Book Review Essay

Complicating Carbon Markets

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Belfry Munroe, Kaija. 2016. *Business in a Changing Climate: Explaining Industry Support for Carbon Pricing*. Toronto: University of Toronto Press.

Knox-Hayes, Janelle. 2016. *The Cultures of Markets: The Political Economy of Climate Governance*. Oxford: Oxford University Press.

Raymond, Leigh. 2016. *Reclaiming the Atmospheric Commons: The Regional Greenhouse Gas Initiative and a New Model of Emissions Trading*. Cambridge, MA: The MIT Press.

There was an initiative on the ballot in Washington State, in the United States, in November 2016, to create a revenue-neutral carbon tax, beginning at $15 per tonne and gradually increasing to $100 per tonne. From the perspective of economic theory, it was an ideal way to reduce carbon emissions. While it was supported by many academics, however, it was opposed by much of the state's environmental community, not because the tax itself was insufficient, but precisely because it was revenue-neutral (*New York Times* Editorial Board 2016). In part due to this lack of support from environmental NGOs, it lost, garnering only 42 percent of the vote.

Several elements of this story seem notable in the context of a historical perspective on climate—and more broadly, environmental—governance. First, there seemed to be a general acceptance that the market-based mechanism of a tax was to be preferred to other mechanisms, particularly command-and-control regulation. Second, the fighting about the ballot measure within the environmentalist community was not about the tax per se, but about how the revenue from the tax should be distributed. Third, much of the Washington State business community supported the ballot measure, even though it would have created both new environmental regulation and a new tax. How is it that this consensus developed that climate change should be addressed through market mechanisms, and given this consensus, why is it that the versions of those mechanisms preferred in economic theory are not predominant?

There is an extensive literature on carbon markets in the context of global environmental politics (see Bernstein et al. 2010), but even so, these questions

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are puzzling. Three new books, despite not being about the Washington State ballot measure, speak in distinct ways to different aspects of these questions. Kaija Belfry Munroe, in *Business in a Changing Climate: Explaining Industry Support for Carbon Pricing*, argues that when climate regulation looks inevitable in the medium term, business will prefer the certainty of forms of governance they are familiar with to the risk of regulation that they cannot plan for. Leigh Raymond, in *Reclaiming the Atmospheric Commons: The Regional Greenhouse Gas Initiative and a New Model of Emissions Trading*, studies the normative underpinnings of cap-and-trade systems in the United States. Janelle Knox-Hayes, in *The Cultures of Markets: The Political Economy of Climate Governance*, looks more broadly at the differences across geographies and times in what markets mean, and the cultures in which they are embedded. All three books complicate the dichotomy of market versus command and control and undermine the assumption that markets mean what economists say they mean.

Beyond their individual research and arguments, these books add to the literature in three ways. The first is simply by addressing new developments in particular carbon markets in the last decade. The second is by problematizing the normative and behavioral underpinnings of rationalist ideas of market behavior. The third is by bringing a breadth of disciplinary perspective to the study of carbon markets: Raymond studies public policy mostly in a domestic United States context, Belfry Munroe is a professor of Canadian Studies, and Knox-Hayes is a geographer.

In the first of the books, *Business in a Changing Climate*, Belfry Munroe asks why the Canadian business community, and in particular those elements of it most directly involved in carbon-intensive industries, abruptly changed its stance on carbon regulation between 2006 and 2008. In 2006, most industry associations in energy-related and energy-intensive industries voiced clear preferences for voluntary standards rather than authoritative regulation of any kind. By 2008 these associations by and large preferred market-based mechanisms (understood as either cap and trade or a carbon tax) to continued uncertainty about climate governance. This is a particular puzzle because the change happened at the same time as a transition from a government that officially supported Canada's commitments under the Kyoto Protocol to a right-wing government led by a borderline climate change denialist. Belfry Munroe's research builds on interviews with a variety of executives in energy-intensive and energy-related industries, representatives of industry associations, and relevant government officials. She also uses other sources, such as annual reports and other forms of corporate communication, to support what is a well-conceived and clearly articulated research design.

Belfry Munroe answers her question with what she calls the risk-advantage model. She argues that companies' first concern with respect to climate governance is investment risk, understood as the possibility that future regulation will prevent current capital investments from returning their cost of capital through their lifetime, and will similarly discourage investment in the company itself.

Only when this concern is addressed will companies think in terms of competitive advantage with respect to other firms and industries. A change in popular opinion about climate change in Canada during the period in question seems to have convinced industry in general that authoritative regulation was inevitable, and once it was seen as inevitable, industry representatives came to prefer a known and settled regulatory structure to a situation in which expected returns on investment could not be effectively calculated.

A number of other particular elements of the risk-advantage model are worth noting. The first is that preferences among industrial leaders for carbon taxes versus cap-and-trade systems depended not on specific calculations of benefit, but on personal experience with one system or the other. In the absence of personal experience, the interviewees often did not express a preference. Second, *risk* in this book is understood not in the economic sense, as calculable and potentially positive as well as negative, but in a more colloquial business sense, as perceived danger (whether calculable or not) that investments will not pay off. Belfry Munroe uses the term in this way because that is how the people she interviewed used it. Third, NGOs play no role in Belfry Munroe's story; the interviewees claimed to be reacting to changes in popular opinion, not to NGO pressure. As she notes, this may well reflect the particular structure of Canada's parliamentary politics. And fourth, Belfry Munroe makes no claims that her model applies beyond Canada.

