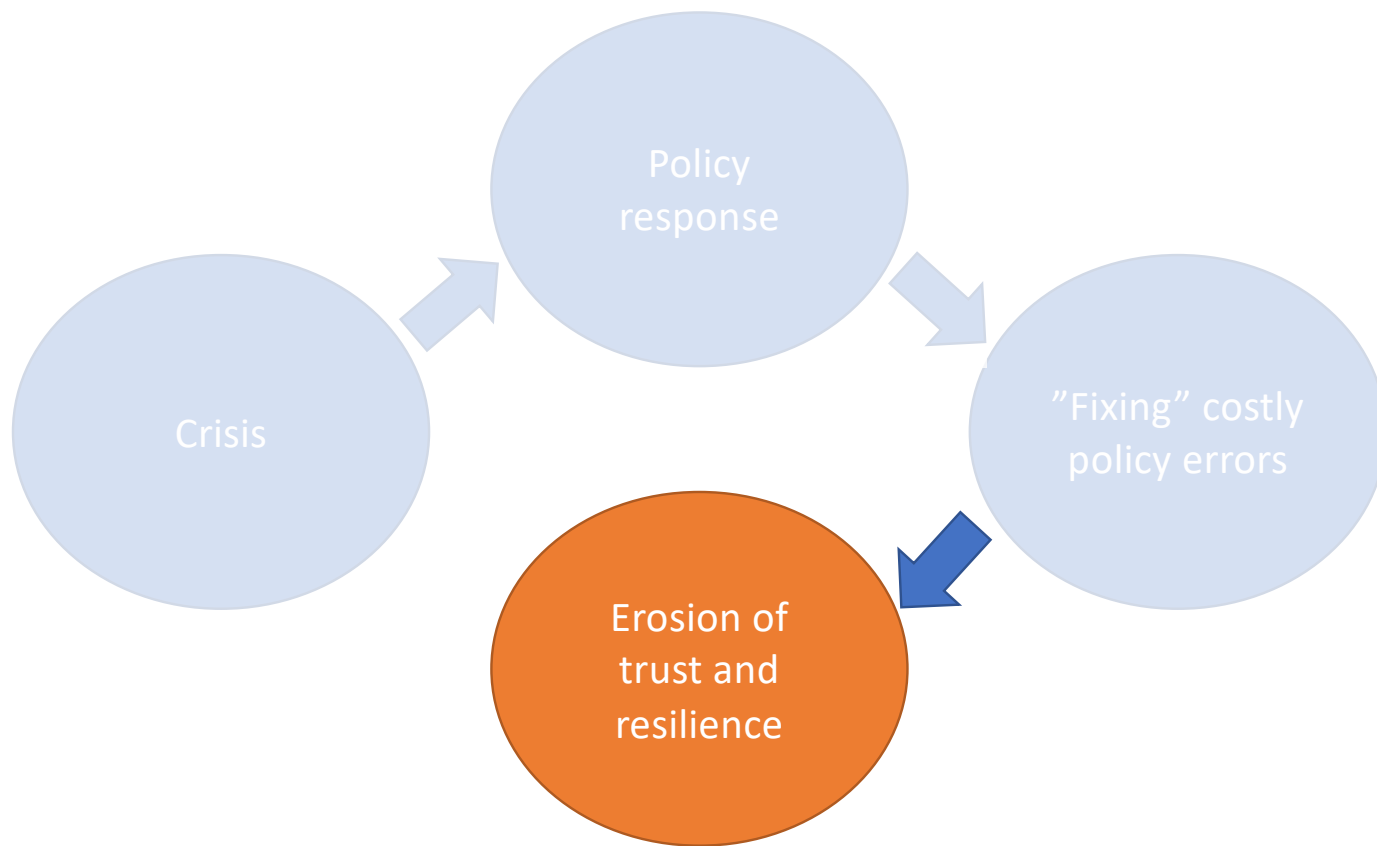
Vicious cycles around crisis erodes our Western liberal economic and social order



Fixing costly policy errors

- Political right offers **austerity** and **tax cuts** further eroding state capacity
- Political left offers **expropriation, abolishment of market principles**
- Both mark a departure from liberal economic order
- Both run risk of producing authoritarianism

Vicious cycles around crisis erodes our Western liberal economic and social order



Erosion of trust and corrosion of resilience

- Voluntary political disengagement
- Rise of extreme individualism
- Deaths of despair
- ...

Political economy of policy failures

- **We didn't have the right data.**

- Ask yourself, why we don't have the right data or
- In this case, much of the data is right there just not timely and not readily available to researchers

- **There wasn't enough time.**

- This is a quite predictable crisis (winter is coming) and politics is not surprising us on upside

- **We didn't have the evidence.**

- Cacophony of evidence produced by **influence industry**
- True expertise often doesn't have **vector of access** or **lack of incentives**
- Data rich environment enables evaluation to **adjust policies along the way**

What about a predictable crisis?



WINTER IS COMING

Russian invasion of Ukraine rocked energy markets

- In spring 2022, it was perfectly predictable that energy prices would not drop anytime soon.
- Escalation in Ukraine is just **continued hybrid warfare** since 2008/2009
- **And:** it is not desirable for hydrocarbon-based energy prices to go down if we want **climate action**
- But of course, entrenched **preferences for status quo** and concerns over stability led to countries to adopt a broad range of measures to take out the **sting**

Predictable crisis is an opportunity for positive research

1. To holding politics to account **in near real time**
2. Using **positive research** carried out to highest standard of integrity

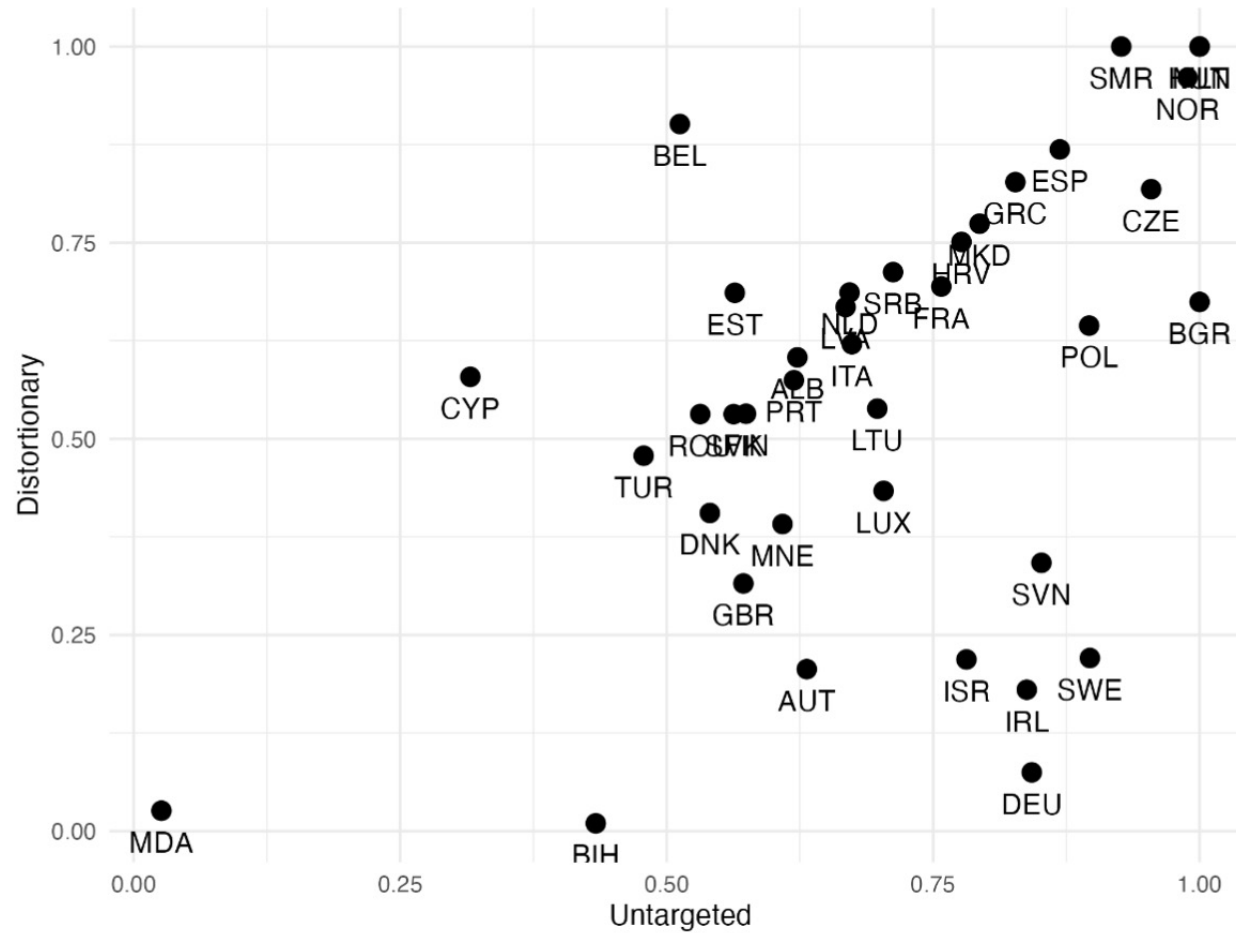
I am trying to establish a new way of doing research: *real time research*.

Statistical zeroes are sexy

→ Politics should not be just crisis management but forward looking

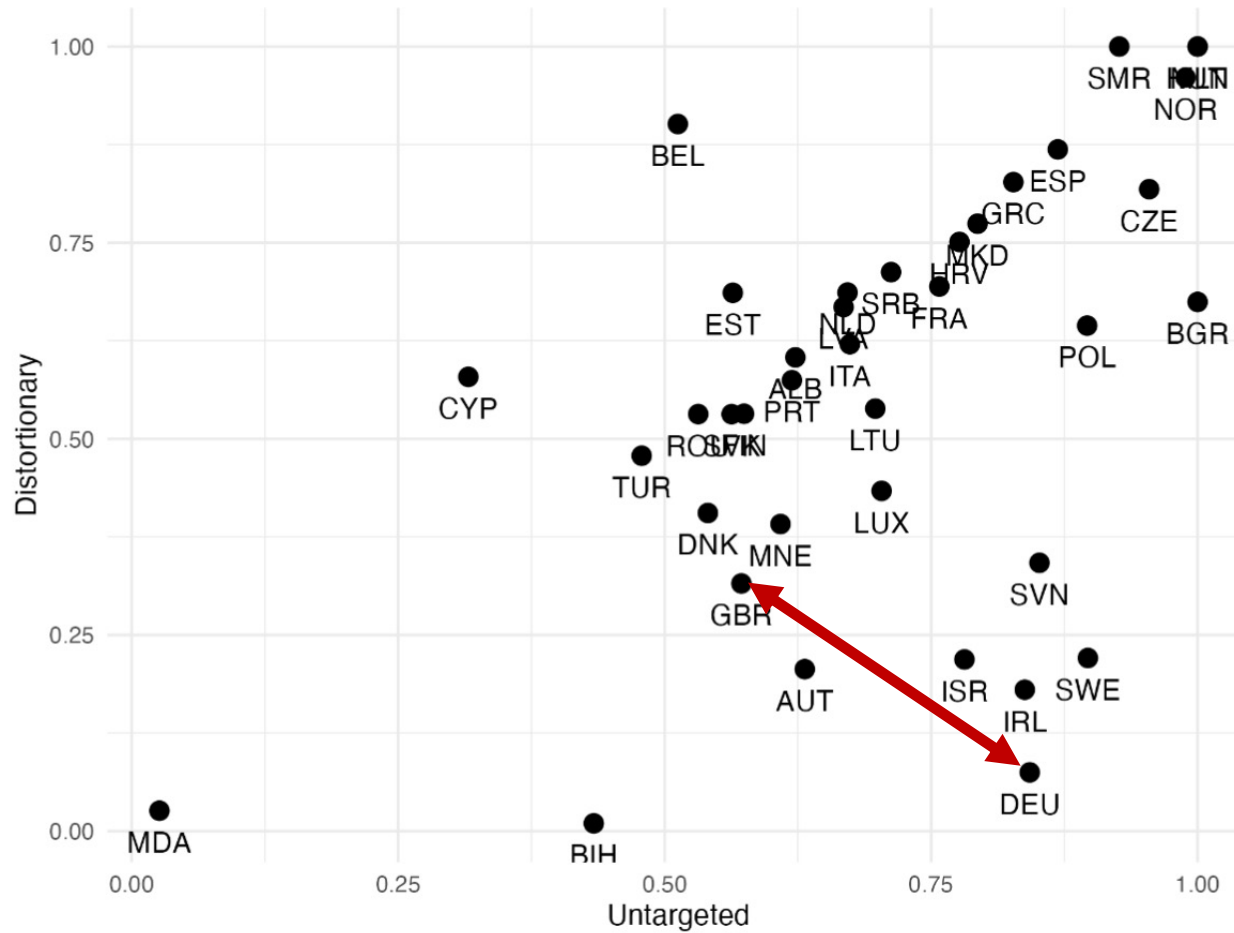
A tale of two countries

A tale of two countries

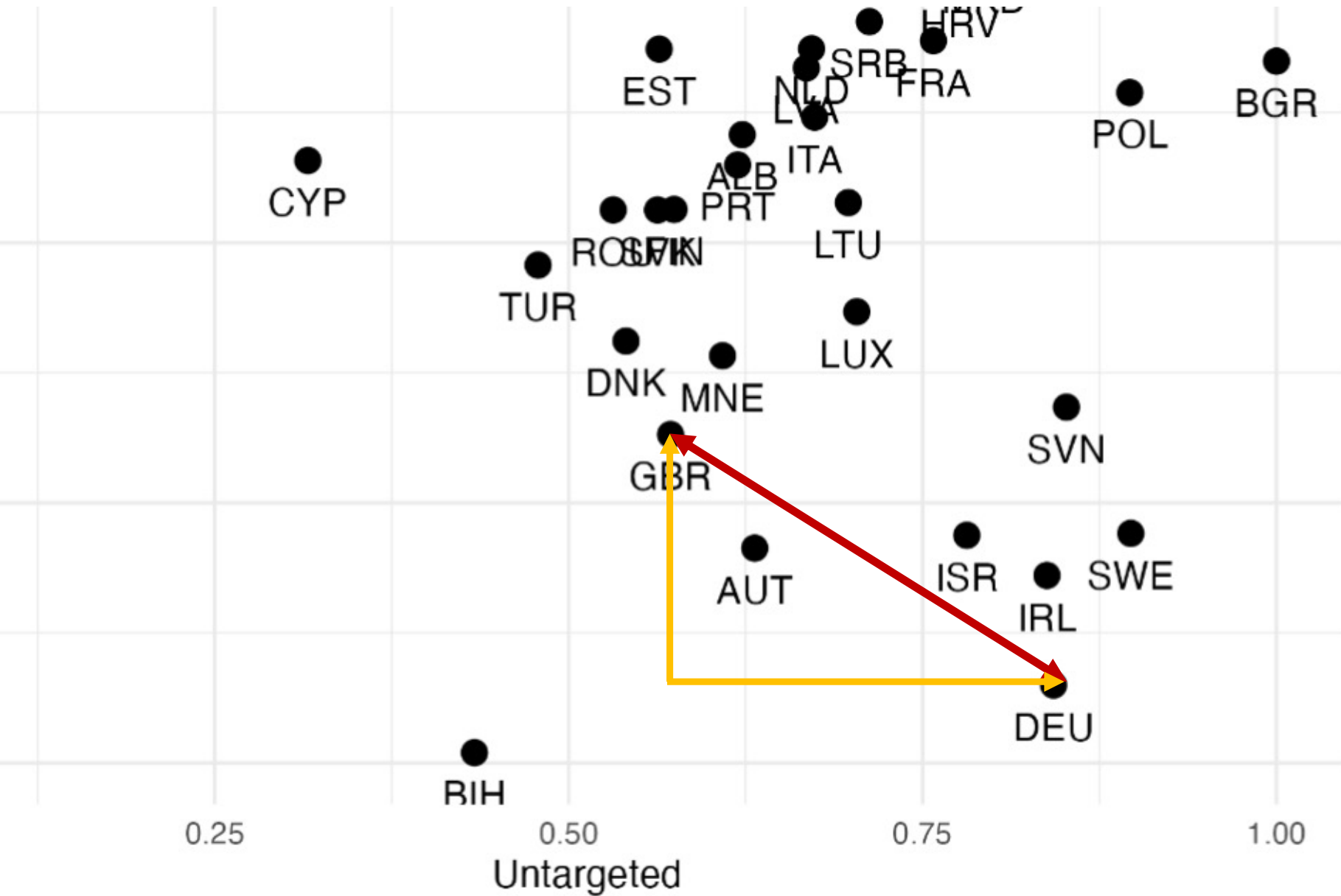


From: Fetzer et al (2023) Boundaries of the State, mimeo.

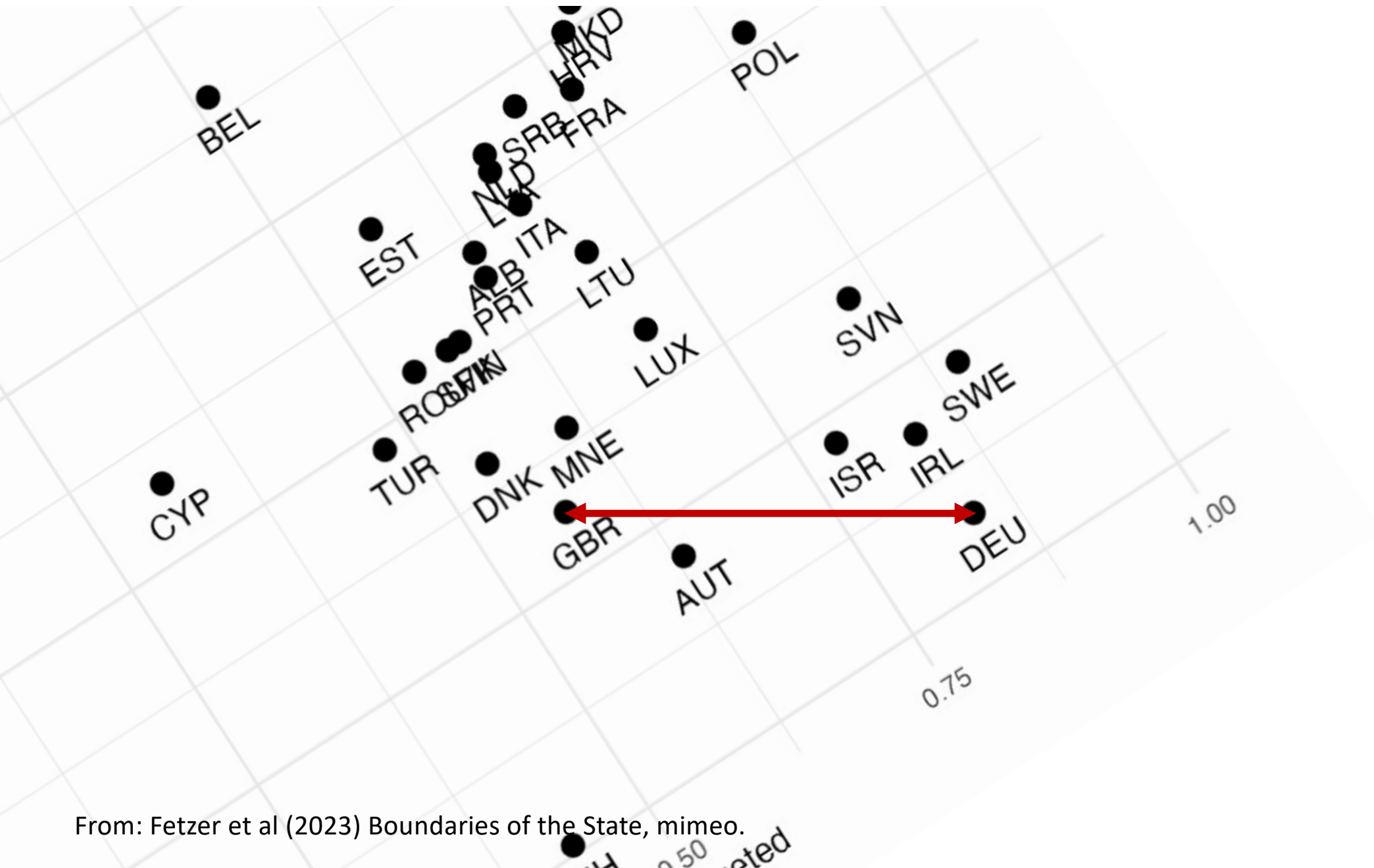
A tale of two countries



From: Fetzer et al (2023) Boundaries of the State, mimeo.



