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A Subjective Overview on the Interactions Between Economics And Politics

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Plan

1) My subjective observation
2) High influence of economics on political decision making
3) Some typical bias from economics to reality
4) Economics in politics
5) Environmental policies by pricing
   case a) CO2-taxe
   case b) CH-CO2 Emissions
6) Electricity Market
7) Conclusion

Possible exercises for students:

1) Should Switzerland tax more motor fuel CO2 emissions?
2) Free choice of your 2. pillar (caisses de pension)?

1. My subjective observation

- Born 1973
- Ancient Greek instead of English as school…
- Studied Political Economy and Political Science in Berne 1991-1996, highly neo-lib context. But tension between the paradigms of both branches.
- No PhD
- Long track-back in energy and climate policy: 2010 book on leaving fossil and nuclear. Since then president of Swissolar
- Earlier: public finance and taxes policy, service public
- Permanent campaigns for referendum (no choice…, earlier also in organisation)
- Elected 2004 in Parliament. Since 2015 head of the Social-democrat group of both Chamber.
- Economics is everywhere, for better or for worse. So it is highly beneficial to understand it.

2. High influence of economics on political decision making

Some exemples:

- European integration: trade makes war impossible
- Privatisation and liberalization of public services.
- Development of capitalisation pension plan instead of contributory pension plan
- Maastricht limitation of deficit and debt in eurozone
- Orientation of school system at short term employability
- Economic incentives in environmental policy (instead of bans or obligations).

And furthermore: economization of the whole society as an “economic ideology”.

- Competition and selfishness seen as a virtue. Cooperative behavior is out
- Typically: individual performance related wage
- Academics: “publish or perish” with highly counter-productive effects (See Jacques Dubochet, Nobel price)
- Even love matters are becoming a market: “My value on the market as a 50 years old non-academic male….”

By the way: not only neoliberal bias. Also Marxist is a reduction to the material dimension.

3. Some typical bias from economics to reality

1) When economists adapt the reality in order to match theoretical framework (forget the “lets assume that….”)
2) Expansion of empirical results to other contexts or topics.
3) Prescription instead of explanation (example: trade or liberalization)
4) Preference for efficiency instead of equality (= normative, non positive)
5) Underlying: empirical measurement impossible → non testable or disprovable theory.
6) Ignoring other scientific dimension: physical, psychological, cultural, anthropologic (nobel Richard Thaler as hope?)
7) Ignoring the effects of institutional setting and legal framework.
8) Ignoring “power” (K. Deutsch: 'the ability not to have to learn’)

Economics is only one dimension of many.

4. Economics in politics

The key economic argument in political debate ***"The market is inherently and always more efficient"*** (mostly right-wing and business oriented lobbies).
And its corollary: "state or non-profit is wastage".

Economics as a science shows well internal limits and defect of market ("market failures"):

- Lack or asymmetry of information (particularly insider infos, lack of consumer info, excessive complexity)
- Externalities (positive and negative)
- Concentration: Power, Cartel, Sunk-cost and low marginal cost = decreasing average cost
- Short term orientation
- Herd behaviour
- Low elasticity of demand

… other that I ignore.

Question: why do economists insist only on the strengths of market, but mostly omit to show the weakness of markets?

It would be very useful for policy making and in order to unmask ideology and hidden interests! Economics is a science, not a set of beliefs to promote !

5. Environmental policies by pricing

Case 1) Good influence of economics: swiss Tax (levy) on fossil heating oil and “natural gaz”.

Actually at CHF 96 / Ton CO2, predictable increase paths over years (strong incentive).

Housing: in combination with subsidies, information, tax-credit if renovation, technological innovation (not a dogmatic one-tool approach).

Key: housing is a long-term concern and expensive.

