Sustainability as an Efficiency Defense

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Introduction

- Out of Market Efficiencies vs. “Other Aims”
  - Criteria for verifiability and agreement specificity (indispensability) is sufficient as a safeguard
  - Some examples
  - The distributional objection
- Does the Economic Literature tell us that allowing cooperation on sustainability is likely to be counterproductive?
  - No, the indispensability criterion is sufficient
  - In those cases that should be recognized as out of market efficiencies, the agreement internalizes an externality of consumers in the market on consumers outside the market (and more efficiently than state aid)
  - And no, competition does not take care of the problem!
- Is Government Policy “easily superior” to sustainability agreements?

Out of Market Efficiencies vs. “Other Aims”

- When you list aims (or criteria for that matter), it is not clear how they are weighted
  - Leads to arbitrary decision making that follows political expediency or personal preferences of regulators
- We know how to deal with efficiencies
  - We can measure the negative impact on consumers of an agreement and calculate the efficiencies (at least in principle) and compare those in monetary terms.
  - This is what a welfare standard does for us
- The question is whether we should allow for out of market efficiencies
  - Benefits to consumers not participating in that specific market
  - This means we are only concerned with the question of whether the elimination of an externality from some market onto consumers not active in that market should be taken into account
- What is wrong about approach to sustainability agreements is that the change in policy has not generally been about out of market efficiencies but about the “aim of sustainability”

Is the sustainability efficiency defense counterproductive?

- Indispensibility can get you where denying out of market efficiencies generates strange gymnastics
  - Example: The International Airline JVs
- Why are we concerned about redistributional effects?
  - Example: The Volvo/Scania merger

How Economics, done right, support the right cases

- A lesson on how to use economic theory in policy making
- The claims of Maarten Pieter and his co-authors rely on one assumption:
  - Investment in sustainability enhances demand or decreases costs, allowing the firm to win market share from competitors
  - If this were what sustainability agreements were about, he would be right
- The issue is a different one:
  - Sustainability decisions often involve switching to inputs that are more expensive, but pollute less
  - This increases costs
  - If I do it unilaterally I, reduce my margin and lose market share - Especially in highly competitive markets
- What do sustainability agreement do:
  - Jointly switch to the higher cost technology, maintaining competition. Leads to significant pass through of the higher cost of the input to end consumers who therefore internalize much more of the externality that their consumption causes
  - The ACM is actually right!
- Note: This can never justify price cartels!

“Ah, but competition will fix it!”, Really?

- Do consumers value producers who use clean technologies?
- My plug:

  Kühn and Uler (2019), “Behavioural Sources of the Demand for Carbon Offsets: An Experimental Study”, Experimental Economics

- Consumers mostly ignore the environmental cost in their purchase decision and the ex-post incentive to help fix it unilaterally is far to low to give the right market incentives

Is government policy “easily superior”?

- “We are trusting big business and not states to fix the climate crisis”
- The regulatory problem:
  - Private information of firms
  - Firms are always necessary to find the most efficient solutions for implementing goals
- Yes, taxes, pollution permit markets, regulation, and subsidies can in many cases give good incentives.
  - However, they are subject to extensive distortions in the decision making process
  - The German and Spanish subsidies for renewables
  - The fight over subsidies for the compensation of ETS costs