From: Fetzer et al (2023) Boundaries of the State, mimeo.



From: Fetzer et al (2023) Boundaries of the State, mimeo.

A tale of two countries

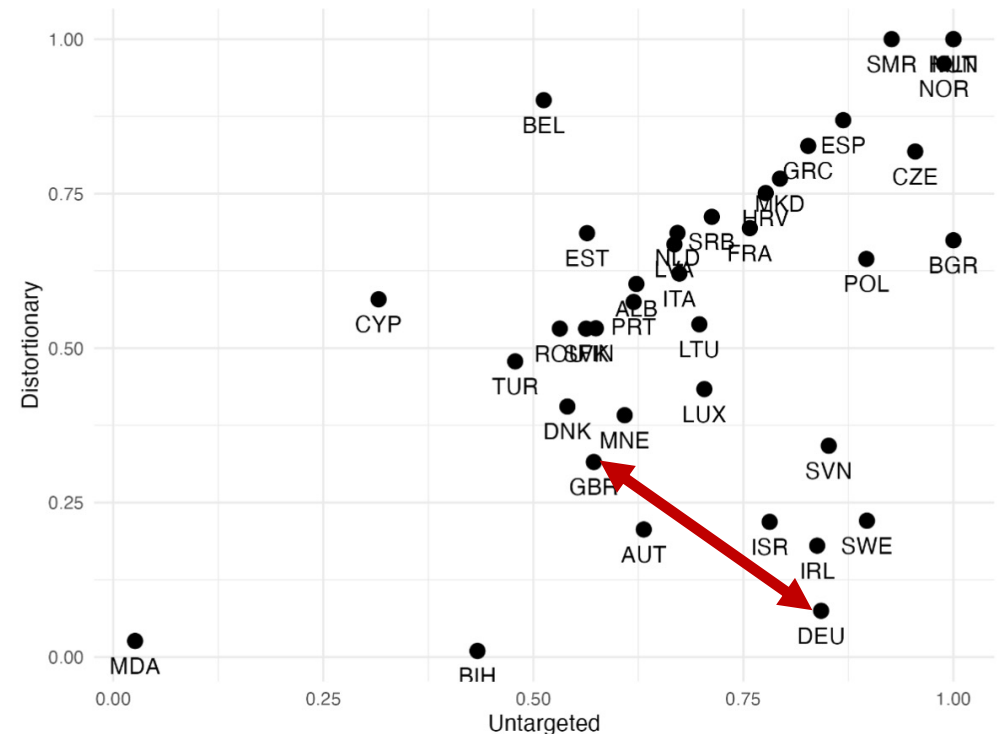
Policy response to energy crisis

- UK approach: targeted but highly distortionary
- DE approach: untargeted but non-distortionary

But: German response invokes **informational state capacity**

untargeted lump sum transfer passed through the tax system

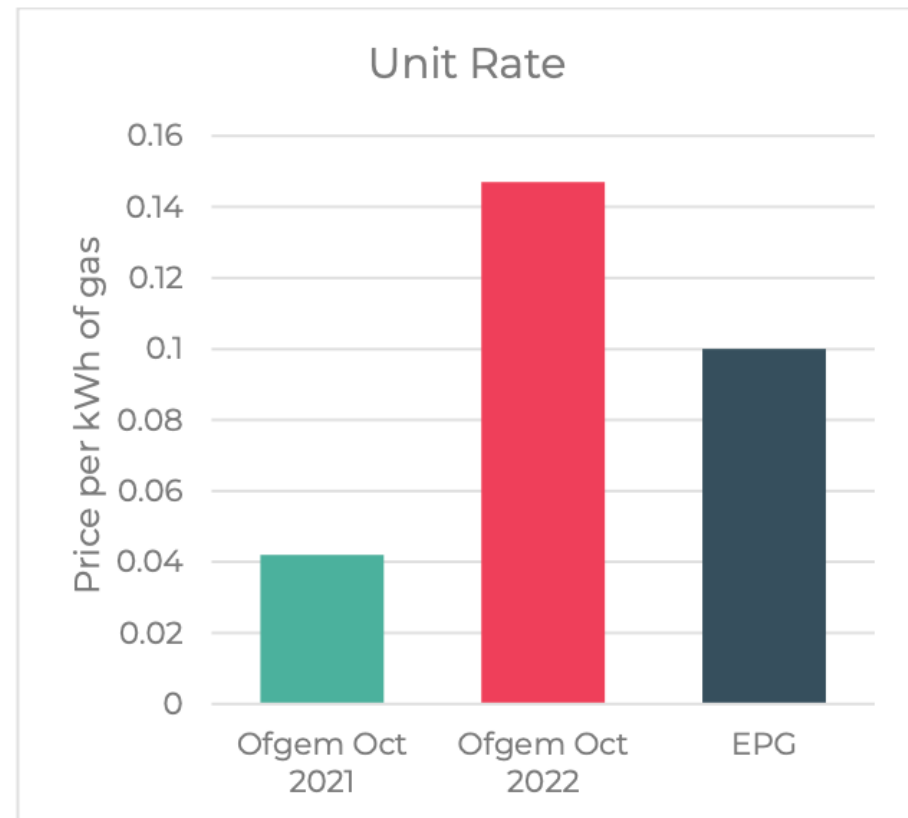
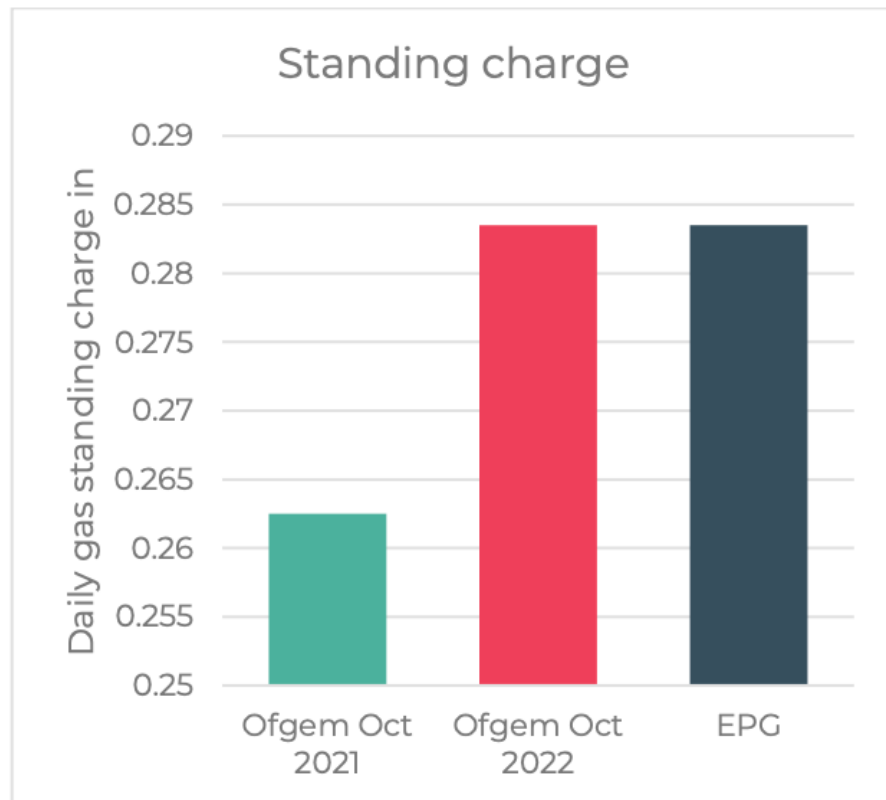
Both struggle with **performative state capacity** (H/T austerity)



From: Fetzner et al (2023) Boundaries of the State, mimeo.

Political Economy in Action?

Focus on UK policy response to energy crisis

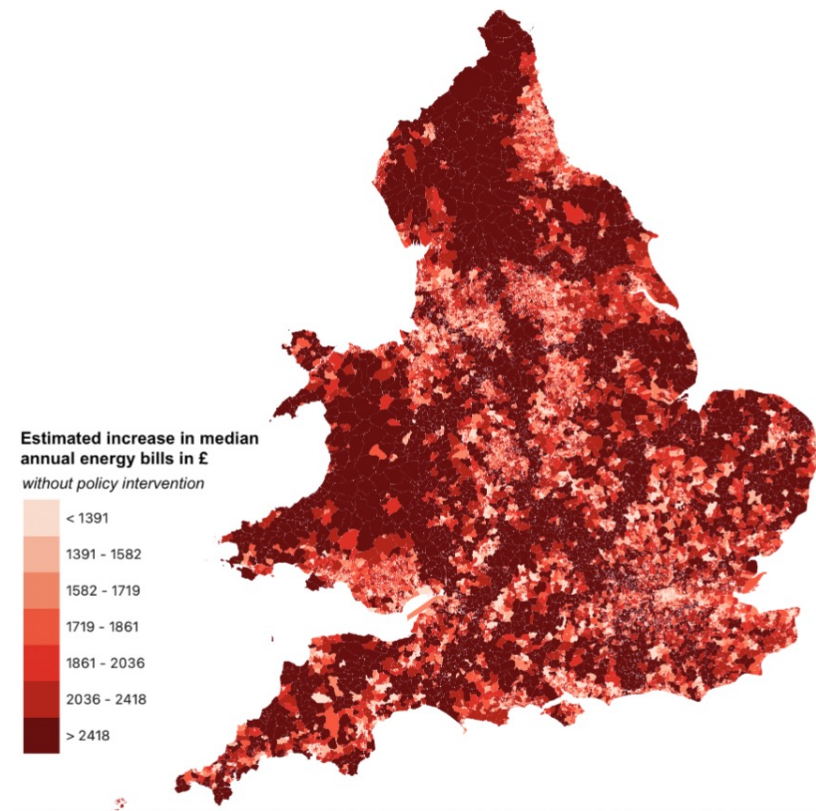


From: Fetzer (2023) Beyond the Energy Price Guarantee. With or without? Presented October 2022.

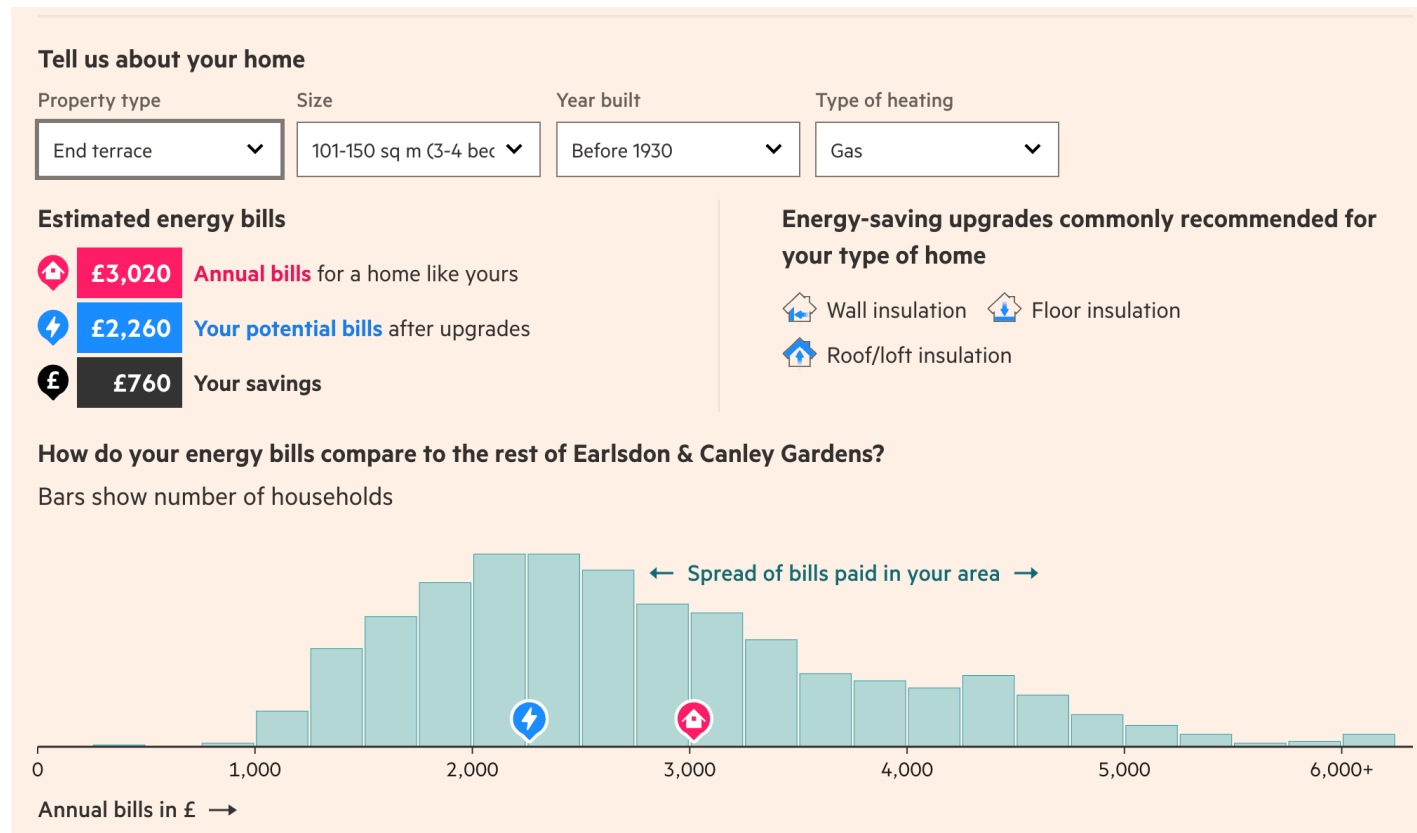
Millions of data points, arbitrary spatial aggregations

- Down to the property level.
- Using moment matching and
- I knocked this together in 6 weeks
- So any prudential, forward looking government actor should have been able to do that as well, wouldn't you think?

Outlet: Financial Times.



Open Data enabled development of ex-ante impact modeling framework



Shared in August 2022, final data shared early October 2022 only published 6 weeks later **a day after** Chancellor announced retrofit package.

Why is this “explosive”?

Well, in essence you can really “zoom in” and even attach a **picture** to the data.

Spatial **inequalities** have never become more **salient**.

Demand for privacy is originating in **distrust** of state to fulfill its core function.

But **privacy** also facilitates corruption.

Informational rents are huge.



Thiemo Fetzer 🇪🇺 🇺🇰 - same handle elsewhere
@fetzert

So, @Jeremy_Hunt now did a full and welcome u-turn on the #minibudget2022. And they are starting to tackle another policy that needs fixing, the #EnergyPriceguarantee #EPG. Why should this happen? This is a story that can ultimately be summarised in these two pictures.... 1/..



👤 Peter Jukes and 7 others

4:49 pm · 17 Oct 2022

119 Reposts 22 Quotes 326 Likes 45 Bookmarks

De-facto pre-registration of a “natural” experiment

*How does **untargeted energy price support** – arising from a lack of **performative and informational state capacity** due to the difficulty in navigating privacy can cause endogenous crisis narratives.*

1. Endogenous crime
2. Endogenous excess mortality
3. Endogenous deprivation
4. Endogenous instability
5. ...

→ plus a few more things I can not yet talk about....

One example of such a paper



Thiemo Fetzer 🇪🇺 🇺🇰 - same handle elsewhere ✓

@fetzert



Today, in England, millions of voters make a choice in their [#LocalElections2023](#). It's a good time to share some new research that is related to two policy issues that will have touched many people over the last year: the [#energycrisis](#) & [#crime](#).

 buff.ly/3VysOw7



Did the policy response to the energy crisis cause crime? Evidence from England

Thiemo Fetzer*

May 4, 2023

Abstract

The invasion of Ukraine has led to an unprecedented increase in energy prices in much of Western Europe with policy makers actively intervening in energy markets to cushion the shock. The UK's policy response stands out: the energy price guarantee (EPG) was entirely untargeted and is, in real terms, much less generous to those living in properties with low energy efficiency. Using granular data and following a documented research approach this paper documents that areas more exposed to the energy price shock saw a notable increase in burglaries and anti-social behaviour: the energy price shock is responsible for a 6 to 10 percent increase in burglaries and a 9 to 24 percent increase in police reported anti-social behaviour between October 2022 to March 2023 inclusive. A quantification of policy alternatives suggests that a more targeted energy support package and/or a more energy efficient housing stock could have resulted in a drastically less pronounced uptick in crime.