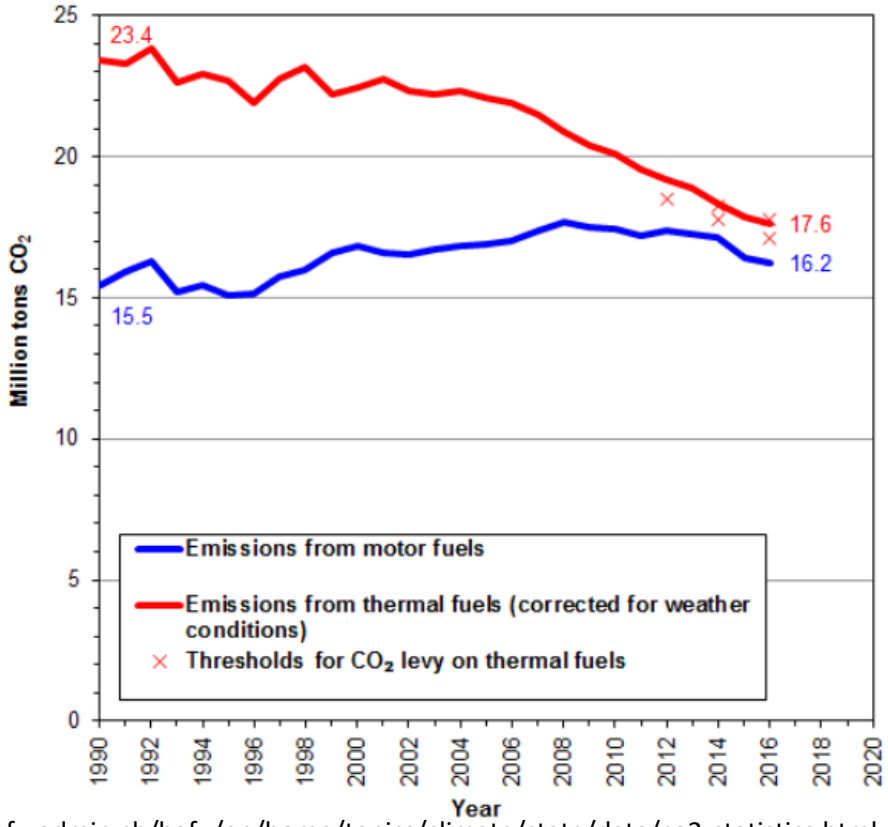
Companies: exemption if commitment to invest in energy efficiency & renewables (with control)

Quite reflected actors, who react rationally (+ oil price sometimes high).

Political acceptance:

2/3 of revenue are redistributed to households (via health insurance reduction), an economist idea of “budget neutrality”.

1/3 is used for subsidies of building insulation + renewable heating.



https://www.bafu.admin.ch/bafu/en/home/topics/climate/state/data/co2-statistics.html

Case 2: Swiss ETS for CO2 from big emitter

Idea: reduce emissions where it costs the least

60 emitters involved in CH, exempted of CO2-tax (11'000 in EU).

Much to much allowances on the market. To many for free.

Lobbing prevent to reduce enough fast number of allowance→ no trade, price by zero.

→**No incentive. Is greenwashing, not a decent policy!**

Little bit better in EU-wide ETS after recent decision: back-loading, less free allowance and creation of market reserve.

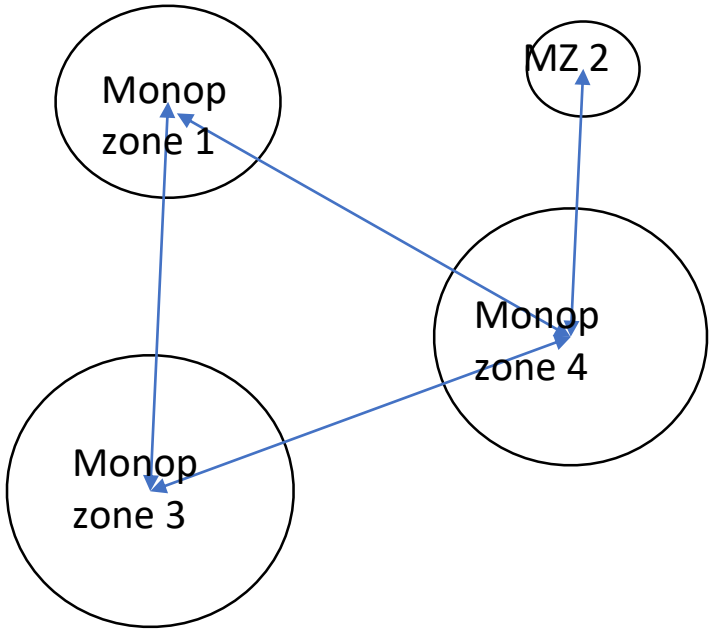
Hope by connection of the Swiss ETS and the EU-ETS (Agreement in ratification)

