DYNAMIX: Results of a qualitative assessment of policy mixes

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OUR APPROACH TO QUALITATIVE ASSESSMENT

• A combination of separate assessments, each based on a different discipline or theme:
  – Environmental assessment
  – Social assessment
  – Economic assessment
  – Governance assessment, Legal issues
  – Governance assessment, Public acceptability

• Aim to secure a range of different perspectives, and overlay them to identify key emerging lessons

• Requires clarity on precise definition of each policy instrument; but in practice this is difficult to achieve
**THE EMERGENCE OF SOME KEY HORIZONTAL ISSUES**

- Taxes: relevant particularly to the economic assessment, but also the legal, public acceptability and social assessments
- Border issues: relevant to the environmental, economic and legal assessments
- Uncertainty: relevant to all assessments, but treated differently
- Social impacts: with links to economic and public acceptability assessments
- Public acceptability as a key issue across the assessments
A simple and attractive approach is to internalize external costs (in this case, resource depletion + other environmental damage) through a tax.

However, practical challenges include:

- Transaction costs/feasibility challenges associated with measuring externalities, or finding adequate proxies
- Environmental tax reform takes place in a crowded policy space, making it more difficult to ensure that the scale (or even direction) of the tax’s impact is as intended
- Differential impacts on businesses and households; some sectors (unsurprisingly) affected more than others; poorer households generally disproportionately affected
- Public acceptability challenges: “Politicians and tax policies hardly ever enjoy the unconditional trust of taxpayers”

A particular issue for our policy mix was the overlapping nature of some of the taxes proposed; defining boundaries around an comprehensive set of green tax policies will be challenging.
A key challenge for assessments (and for the policy instruments themselves?) – how to reflect the fact that the EU economy is not a closed system?

Failing to address extra-EU impacts can lead to:
- Legal problems (GATT compatibility of measures)
- Social and economic concerns (for example, damage to an EU industry, leading to leakage of the activity to other economies, and export of the environmental problems)
- In turn, these effects impact on public acceptability
- Failure to account for non-EU impacts (e.g., indirect land use impacts of reduced agricultural production in the EU) can lead to countervailing negative impact on global environment

Resource efficiency needs to be treated as a global challenge, not (just) an EU one. As with climate mitigation, ensuring similar ambition and action in other economies is essential.
Uncertainty about future scenarios is a staple challenge of assessing policy impact (and, of course, of designing policies). Three (at least) types of uncertainty applied for our assessments:

- At the level of the broader scenario for the European and global economy (addressed to some extent in earlier stages of the project);
- At the level of the policy mix (how successfully will policies interact? What impact will their progressive implementation have on public acceptability challenges?);
- At the level of individual policies (what assumptions should be made about their successful implementation, and about behavioural response?);

The latter two are particularly subject to optimism bias. Although it’s difficult to accept when designing a policy programme, some policies will fail, some will have unexpected negative impacts.

This clearly has implications for assessment of the policies – what implications does it have for design of policy mixes?
SOCIAL IMPACTS

- Social impacts likely to be a driver of public acceptability problems, and thus an inhibitor on development of ambitious policies.
- Social assessment makes clear that (unsurprisingly) the cost of radical policies to address environmental externalities could be focused on poorer households.
- Example:

![Graph showing total environmental impact score per capita by income group.](image1)

![Graph showing total environmental impact score per unit income by income group.](image2)

SOCIAL IMPACTS (CONTINUED)

Similar patterns at Member State level: eg GDP per capita/ share of food and energy expenditures in total consumption (2010)

Source: own calculations based on Eurostat data; WISE Institute
Public acceptability assessment exploited new tools, including analysis of social media data, to identify where policies were likely to be subject to significant acceptability challenges.

- Policies assessed as “Unnoticed”; “Uncontentious”, “Contentious”, “Highly Contentious”
- Results generally matched well with our gut feelings about acceptability challenges;
- Also links to other assessments, in that acceptability likely to be driven by broader social and economic impacts and their distribution, and by perceived value of the environmental rationale;
- Uncertainty relevant here, too: experience suggests that policymaker success in predicting response to/ contentiousness of new policies is variable.
SUGGESTED POLICY MESSAGES: CONSISTENCY

- Policy mixes must be more than a bundle of loosely associated individual instruments
- Requires forward-looking roadmapping, relating different policy instruments to each other in a sequence that exploits synergies and minimises unintended negative side-effects
- Over-arching clarity on objectives, and how policies will be introduced (and, if necessary, adjusted) to meet those objectives.
SUGGESTED POLICY MESSAGES: FLEXIBILITY

• However, implementation of policy mixes needs to reflect the challenge of uncertainty, in terms of:
  (i) wider economic and political context
  (ii) success and impacts of component policies
• If some policies fail (in terms of public acceptability, in terms of feasibility, in terms of impact) others need to be adjusted to ensure overall objectives reached.
• Thus important to have clarity on, and broad political support for, overarching targets and their justification.
SUGGESTED POLICY MESSAGES: VOLUME CONTROL

• Delivering resource efficiency, and other objectives aimed at managing overall economic impact of economy, requires new approaches;

• Requires not just traditional instruments to prevent/discourage environmental bads (taxes, regulation), but ones which can manage overall economic impact (resource consumption, carbon emissions, land use, etc);

• This in turn can create challenges of fairness in allocation, and public acceptability. For resource efficiency, it potentially implies greater governmental influence over inputs to production processes.
SUGGESTED POLICY MESSAGES: SOCIAL IMPACTS

• Significant social benefits available through (in particular) health impacts, new skill formation
• But also very negative significant social impacts through the transition: social inclusion, unemployment
• Important to recognise and tackle these social and distributional challenges through policy design and accompanying measures
• Examples could include increased support for deep retrofitting of low income housing, improved public transport provision
SUGGESTED POLICY MESSAGES: PARADIGMS

- Significant gaps between behaviour changes needed to deliver resource efficiency, and behaviour changes currently seen as acceptable;
- Single issues can capture public attention, and become proxies for wider disaffection;
- Public discourse and paradigm formation open to a broad range of influences, including (unsurprisingly) narrow interest groups
- Policy makers need to be willing to use policy sequencing in ways which promote positive development of paradigms.

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