Keywords: CRIME, WELFARE, INSTABILITY, CLIMATE CRISIS, COST-OF-LIVING

JEL Classification: Q40, Q48, K42

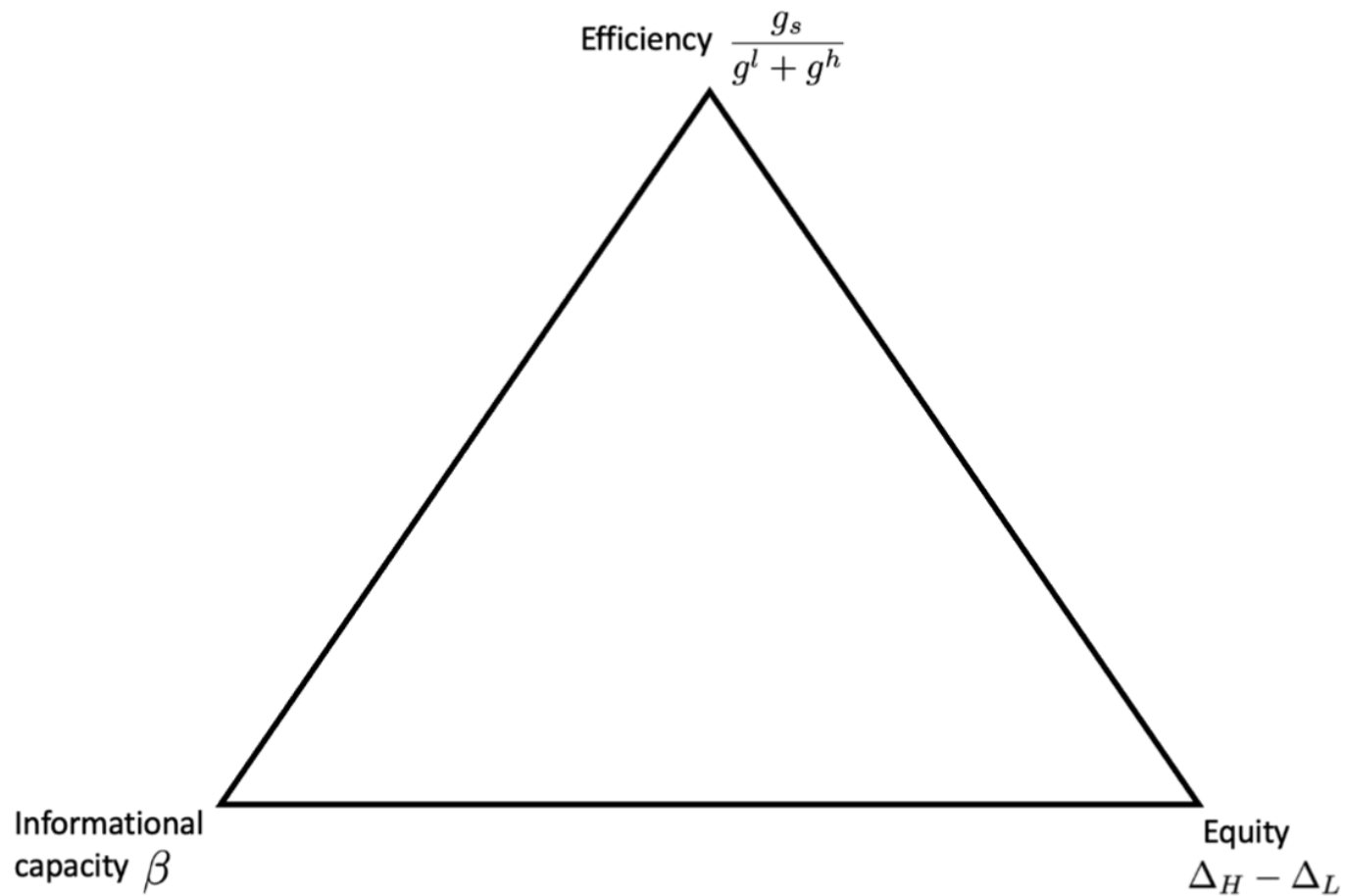
Let us look at some of the correlates

- Variation in bills that households face

$$\text{Var}(\Delta p_i \times f(\text{Who}_i, \text{what}_i, \text{how}_i))$$

- Variance in energy consumption is non-linear there is a correlation structure.
- Lump sum transfer allows relative prices to adjust -- German intervention
- UK intervention was direct intervention in price setting mechanism

Why?



From: Fetzter, Shaw and Edenhofer (2023) Boundaries of the State, mimeo.

**we want prices to
increase to signal scarcity**

Efficiency $\frac{g_s}{g^l + g^h}$

think linkable data

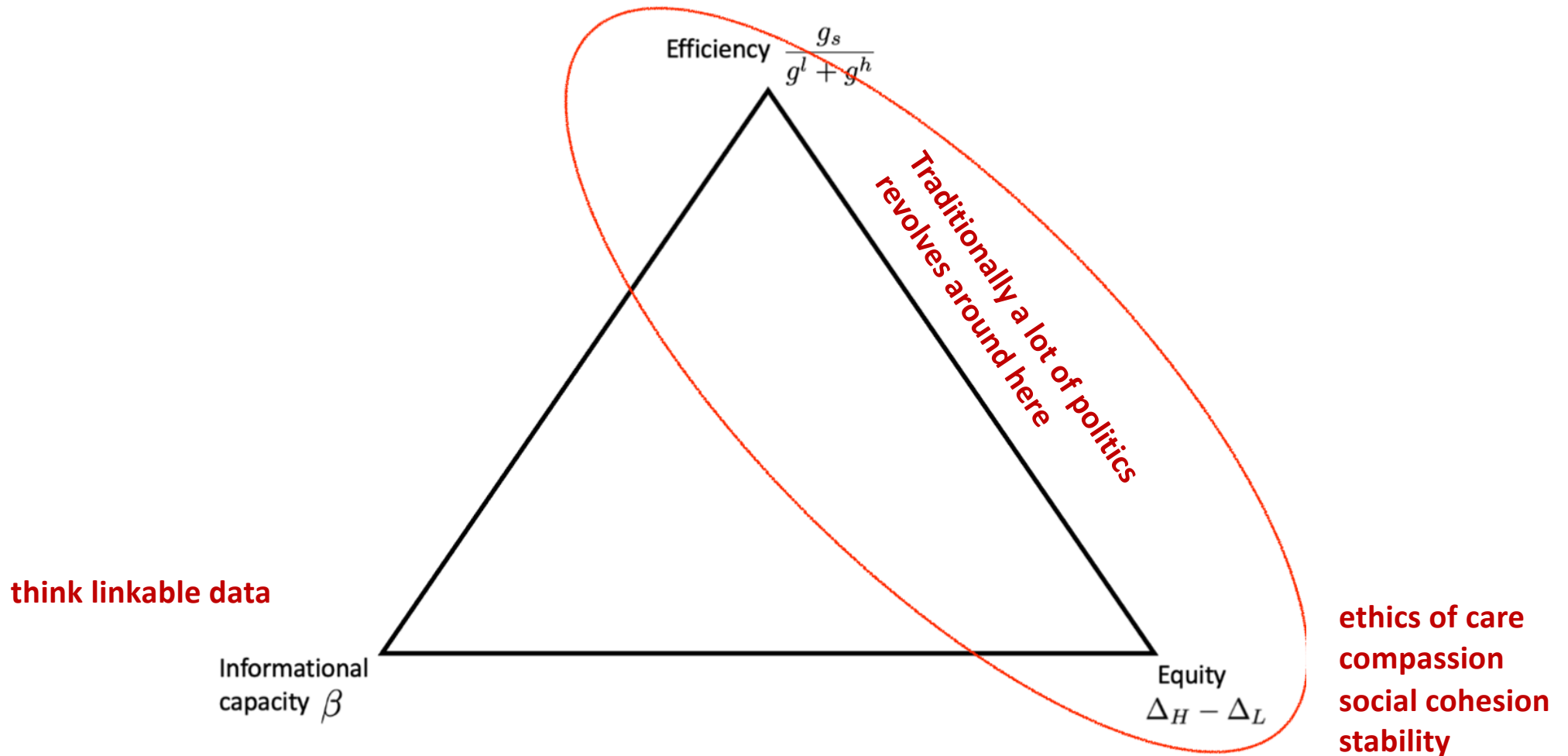
Informational
capacity β

Equity
 $\Delta_H - \Delta_L$

**ethics of care
compassion
social cohesion
stability**

From: Fetzer, Shaw and Edenhofer (2023) Boundaries of the State, mimeo.

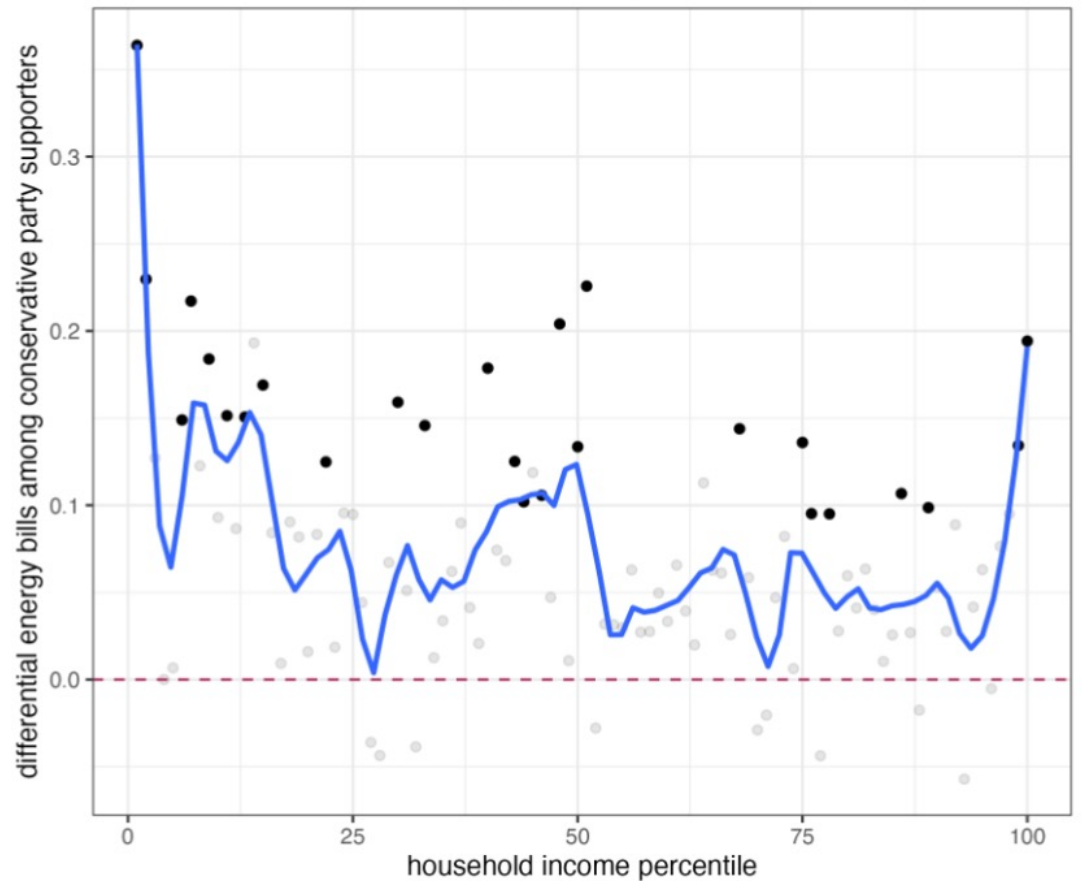
**we want prices to
increase to signal scarcity**



From: Fetzter, Shaw and Edenhofer (2023) Boundaries of the State, mimeo.

The Unholy Coalition in relative terms

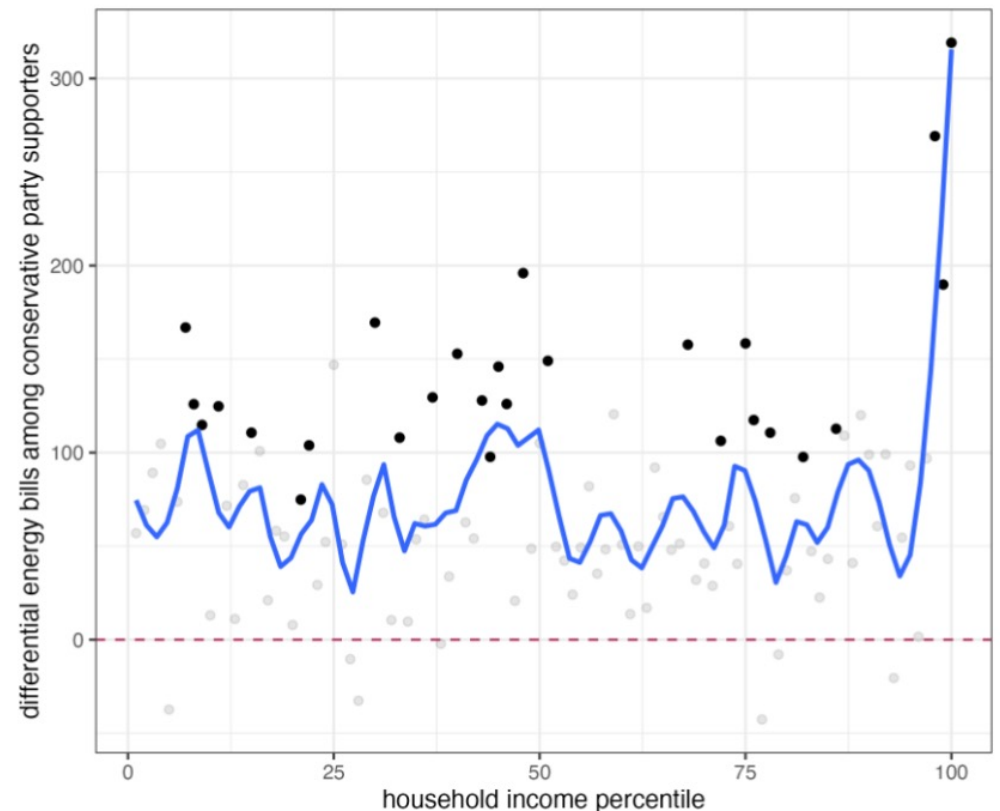
- Conservative party support in US and UK majoritarian systems are governed by what I call an “unholy coalition”
- Conservative leaning voters face, **relative to non-conservative leaning supporters**, higher relative energy bills
- Source of inefficiencies



From: Fetzer, Shaw and Edenhofer (2023) Boundaries of the State, mimeo.

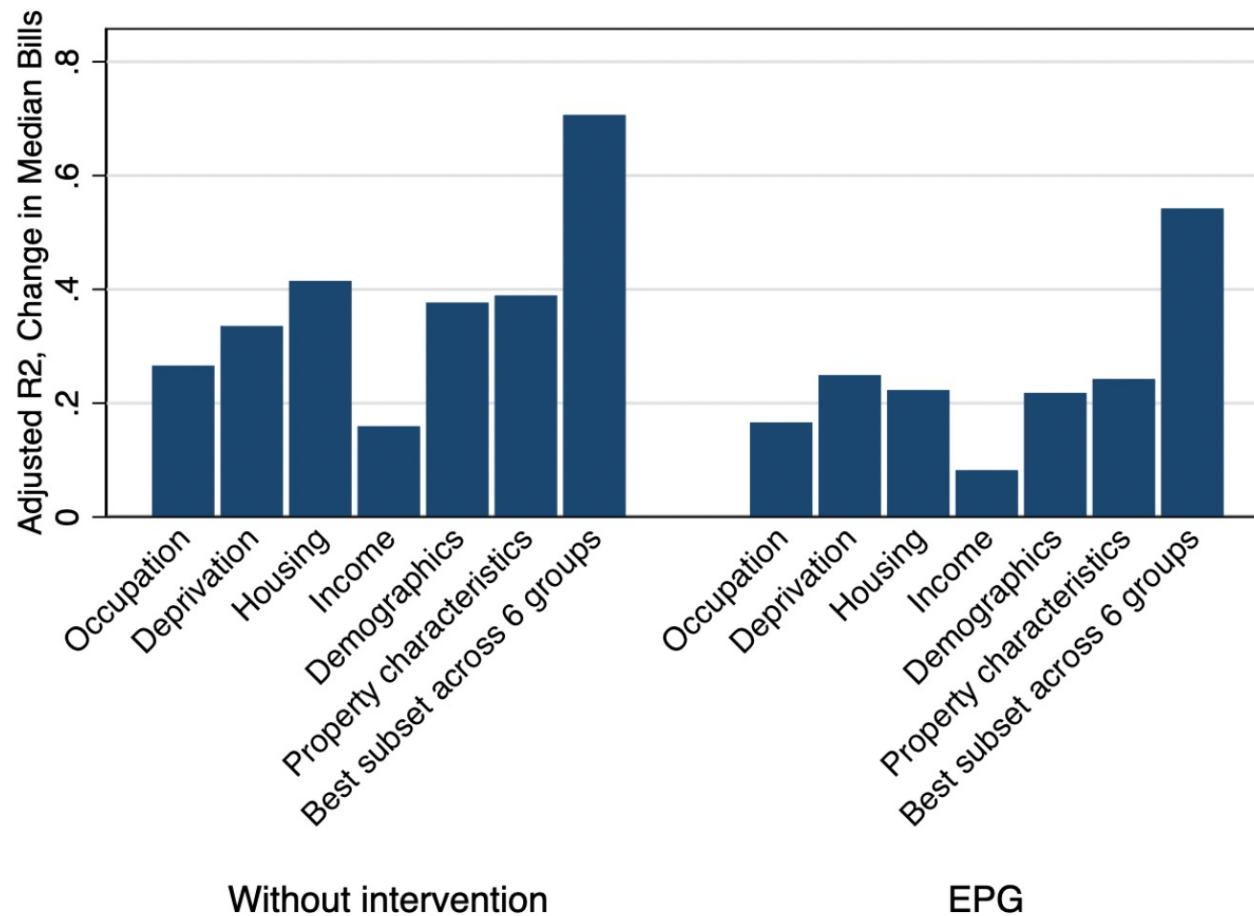
The Unholy Coalition in levels

- In levels, it actually is a hockey stick.
- Disproportionately higher energy bills in levels among conservative supporters in highest income percentile
- And this is from individual level survey data that is unlikely to have dense sample on high income tail
- HANK meets PE



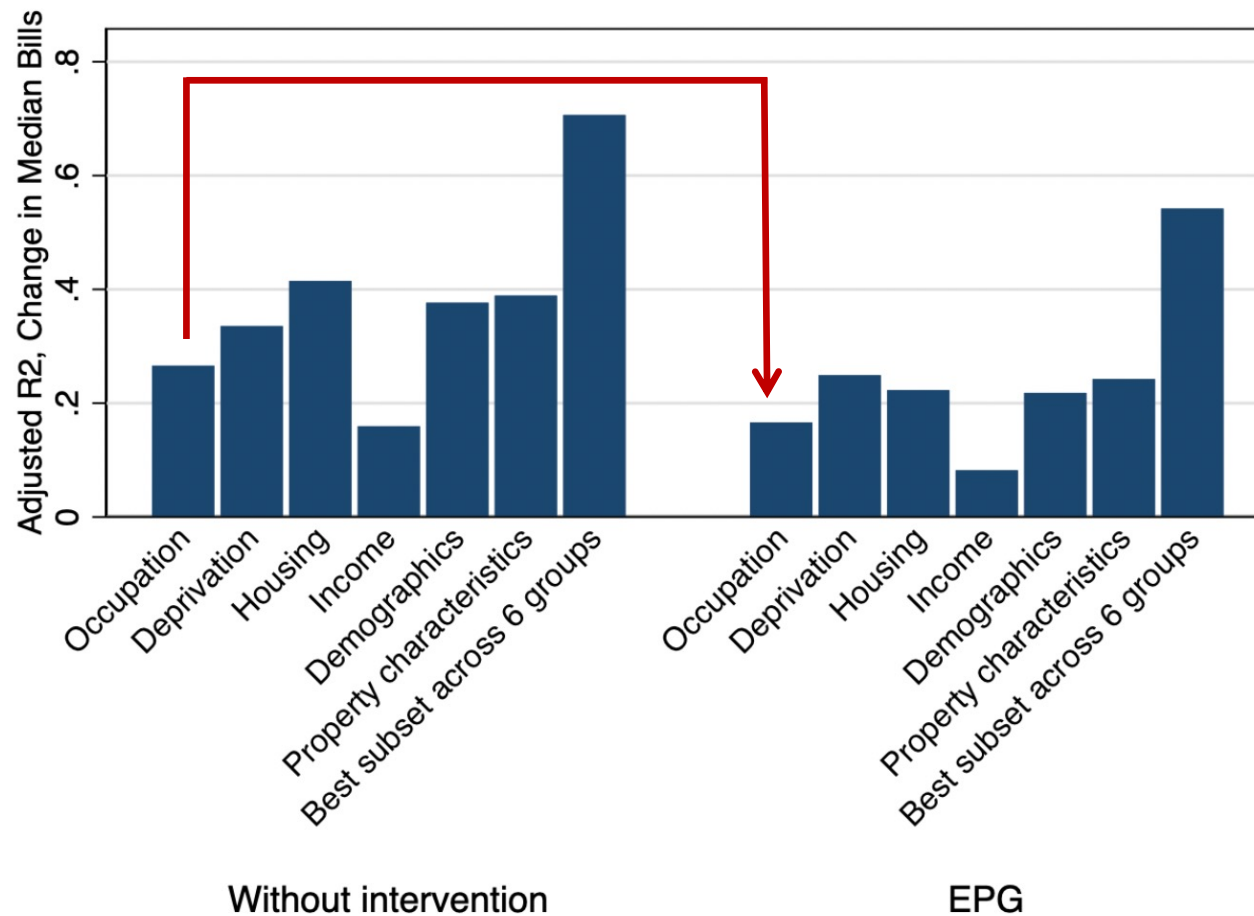
From: Fetzer, Shaw and Edenhofer (2023) Boundaries of the State, mimeo.