In *Reclaiming the Atmospheric Commons*, Leigh Raymond looks not at support for market-based climate regulation in general, but at change in the way that such regulation is conceptualized and justified. His particular research question concerns the Regional Greenhouse Gas Initiative (RGGI), an emissions trading system set up by a group of states in the northeastern United States in 2008. RGGI is the first major cap-and-trade system to be implemented in which all emissions allowances are auctioned, rather than given for free to existing polluters. He posits that this development, despite generating a relatively limited amount of attention among scholars, is politically important because it redistributes the financial gains from marketizing carbon emissions from polluters to the public at large. Not surprisingly, the companies that have to purchase these allowances did not support the change, but it was put into effect anyway.

The central question of the book is what allowed this change to happen, despite both inertia and the opposition of industry, and Raymond's answer is normative reframing. He argues that earlier cap-and-trade systems, both those for carbon dioxide and earlier ones in the United States, such as those for sulfur dioxide and nitrogen oxides, were based on a Lockean norm in which companies could be thought of as owning their rights to pollute because they had historically used those rights to add to overall economic value. This Lockean norm is generally a strong one in market capitalist societies, but it was vulnerable in this case because it is a poor fit with issues involving the regulation of negative externalities. Because of this poor fit, various actors in the political process leading up to RGGI were able to replace this normative frame with another involving two norms that fit the issue better: the polluter pays principle, and the idea that the public owns the atmospheric commons and should therefore benefit from the right to pollute that commons. This new frame, he argues, should change the politics of market-based regulation going forward, not only for carbon markets but for other environmental market-based regulation as well.

The concept of norms that Raymond uses could have been better theorized. He draws on the norms literatures in both psychology and international relations, and it is not always clear how the two are integrated in his argument. He also does not draw on a separate literature on the strategic use of normative discourses in international relations that could have usefully informed his work. Nevertheless, he makes a compelling case for the new normative frame as an explanation for auctions in RGGI and for the importance of this development. Of course, as is always the case with this kind of analysis, it is impossible to know in advance to what extent the new frame will affect new climate governance mechanisms.

Rather than look at a particular development in climate governance within a country, Janelle Knox-Hayes takes a comparative approach, looking at the cultural contexts within which carbon markets work in different times and places. *The Cultures of Markets* is built around a set of interviews of almost 300 people involved in various capacities in cap-and-trade markets in five countries and the EU. She uses these data in two ways. In one chapter she codes the interviews for different concepts of market governance, both positive (such as governance efficiency, political viability, and ability for global scale) and negative (such as the challenge of political uncertainty, technical complexity, and the precedence of economics), and cross-tabulates them by country and sector. In three other chapters, she uses the interviews as part of comparative case studies of twinned sets of carbon market experiments: the EU and the United States, Australia and South Korea, Japan and China. Using both methods, she finds that "market" means different things in different places, and that culture, broadly defined, has a major impact on both the form and the success of attempts to create carbon markets.

The general point is well taken, but the book is too broad and not specific enough in its claims. It is too broad in the conclusions it draws from what is in some ways a fairly narrow base of research. For example, drawing conclusions about the effects of culture on the development of markets from interviews with people who are both involved with those markets and know how they have developed is methodologically problematic. And concluding that the cultures of markets differ in the global East and West is perhaps a little hackneyed. The book is also not specific enough, primarily in defining its key terms. "Market" is used to mean a variety of things at different points in the book, some of them counterintuitive (carbon taxes, for example, are defined at one point as not being market mechanisms). "Culture," meanwhile, at times seems to mean pretty much everything. For example, the case studies discuss how differing political institutions across countries affect the construction and success of efforts to create carbon markets. While this is inarguably true, it is not clear that the best way to study this process is to study political institutions as an element of the broadly defined category of culture, rather than to look at the extensive literature on comparative political institutions.

The Cultures of Markets also contains a general critique of cap-and-trade mechanisms as a form of climate governance. This critique argues that the financialization of carbon markets is removed from the materiality of carbon emissions, and therefore that carbon markets risk becoming profit centers for traders while not necessarily reducing emissions. This critique is true for systems that allow for offsets, but it is less clear that the critique works for systems that do not allow for offsets: a cap affects the material world, however much the market is financialized. In any case, the critique of carbon markets as a generic category seems misplaced in a book that argues that we should not assume that carbon markets are all alike.

These three books share two core common features. The first is that market mechanisms have become the assumed default mode of governing carbon emissions. Industry in Canada did not have a common view on tax versus cap and trade, but it universally preferred either to command and control. RGGI could move forward with auctioning allowances when environmental NGOs stopped fighting the idea of market mechanisms and started focusing on which market mechanisms were best from an environmental perspective. And the interviewees across the various countries in Knox-Hayes' study, whether or not they liked the idea of carbon markets, all seemed to agree that they had become the common global language for regulating atmospheric carbon emissions.

The second common feature is questioning the economic view that a market logic is universal. Whether through Knox-Hayes' focus on culture, Raymond's on norms, or Belfry Munroe's discussion of ways in which even business executives do not calculate the way that economists say they should, the books all look at the different ways that markets work, how they are understood, and how they are justified, across both space and time. The authors make the case that we need to understand markets not just as economic or regulatory institutions, but also as social institutions. This perspective shift has implications not only for what we study in carbon markets (efficiency versus social embeddedness), but also for how we study them, because to study them as social institutions requires methodologies that are sensitive to meaning and context.

Finally, what does all of this tell us about the ballot measure in Washington State? Perhaps that it is a harbinger of where climate politics are going, rather than an outlier that needs explanation. It is further evidence that the fight over whether market mechanisms are appropriate in the greater fight against climate change is over, and that markets have won. It supports the idea that business might prefer known costs to uncertainty. And it suggests that the new normative framework underlying RGGI may in fact travel well (although, to be fair, both cases are within the United States). All three books, in other words, are useful not only in explaining the evolution of carbon markets in the past, but also in helping us understand how to most effectively argue for them in the future.

References

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