Tax like for heating houses and SMB would be much more effective.

6. An economist crazy idea: the «market» of electricity

Before liberalization: de facto territorial monopoly for energy

(& distribution's network)



Each zone covers its total cost. Exchange between monopolies at marginal cost thanks to continental interconnection.

now: Europe-wide competition

(Except distribution network = physical monopoly)

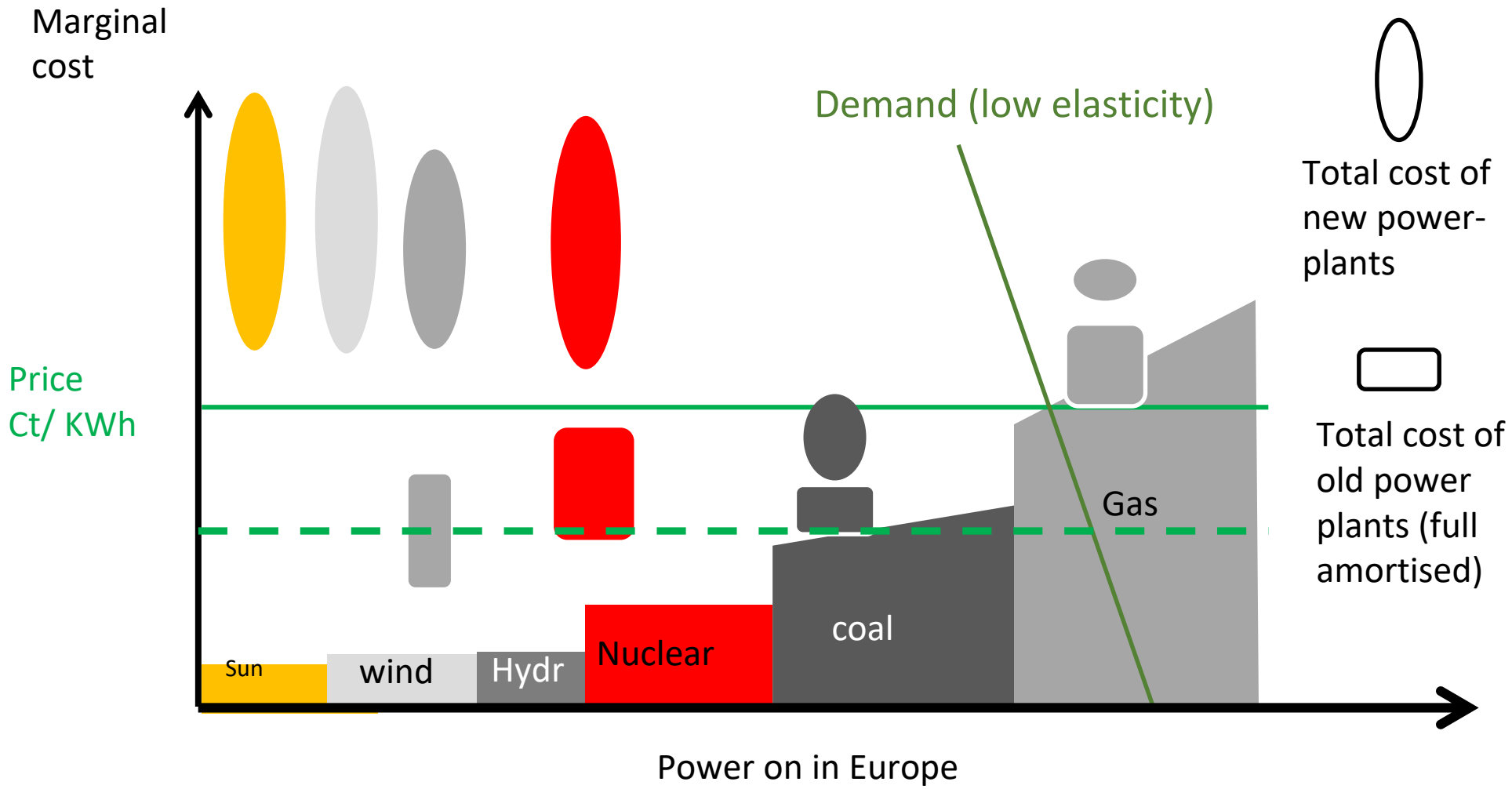
Big number of producers

Very big number of consumers

Each power plan is switched on at time t if the market price allows at least to cover its marginal cost

CH: "small consumer" still under local monopoly

The price at power exchange is set by the marginal cost of the last power plan that needs to be switched-on in order to match EU-wide demand



Market failure 1: Such a market can't work in the long run

High fix (initial) (sunk-) cost and low marginal cost.

Storage difficult and expansive, low elasticity of demand, no more permanent growth of demand.

→ Market price mostly under total cost: every power plant is switched on if it can earn even a small margin over marginal cost. → missing money, bankruptcy

Problem growing with decarbonization: less gas and less (and cheaper) coal generation, who helped in the past to hold price high.

→ No investment unless: Oligopoly helps rise prices to cover total cost (≠ market) or subsidies

Short run: Living from the substance built under the former local or national monopolies

Long run: after lack of investment, shortage (because mostly long construction time).

Shortage of electricity: unbearable, because essential good.

Market failure 2: negative externalities:

CO2, local air pollution, atomic waste, atomic risk

→ **Far from an optimal resource allocation…**

Market-fetishist: “**all the dysfunctions of the electrical market are due to the many interventions of the governments. It is an accumulation of “sins” that provoked a huge market distortion and crash of the prices**”.

But the current developments have noting to do with theology (“sin”).

Market-fetishist tapped in a self-confirmation loop