Looking at the median household

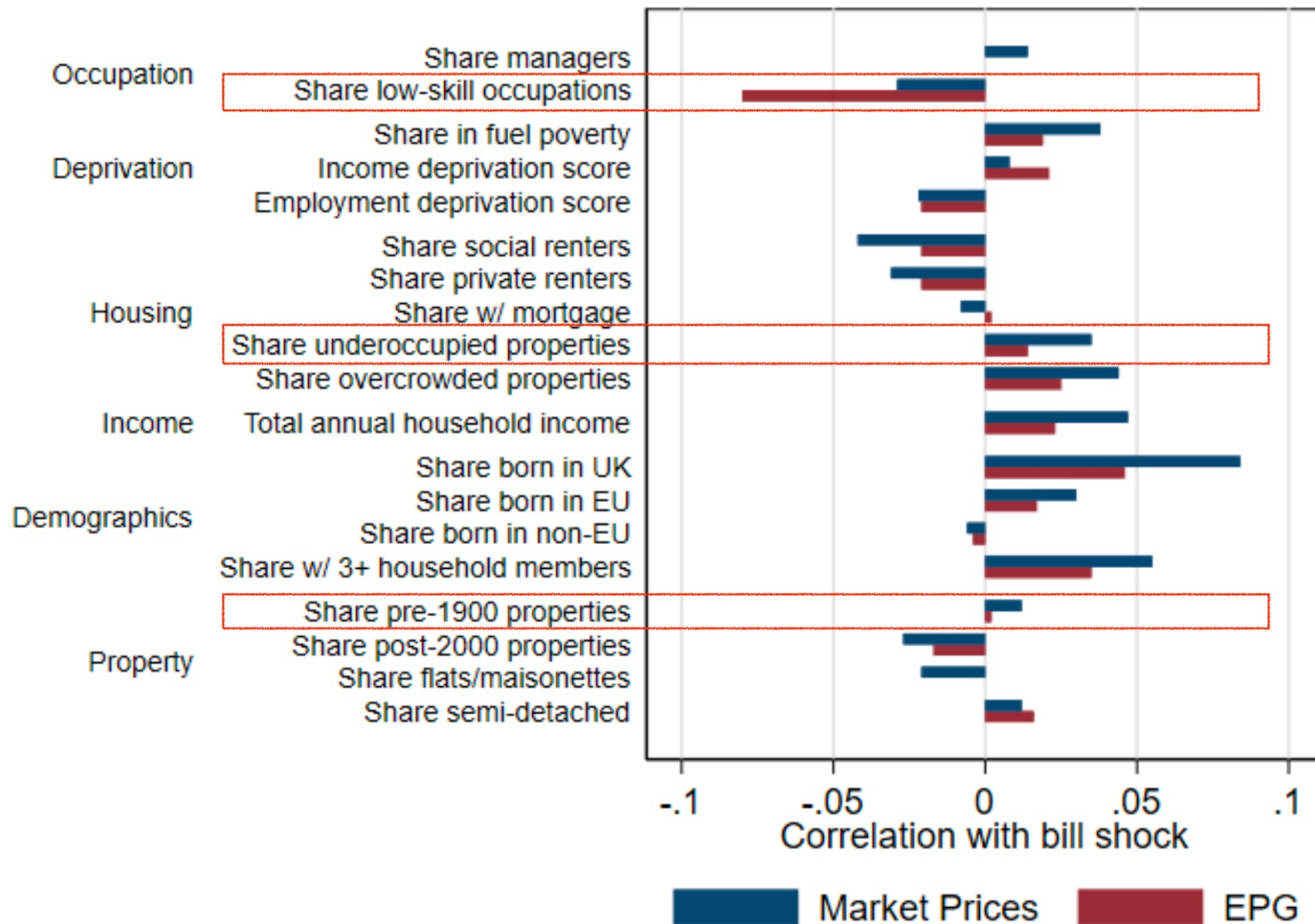


- This is looking at **explanatory power** these are not regression coefficients
- This is asking: what characteristics of an area or its residents are correlated with higher exposure to energy bills before and/or after
- We see **non-uniform shrinkage**

Looking at the median household



- This is looking at **explanatory power** these are not regression coefficients
- This is asking: what characteristics of an area or its residents are correlated with higher exposure to energy bills before and/or after
- We see **non-uniform shrinkage**



From: Fetzer, Gazze and Bishop (2023). Distributional and climate implications of policy responses to energy price shocks

Synthesis

- Absence of **informational** and **performative state capacity** coupled with the political economy of an unholy coalition results in poorly designed public policies
- German approach on paper gets close to first best, UK approach is either the product of its lack of performative or informational state capacity OR the result of its political economy
- Hope to extend this type of work to other countries where we can **evaluate performative state capacity**
- Research and researchers can play a **vital role going forward** and should establish monitoring and evaluation frameworks.
- UK right now working on a **climate action monitoring framework**.

On austerity, Brexit and the long arc
of protest

Austerity post global financial crisis

- Austerity was a **rational response** in wake of global financial crisis due to fiscal imbalances
- Some elements of a design of austerity was very much consistent with **climate action** (housing sector reallocation)
- **But incidence** of that shock was disproportionately on the **vulnerable**

But:

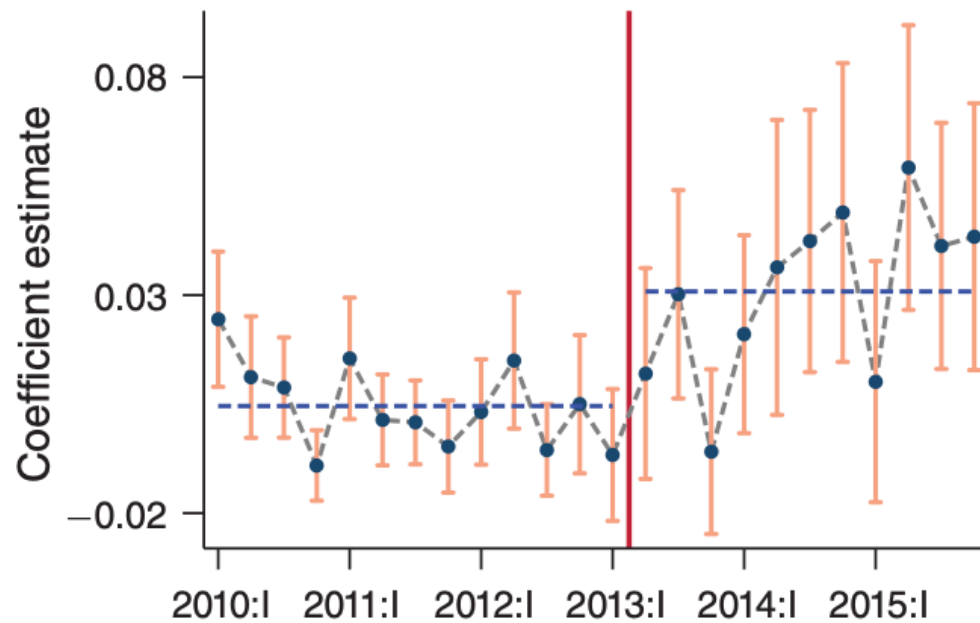
- **Austerity** in wake of technological shock and ongoing structural change is dangerous as **public sector** may not develop capabilities
- **performative state capacity** is eroded further

Example of austerity policy consistent with climate action

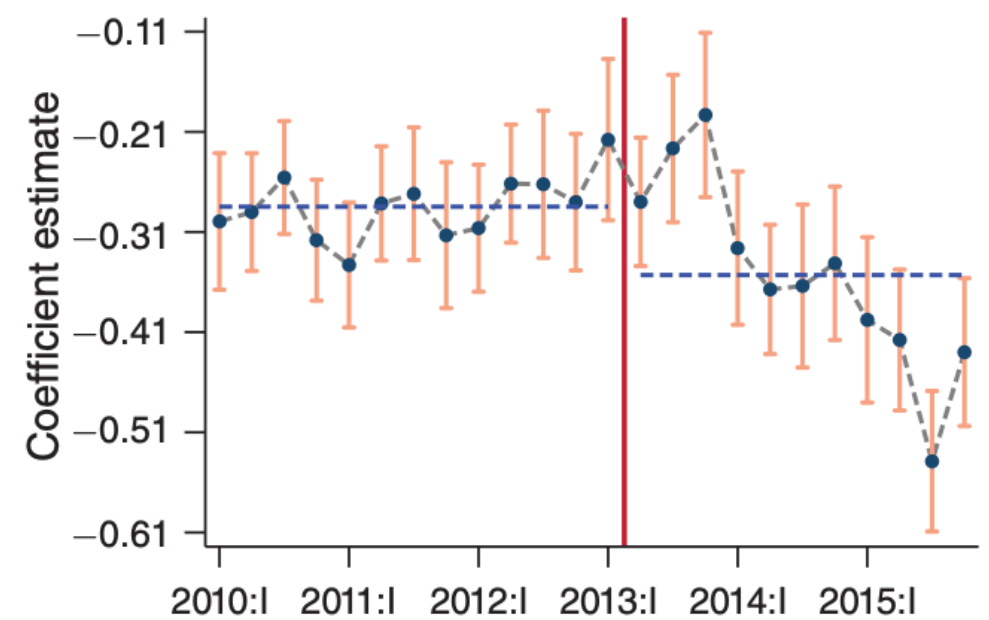


What did the bedroom tax do?

Panel A. Support for UKIP



Panel C. Number of bedrooms in domicile



From: Fetzer (2019). Did Austerity Cause Brexit?

Exacerbated local economic decline and visible changes



From: Fetzer (2020). Perceptions of Local Decline and Populism, unfinished manuscript.

Brexit is incredibly costly

- Almost across the board it is hard to argue that the UK is "doing well" with Brexit too date
- Massive and widening output gap with exacerbating regional differences
- West Midlands and industrial heartlands see biggest adjustment (car industry...)
- Adjustments may not be inconsistent with potential reallocation needed for climate action
- Northern Ireland is indeed getting "the best deal"

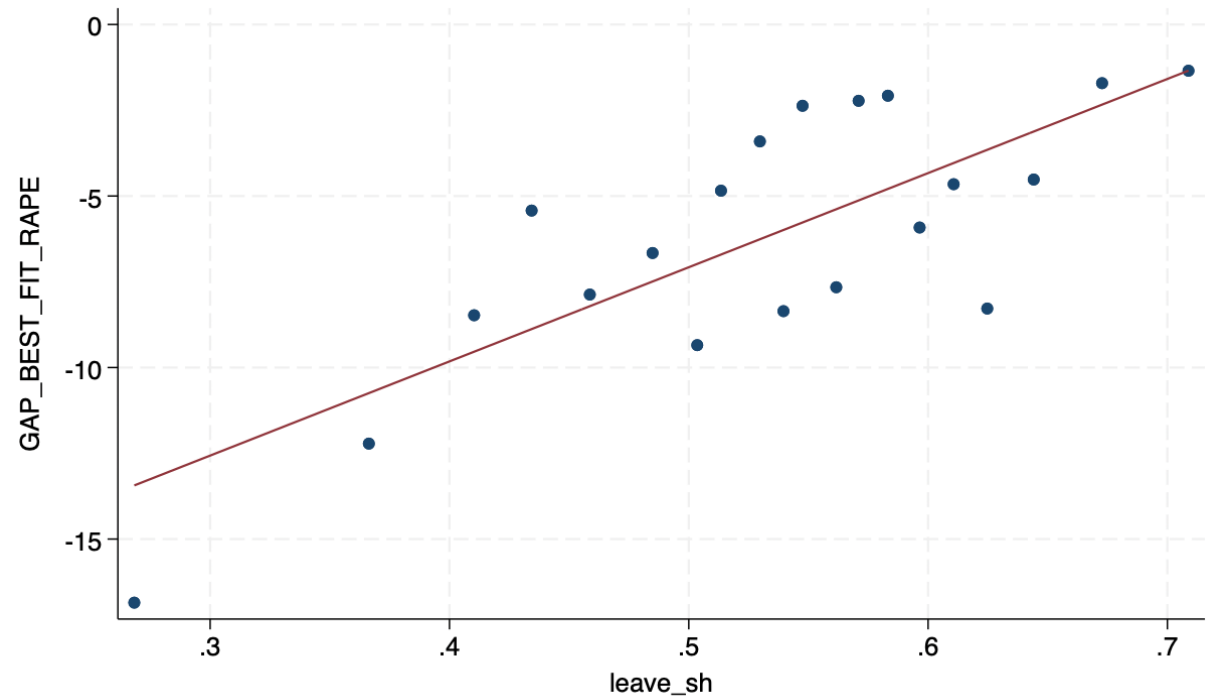
ITL1	Region	Ensemble		"Best synthetic control"		
		\hat{g}^{ENS}	$\hat{g}_d^{ENS_{sim}}$	AAPE _s	RMSPE _s	MAPE _s
Panel A: Average post 2016						
TLC	North East	-5.93	-5.46	-6.41	-5.09	-5.13
TLD	North West	-7.00	-5.86	-7.00	-4.74	-4.65
TLE	Yorkshire and The Humber	-5.08	-5.08	-5.08	-3.33	-3.42
TLF	East Midlands	-6.97	-6.97	-6.97	-4.50	-4.46
TLG	West Midlands	-7.64	-8.03	-8.03	-7.67	-7.61
TLH	East	-4.13	-4.63	-4.52	-4.10	-4.11
TLI	London	-7.45	-5.93	-6.57	-6.43	-6.40
TLJ	South East	-4.62	-4.18	-4.62	-3.88	-3.88
TLK	South West	-5.44	-5.66	-5.44	-4.57	-4.54
TLL	Wales	-6.03	-6.12	-6.12	-5.06	-5.05
TLM	Scotland	-6.52	-6.66	-6.52	-5.91	-5.88
TLN	Northern Ireland	-1.72	-1.72	-1.72	-1.35	-1.43
Panel B: Average in 2022						
TLC	North East	-8.52	-7.46	-9.77	-7.48	-7.52
TLD	North West	-9.58	-7.98	-9.58	-6.07	-5.94
TLE	Yorkshire and The Humber	-7.28	-7.28	-7.28	-4.53	-4.70
TLF	East Midlands	-11.80	-11.80	-11.80	-7.30	-7.21
TLG	West Midlands	-14.27	-15.14	-15.14	-14.17	-14.08
TLH	East	-7.11	-8.32	-8.15	-7.53	-7.58
TLI	London	-10.39	-7.93	-9.20	-8.58	-8.52
TLJ	South East	-6.46	-5.28	-6.46	-5.50	-5.50
TLK	South West	-9.17	-9.61	-9.17	-7.51	-7.50
TLL	Wales	-10.68	-10.64	-10.64	-8.28	-8.26
TLM	Scotland	-9.74	-10.03	-9.74	-8.74	-8.71
TLN	Northern Ireland	-0.53	-0.53	-0.53	0.37	0.23

Notes: Table presents region-level estimates of the cost of Brexit expressed in the difference in growth rates relative to 2016Q2 between the actual UK region and the synthetic control estimate. The data capture the average difference in the respective year indicated in the column head. The preferred estimate is the ensemble average across the whole set of synthetic control estimates. We further provide the ensemble estimate constructed using the 70 synthetic controls using the sampling approach, along with the estimates that are obtained when picking the best series among the set of synthetic control according to the best pre-treatment fit as defined by equations (2)-(4).

Alabrese, Fetzner, Wang (2023)

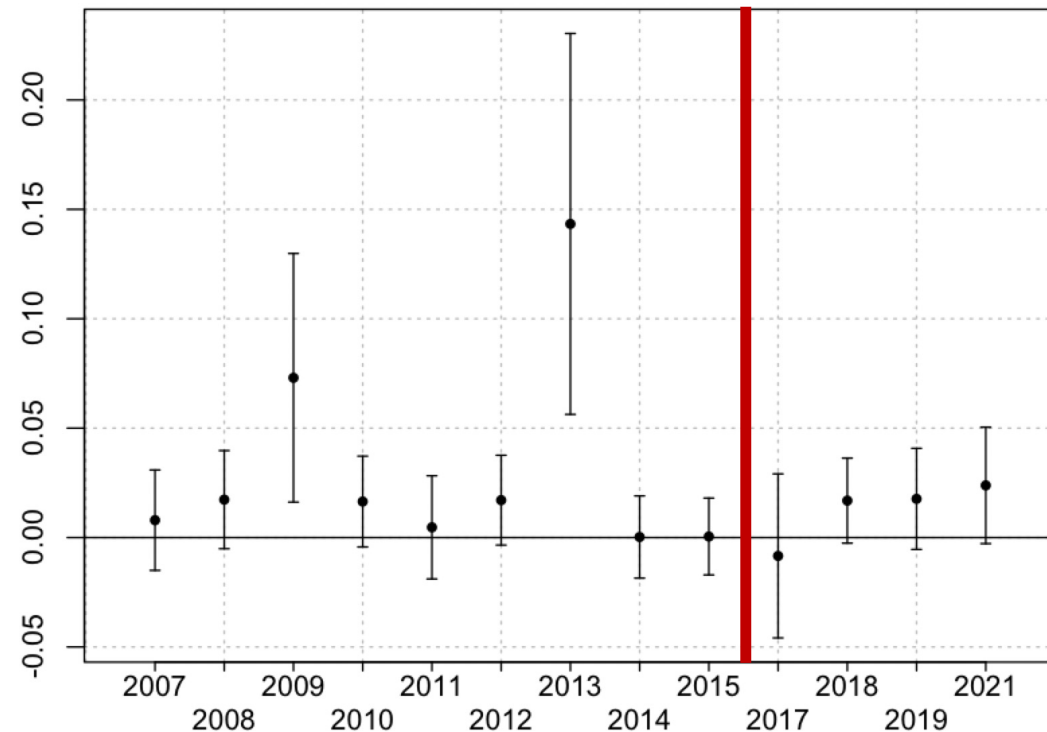
Brexit, its roots and a reversal? A look at 2021 data published in 2023

- Leave voting areas now seem least affected by the cost of Brexit too date economically.
- Goodness of fit is quite limited though
- Pandemic excess mortality “helped” create “space”



Long arc of protest

- Places that would become Brexit vote Losers saw sharp increase in vote share for outsider parties (non LD, Lab or C) in local elections (conditional on turnout)
- Unmet demand for plurality may have been “culled” or diluted or it provides for ample mass to mess about in 2022ff
- Narrative channeling and engineering has facilitated sophisticated vote splitting strategies (UKIP, Brexit Party etc.)



Transnational Dimension

Why is global action necessary?

Climate crisis can trigger mechanisms that are yet **unknown**.

It is not just a risk to **individuals** or **communities**

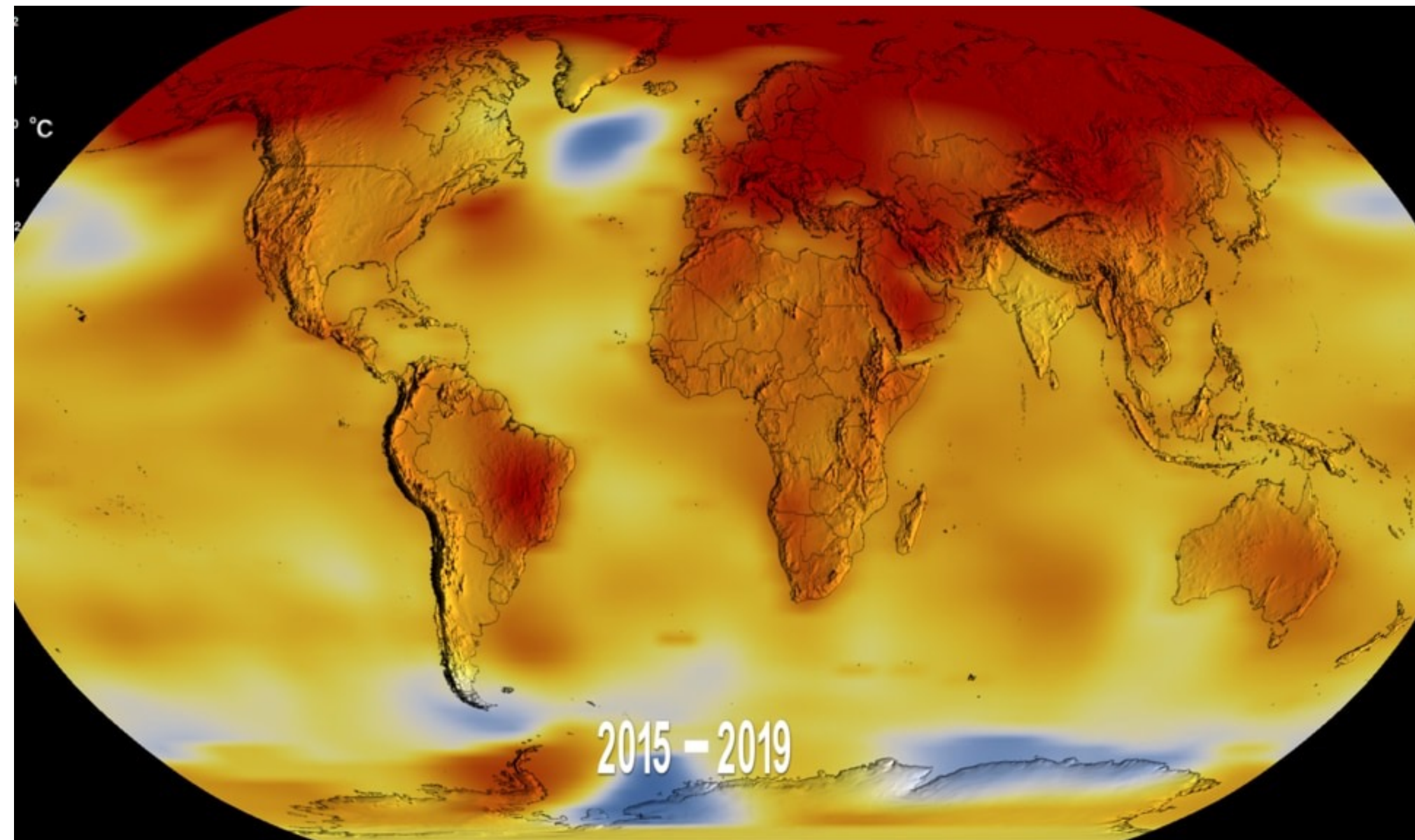
It is an **uncertainty shock** which may **cause system ruptures**

die **Spreu** wird sich vom **Weizen** trennen Mt 3,12

It will test **the boundaries of the state** and can cause a return to **extreme isolationism**

Brexit, trade wars and **actual wars** are just a symptom of this

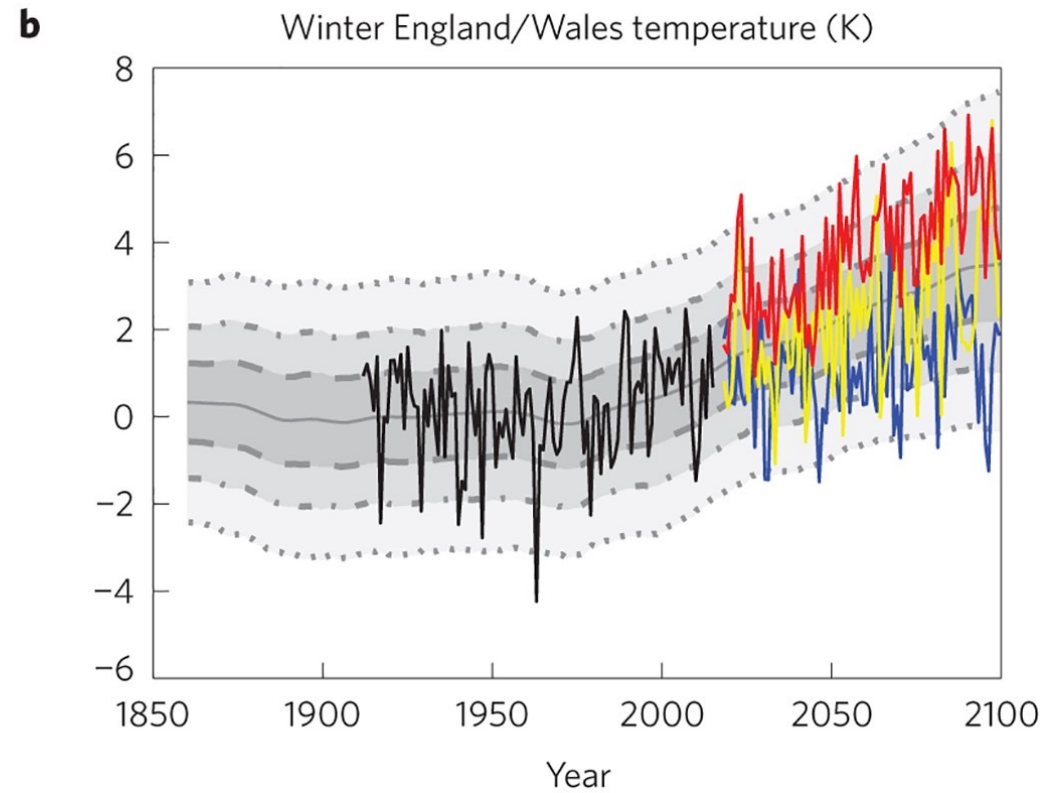
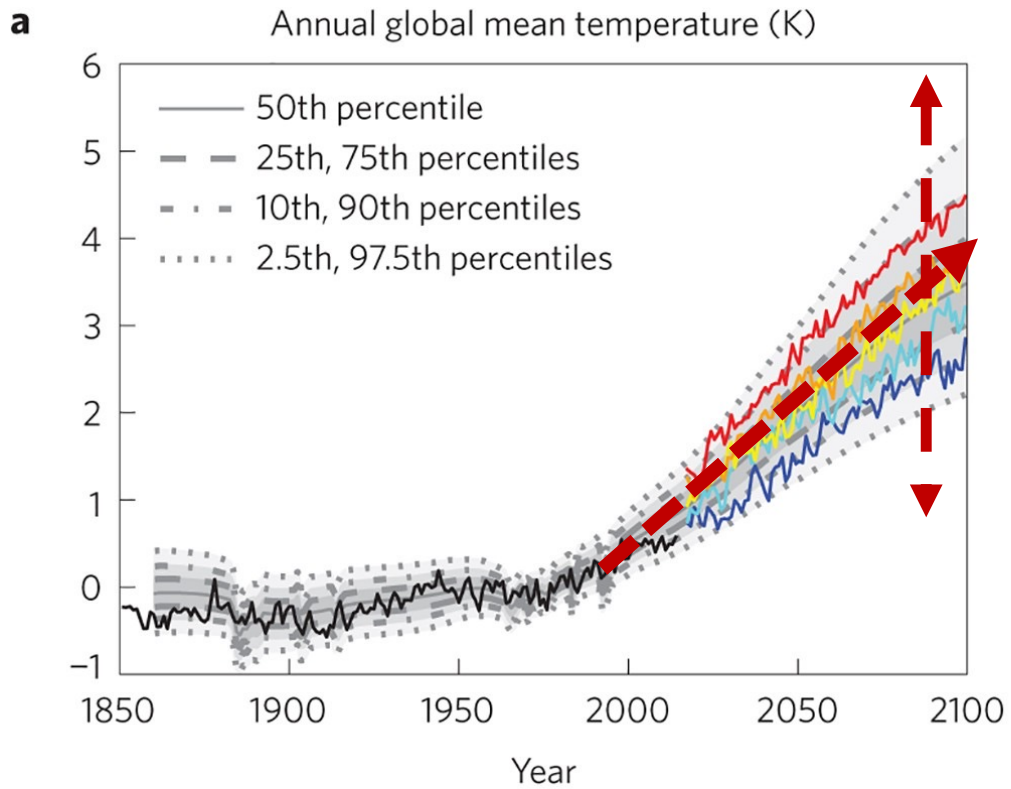
But if history has taught us anything: now is the time to facilitate rapid **exchange of ideas, knowledge and skills**.



2015 - 2019

°C

1
2
3
4
5



mean, variance and correlation structure of weather and environmental events

What is the role that information plays?

Media and **information** is crucial in shaping **preferences**, **perceptions** and **actions**.

But it is imperative we understand how people interact with information & understand the **information filters** they employ

Knowledge versus **information** versus **narratives** versus **attention** may be a key **battleground**.

People process information in complex fashion

There are at least two main dimensions

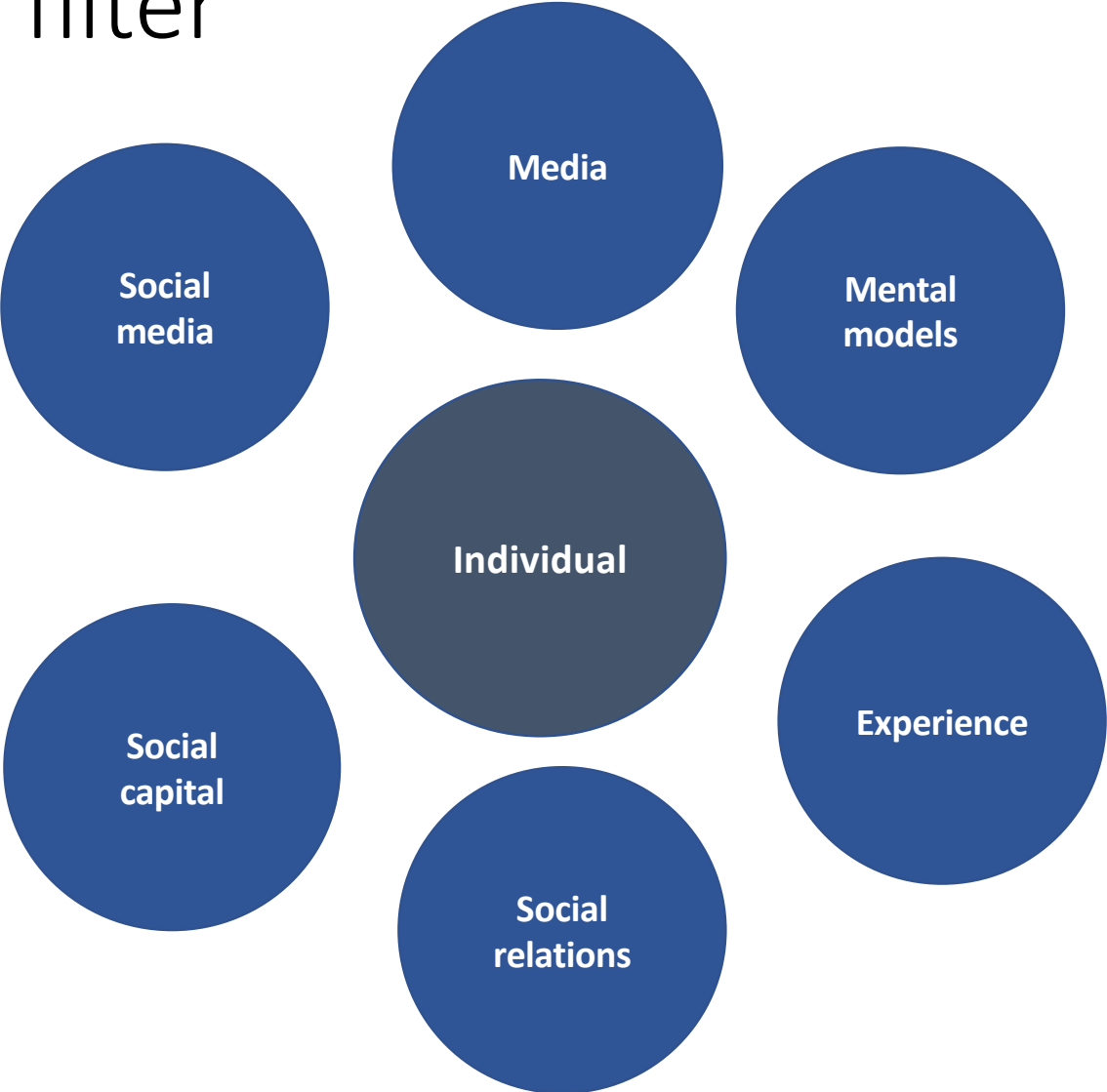
- 1. Personal filters**

- 2. Mechanic or institutional filter**

These ply a crucial role in **shaping transition narratives**. The same facts and evidence may be interpreted **heterogeneously**