Fact is: the natural and initial state of electricity supply, before regulation, is a territorial monopoly, not a market

It worked well over one century, before an alliance of bad economists and asset seeking investment bankers forced liberalization.

Outcome: 500 governmental regimes in Europe to sustain investment or to avoid bankruptcy

Permanent discussion over “market design” (= euphemism to talk about re-monopolisation or subventions)

(and one positive effect: atomic energy is economically dead - but still will cost a lot for waste and decommissioning).

7. Conclusion

- We need good economists for good policy design.
- At the end of the day, bad economists are very expansive and harmful.
- We need economists with more epistemological distance, diversified approach and societal comprehension
- We need economist who are able to interact with other sciences and who can sustain the complexity of reality, not “model-riders”.
- We need independent economists without obsession for their own money. To many economists produce oriented policy studies for companies and lobbies. This is called advocacy, but is just deluxe prostitution.
- And last but not least: please more economists with other linguistic and cultural back-ground than the anglo-saxone one.

Exercise: let's taste politics and policies!

Case a)

Traffic CO2 emission: switch to a tax?

- since 2012-2015: CH use EU System of compulsory average float emission 95g/Km for new cars (with increasing delta between test bench and reality, up to 40%)
- Since decade stable "VAT-like" tax on motor fuel.
- Poor effectiveness. KM extension, slow reduction of CO2/KM.
- **Should Switzerland instead tax CO2 of Mobility?**

Case b)

Free choice of your 2. pillar (caisse de pension)?

- In CH, compulsory funded pensions plan for income from 20 to 85 KCHF/y, with minimal standard for compulsory part.
- Either company pension fund, affiliation to a branch-fund or an ad-hoc fund by an insurance company.
- joint management by empoyers & employees representatives.
- No individual chose of institution.
- **Should every worker be free to chose the fund he prefer to affiliate** (like for instance health insurance)?