Individual filter

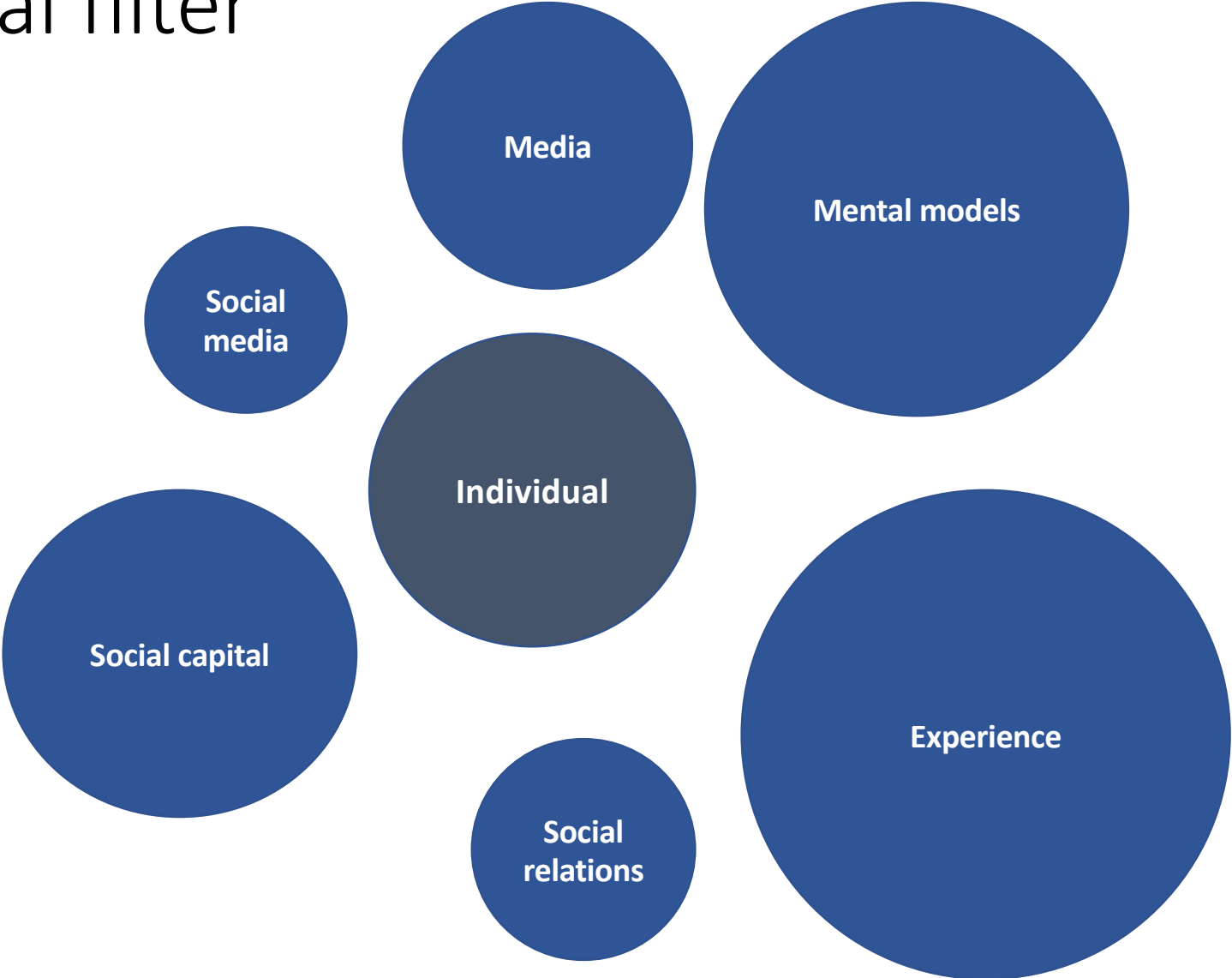
Lots of things happening



Non exhaustive

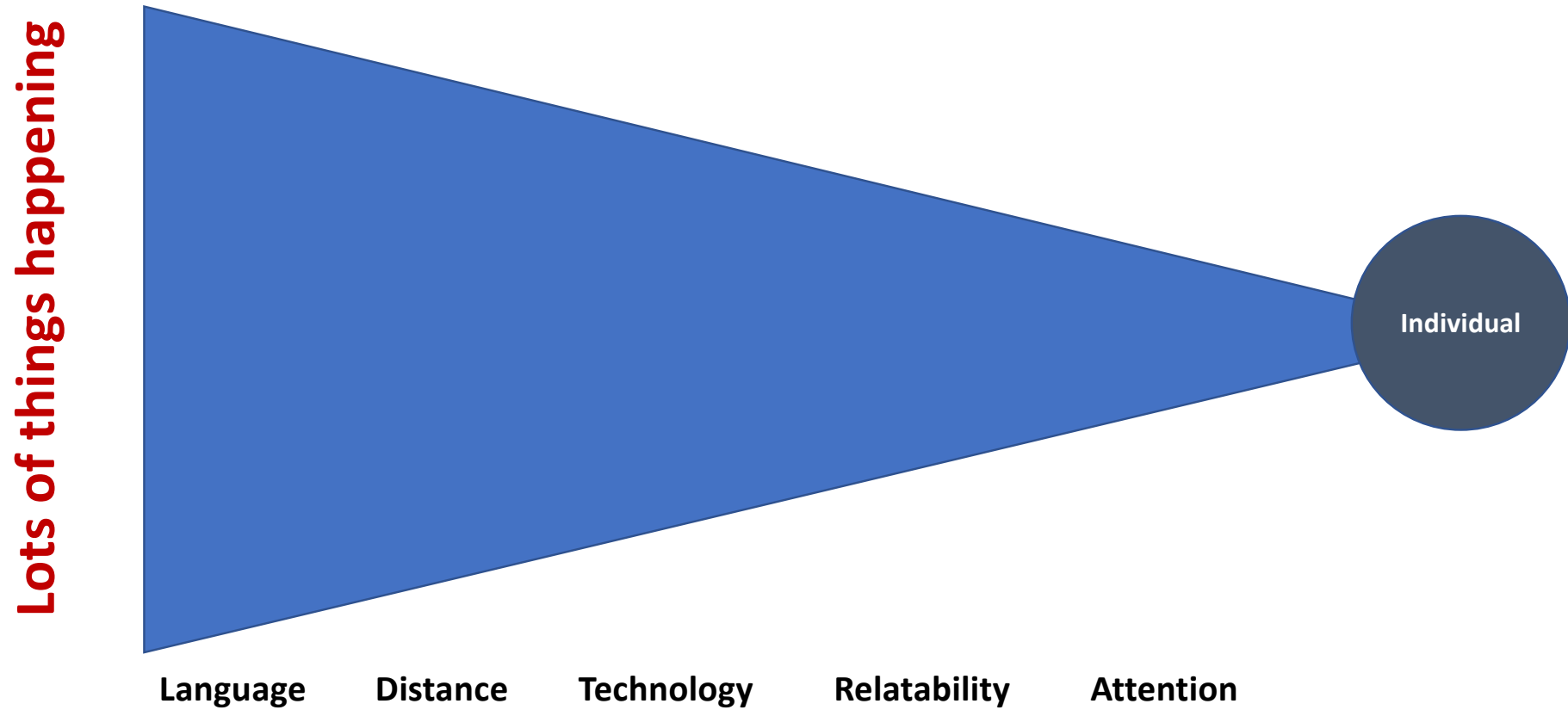
Individual filter

Lots of things happening



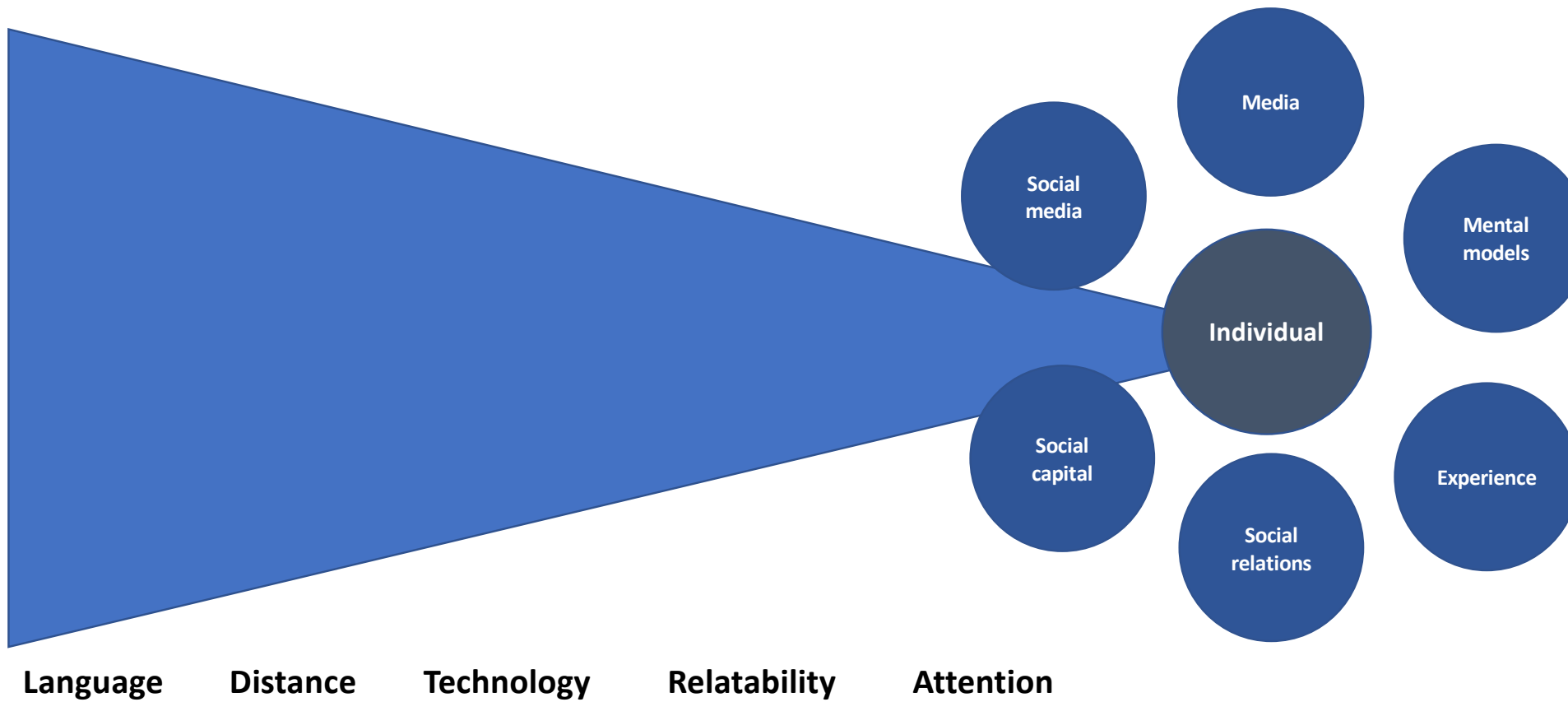
Non exhaustive

Mechanic and institutional filters

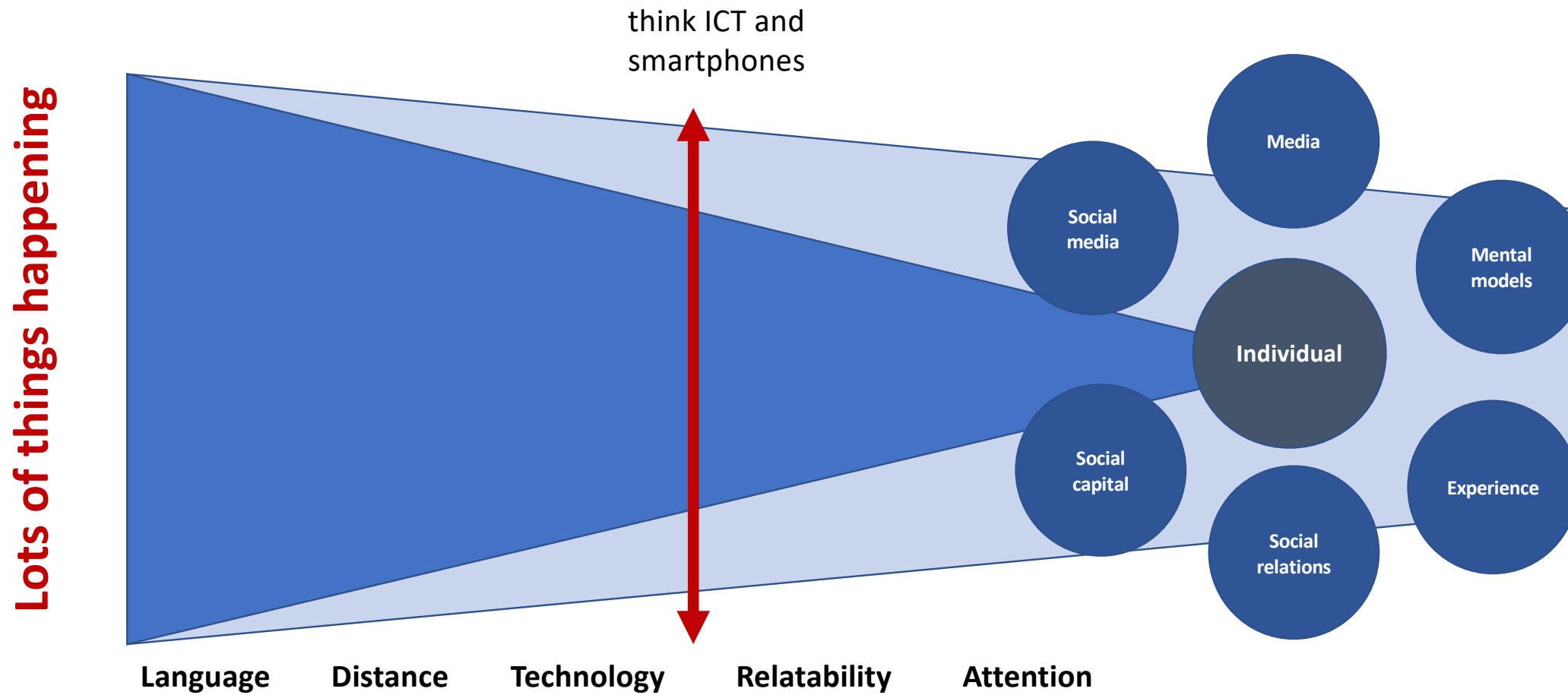


Everything everywhere all at once

Lots of things happening

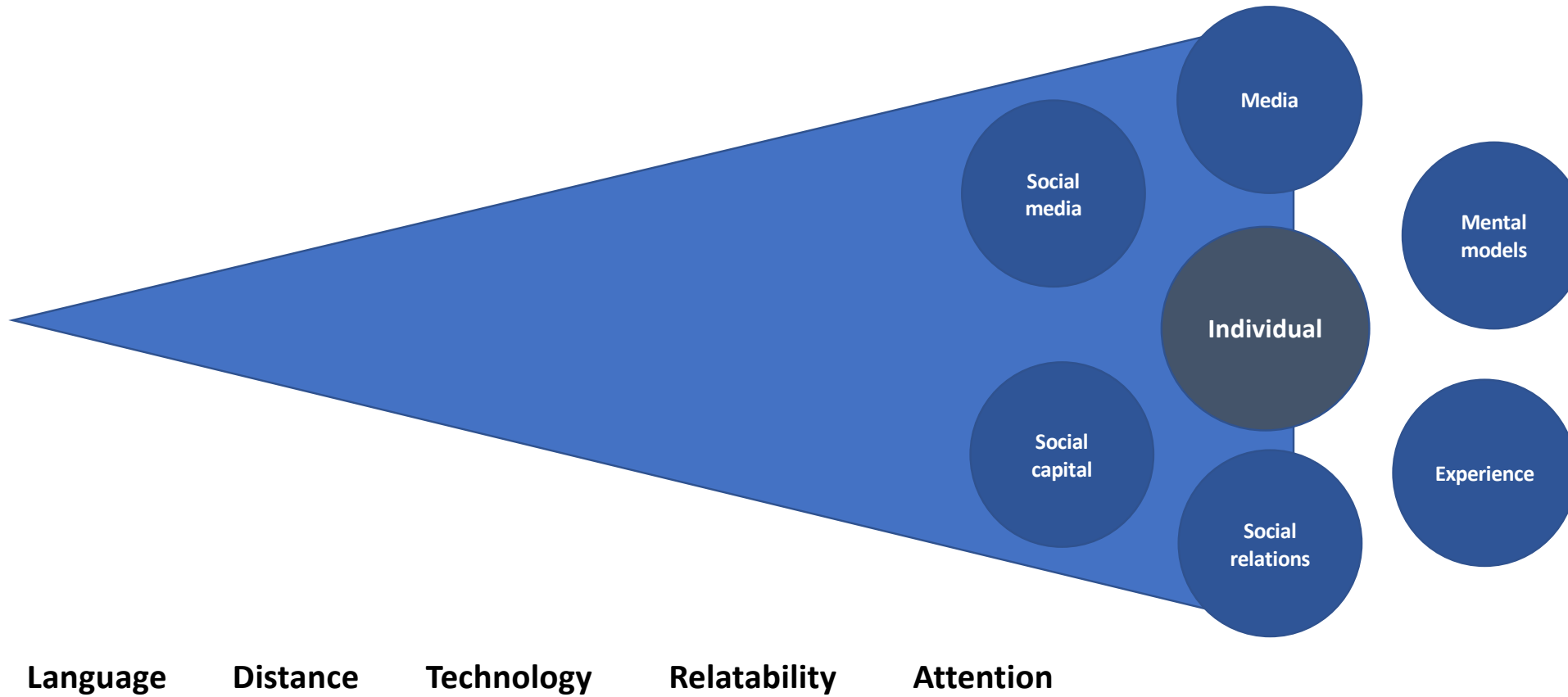


Everything everywhere all at once



Incredibly close and extremely loud

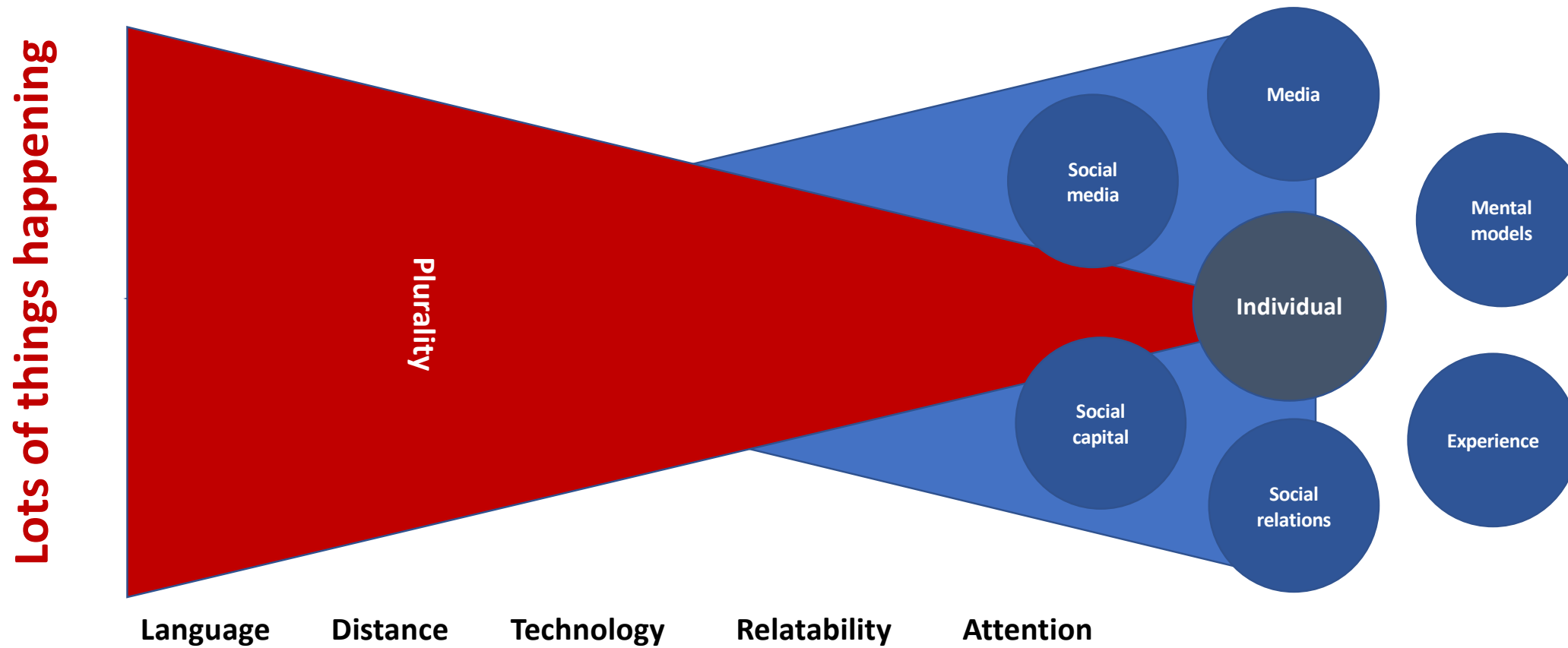
Lots of things happening



A young child is lying on their stomach on a sandy beach. The child is wearing a red tank top and dark shorts. They are positioned very close to the water's edge, where waves are breaking. The text "Incredibly close and extremely loud" is overlaid on the image in white, sans-serif font.

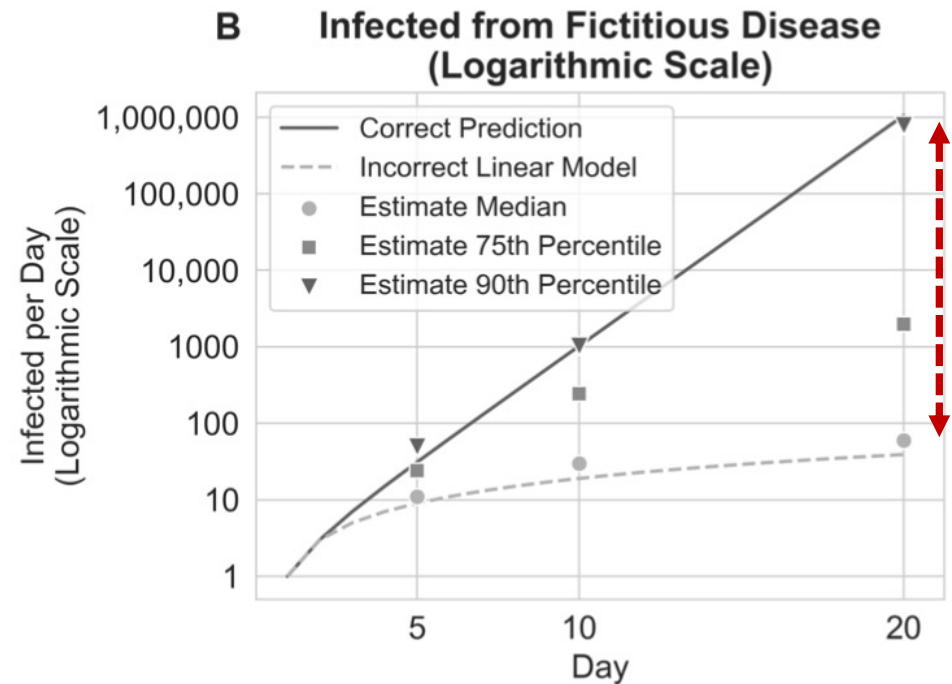
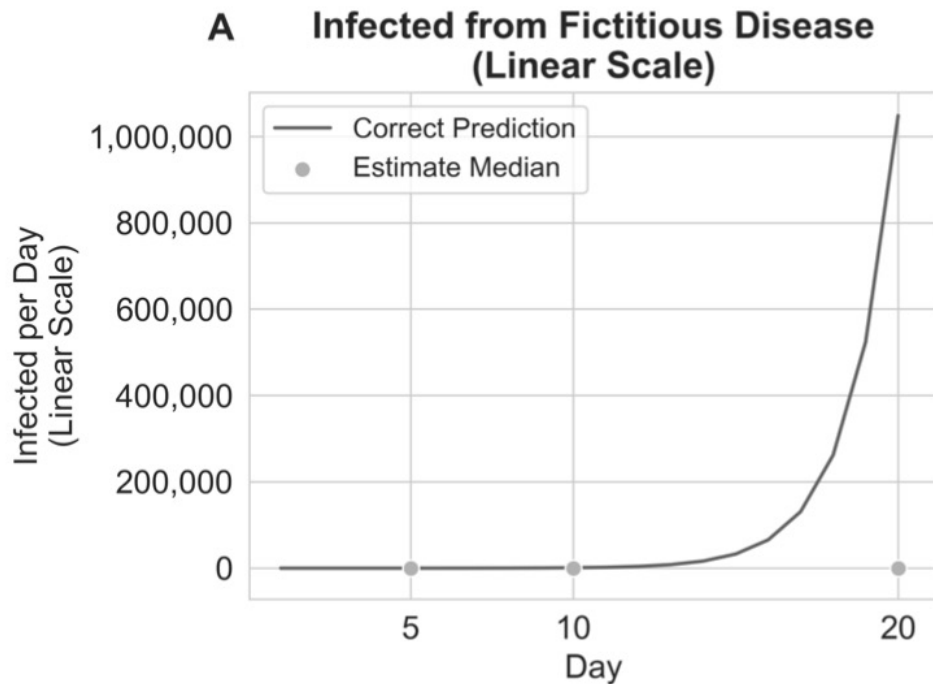
Incredibly close and
extremely loud

Potential social optimum is a mixture



Let me walk you through a few examples

Mental models as a policy constraint



→ ensuing preying on vulnerable individuals around COVID19 policy response

Source: Fetzer, Hensel, Hermle & Roth (2020) Coronavirus Perceptions and Economic Anxiety, *Review of Economics and Statistics*.

Selective attention as an action constraint

SUMMARY STATISTICS FOR DISASTERS

Disaster type	Number of disasters	Share of disasters	Killed per disaster	Affected per disaster	Share receiving OFDA relief
Flood	1,675	0.32	170	1,724,851	0.22
Storm	1,175	0.23	646	601,490	0.17
Epidemic	737	0.14	249	27,528	0.12
Earthquake	559	0.11	1,522	173,015	0.21
Drought	326	0.06	18,657	5,740,623	0.30
Landslide	310	0.06	84	38,789	0.06
Fire	129	0.02	19	69,552	0.13
Cold wave	114	0.02	103	46,656	0.01
Volcano	102	0.02	853	39,008	0.27
Infestation	47	0.01	na	1,100	0.68
Food shortage	38	0.01	4,293	734,630	0.13
<i>Total</i>	<i>5,212</i>	<i>1.00</i>	<i>590</i>	<i>1,166,505</i>	<i>0.19</i>

→ resulting weaponization of narratives around selective aid provision

Source: Stromberg (2005) News Droughts, News Floods and US disaster relief, *Quarterly Journal of Economics*.

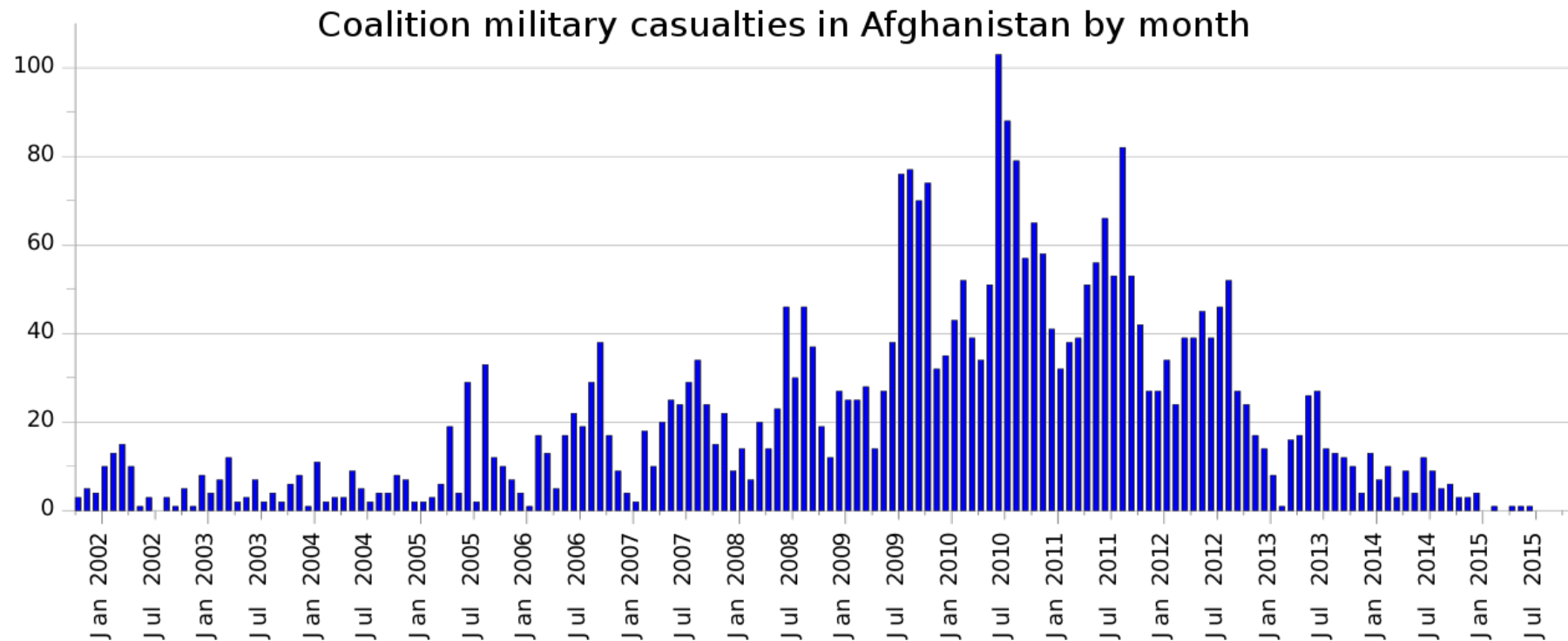
Domestic politics as a narrative constraint



→ control of domestic media landscape creates hold up problem in transnational setting

Source: Fetzer (2020) MEGEO ERC Starting Grant Proposal

Terrorism weaponizing an information channel

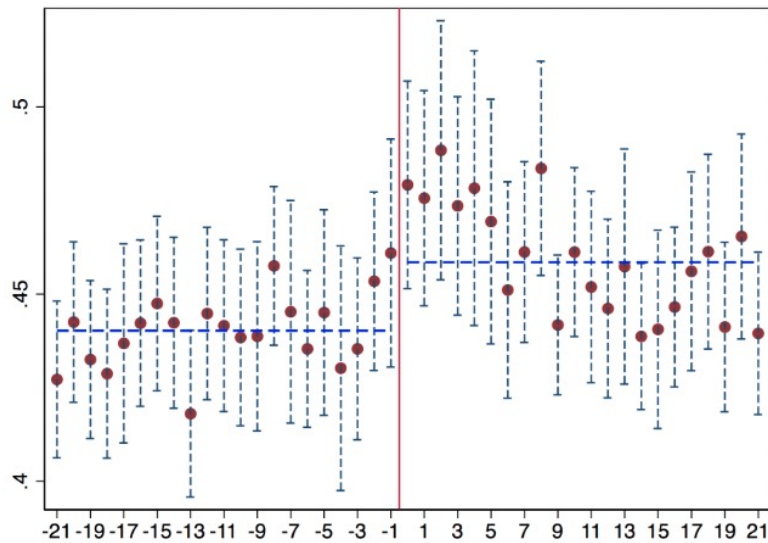


→ targeted violence against NATO soldiers as strategy to weaponize domestic media

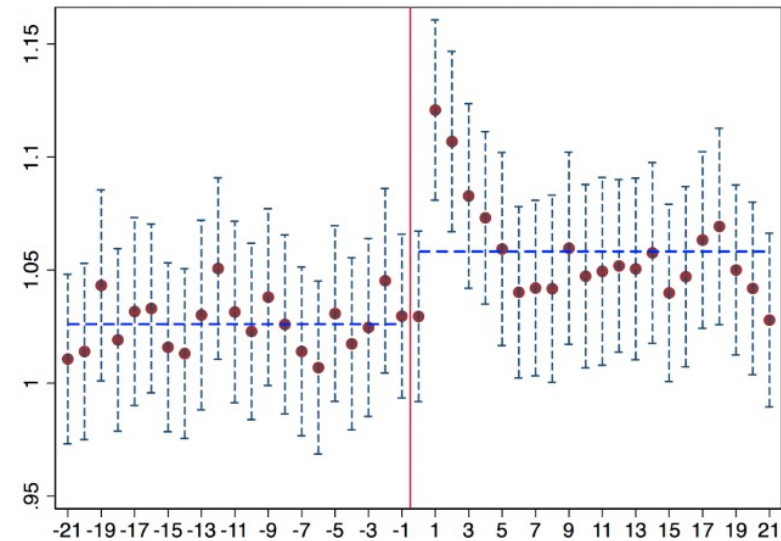
Source: Fetzer et al. - 2020 - Losing on the home front: Evidence from NATO in Afghanistan

Terrorism weaponizing an information channel

Support for withdrawal in Afghanistan



Media reporting on casualties in Afghanistan



→ Soldier deaths generate headlines differentially across NATO troop sending countries

Source: Fetzer et al. - 2020 - Losing on the home front: Evidence from NATO in Afghanistan

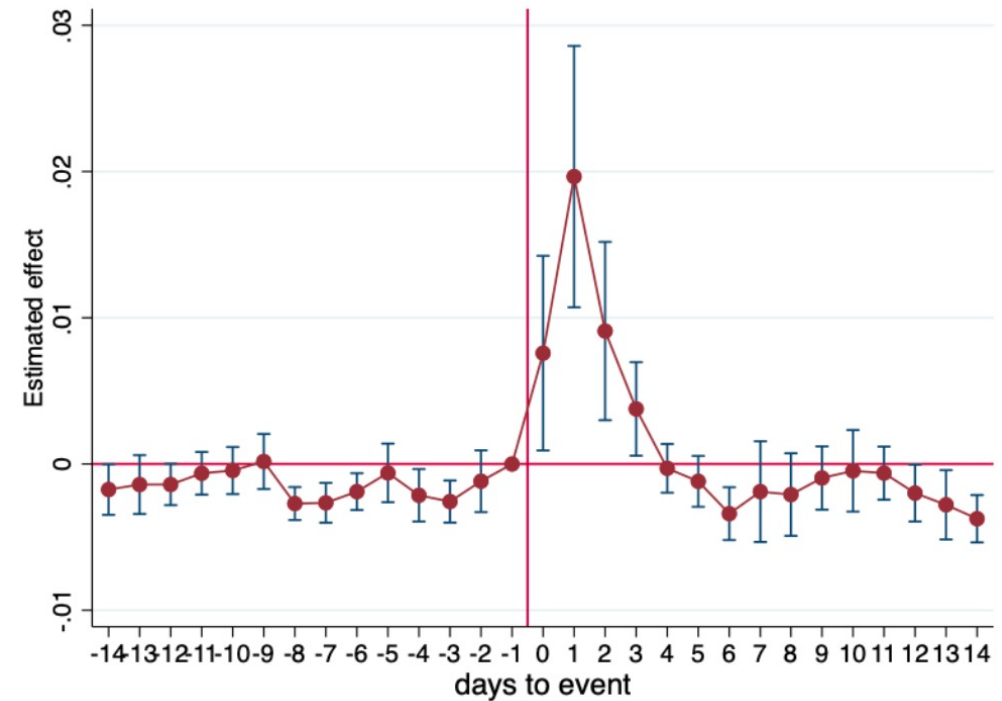
Selective attention as driver of beliefs



Source: Besley, Fetzer, and Mueller (2020) "How Big Is the Media Multiplier? Evidence from Dyadic Data"

Selective attention as driver of beliefs

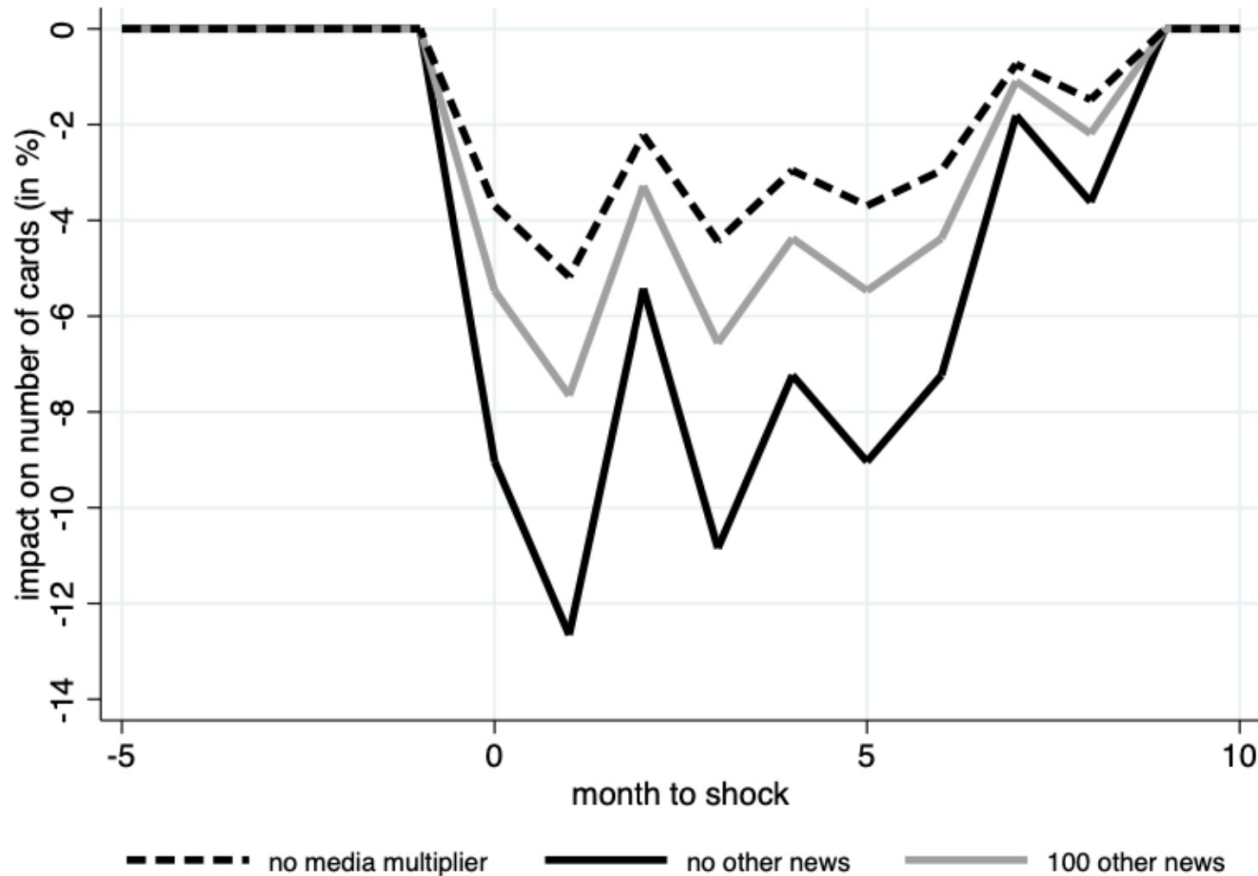
	(1)	(2)	(3)	(4)	(5)
	Share of articles indicating fatal violence				
post	0.002*** (0.000)	0.002*** (0.000)	0.002*** (0.000)	0.011*** (0.002)	0.003* (0.002)
post × Casualties	0.000*** (0.000)				0.002*** (0.000)
post × US Casualties		0.014*** (0.002)			0.016** (0.007)
post × Suicide attack			0.017*** (0.002)		0.020*** (0.006)
post × Tourist targeted				0.014*** (0.003)	0.008*** (0.003)
Observations	6033450	6122712	6122712	57855	57855



→ feeding narratives of violence, instability or excessive risks

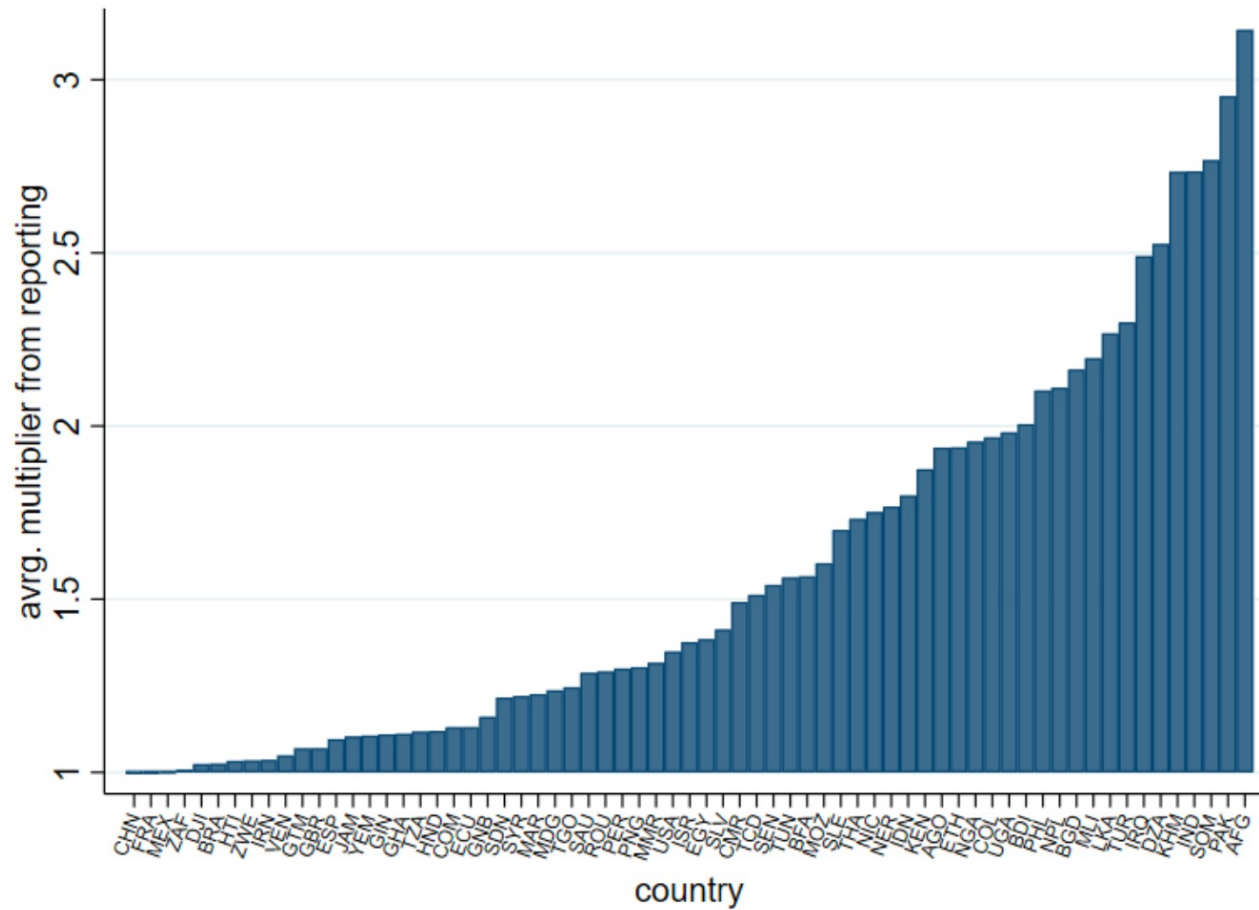
Source: Besley, Fetzer, and Mueller (2020) "How Big Is the Media Multiplier? Evidence from Dyadic Data"

Calibration of model of media multiplier



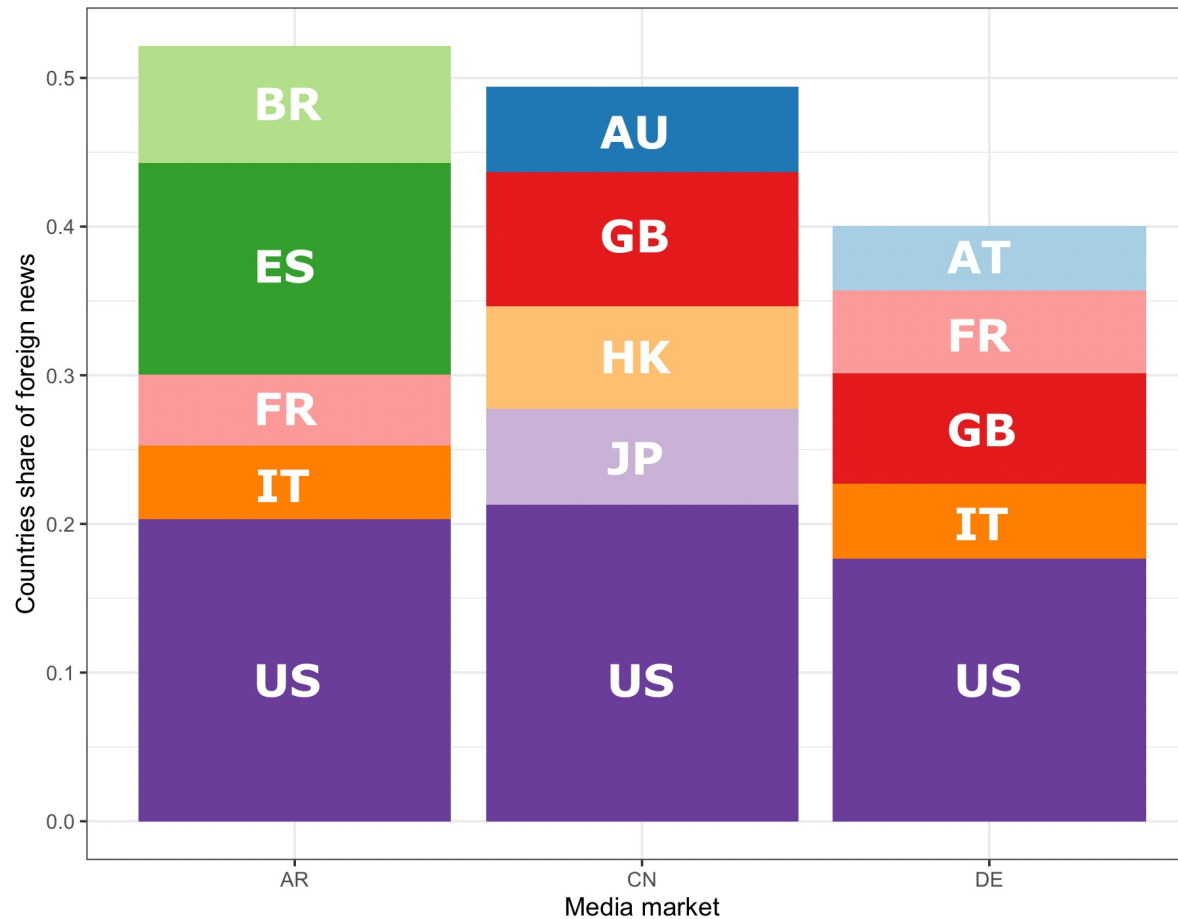
Source: Besley, Fetzer, and Mueller (2020) "How Big Is the Media Multiplier? Evidence from Dyadic Data"

Calibration of model of media multiplier



Source: Besley, Fetzer, and Mueller (2020) "How Big Is the Media Multiplier? Evidence from Dyadic Data"

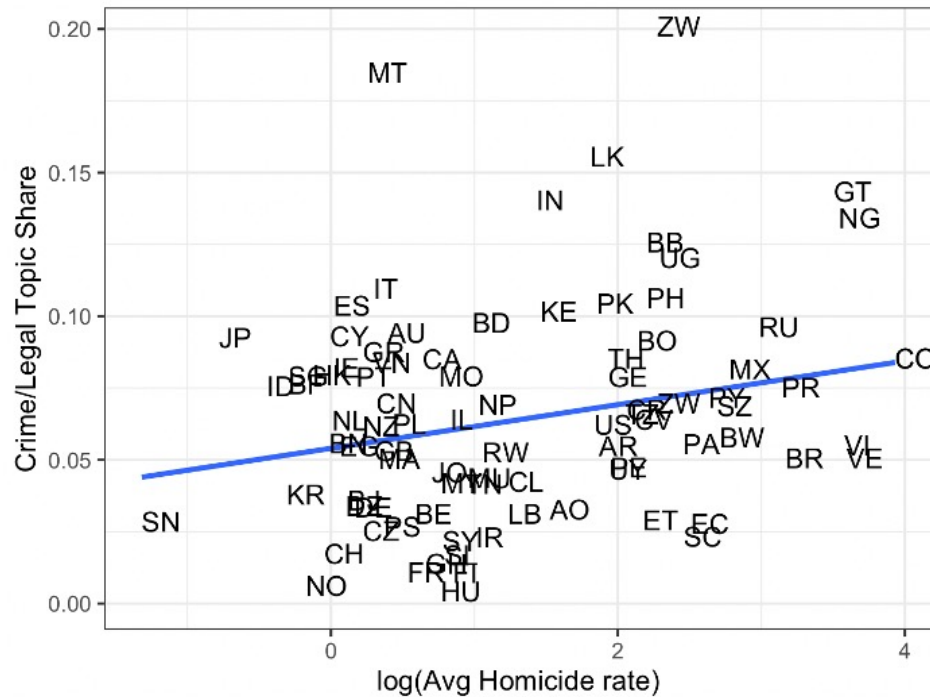
Cross border media focus



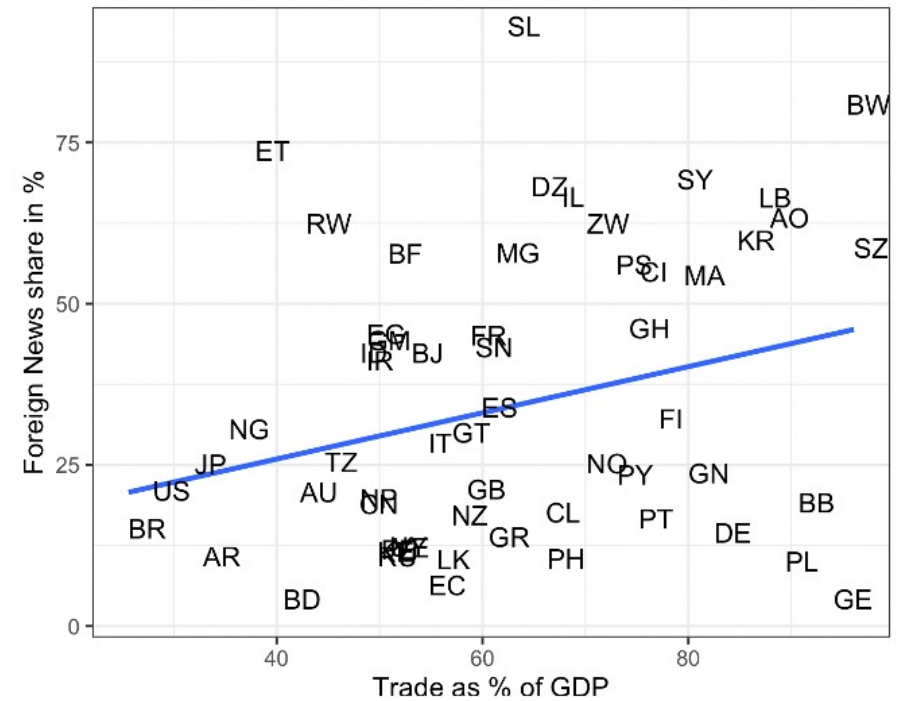
Source: Based on Factiva classification of geographical aboutness of articles across main local language media sources from Fetzer (2020) MEGEO ERC Starting Grant Proposal

Domestic media or news filters

Panel A: Homicide and Crime/Legal News share

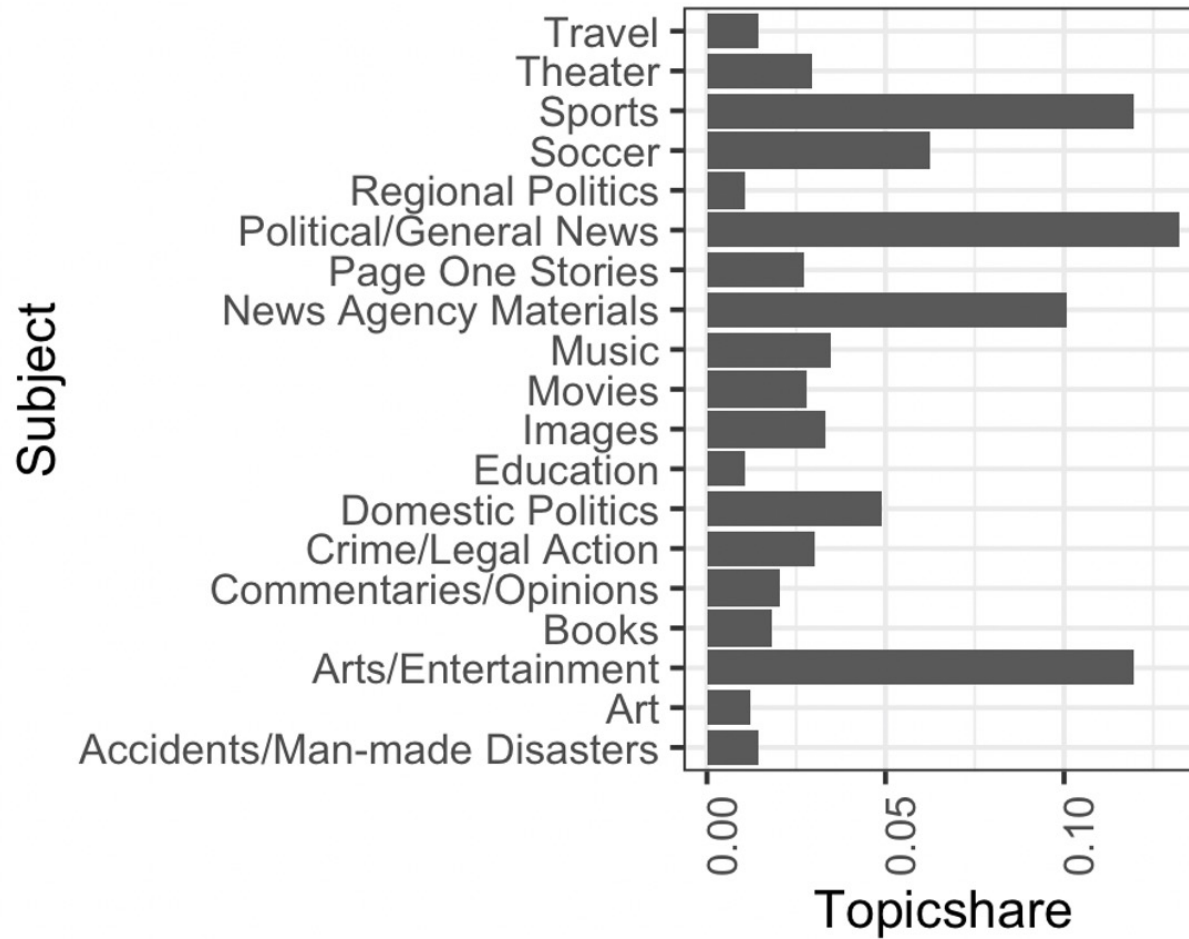


Panel B: Trade and Foreign News share



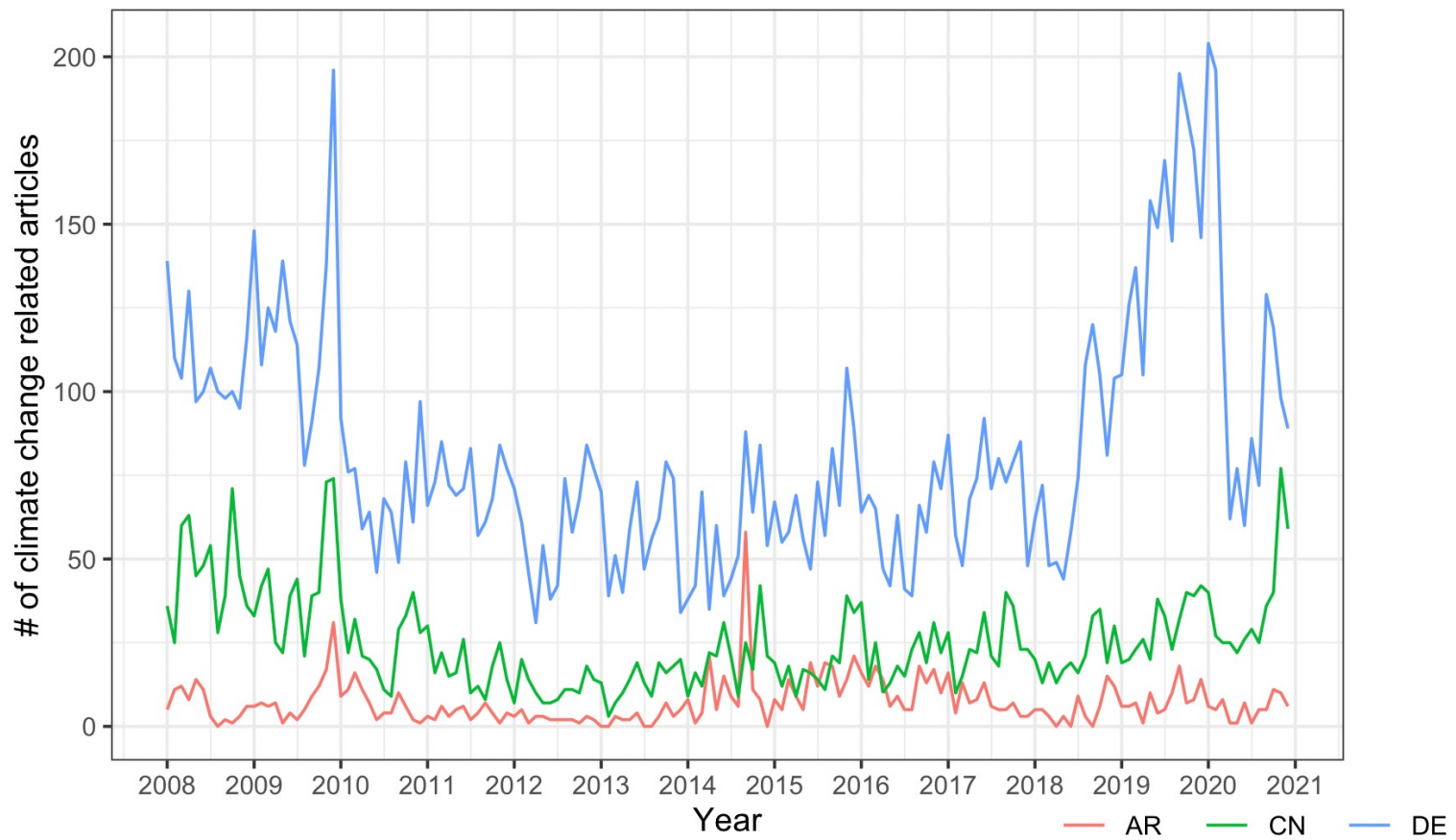
Source: Fetzer (2020) MEGEO ERC Starting Grant Proposal

News selection function



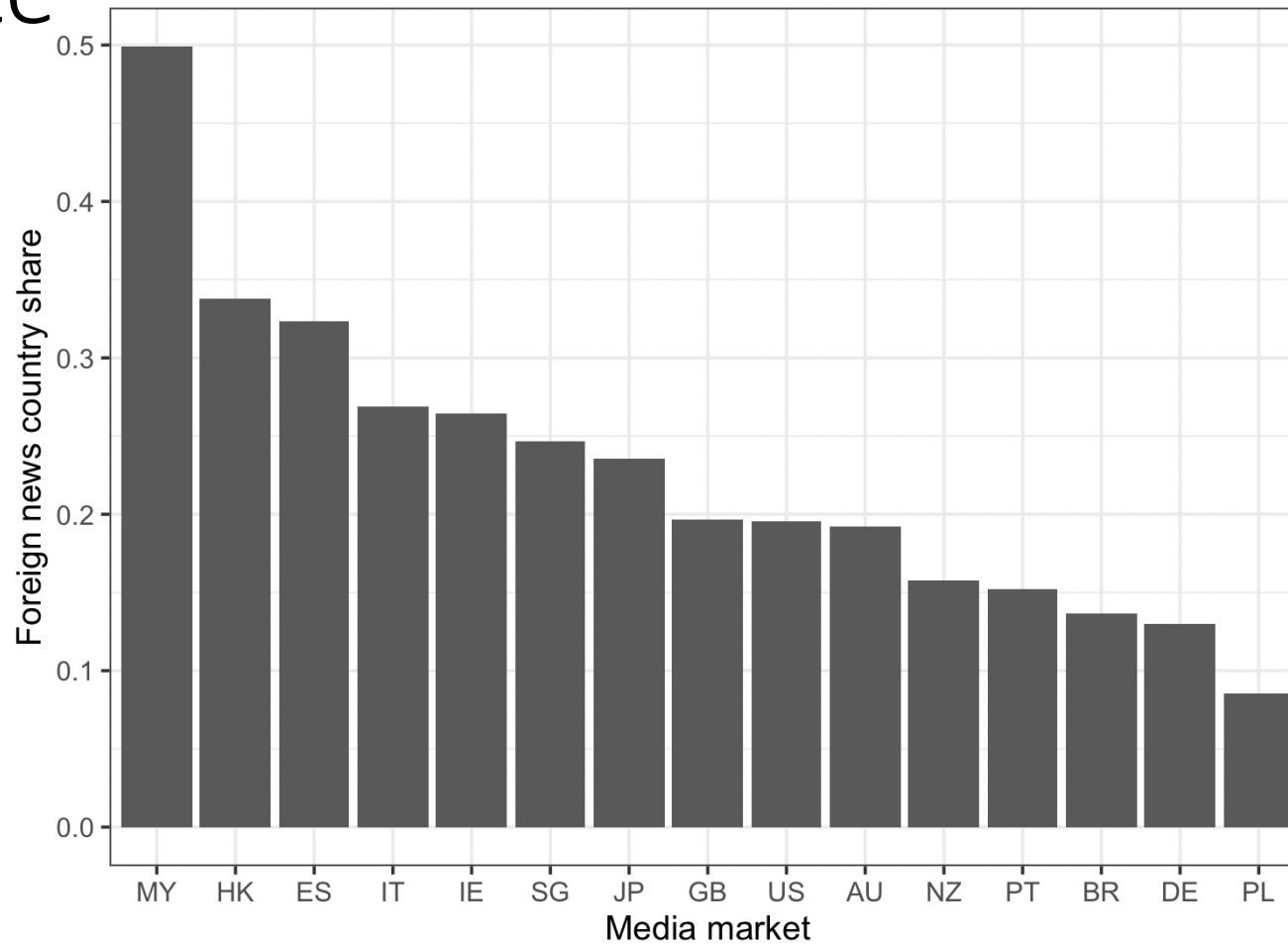
Source: Besley, Fetzer, and Mueller (2020) "How Big Is the Media Multiplier? Evidence from Dyadic Data"

Non-reporting on extreme weather events



Source: Fetzer (2020) MEGEO ERC Starting Grant Proposa. Based on Factiva raw article counts classified as speaking to Climate Change or Global Warming.

Media focus is limited by the boundaries of the state



Source: Fetzer (2020) MEGEO ERC Starting Grant Proposal. Based on Factiva classification of geographical aboutness of articles focusing on sample of news sources from a set of countries.

What needs to happen?

Data, code and capabilities

De-weaponization of the information sphere

1. **Earth observation capabilities** so we can share and compare data across countries
2. Peer monitoring and **open-source intelligence**
3. Professionalization of **translators**
4. Reinvigoration of **local journalism**

Deeds matter more than words