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Introduction

The Economisation of Climate Change and Why It Matters in the Case of International Economic Institutions

The year 2019 saw the emergence of an unlikely duo consisting of the managing director of the IMF Christine Lagarde¹ and broadcaster and environmentalist Sir David Attenborough. They discussed the relationship between nature and the economy in a panel session, a podcast and an article (Attenborough and Lagarde, 2019a, 2019b). In the latter, they stated ‘We must treat the natural world as we would the economic world ... This is something economists can appreciate – the importance of minimizing waste, taking advantage of efficiencies, and accurately reflecting costs in prices, including costs imposed on our entire shared resource, the environment’. Elsewhere the same year, Lagarde also stated the importance of nature and of the existential threat of climate change and called for carbon pricing and fossil fuel subsidy reform as solutions to the climate crisis (Lagarde and Gaspar, 2019). This was notable coming from the managing director of an international institution focused on economic issues and criticised for ignoring other issues than economic growth and stability. The statement highlighted a wider trend of climate change being addressed within institutions concerned with economic issues. Other cases in point are the increasing attention that other economic institutions such as the G20 and the OECD have paid to issues including fossil fuel subsidy reform and climate finance.

This book focuses on three international economic institutions that have been important in addressing climate change: the G20, the OECD and the IMF. Economic institutions are crucial for targeting climate change – and sustainability more broadly speaking – because of their power and central role in the decisions that shape how societies mitigate and adapt to climate change. As David Victor has pointed out, the key decisions that determine future emissions, for example, regarding transportation, growth and the composition of the economy are mainly reached outside the realm of environmental policymaking (Victor, 2011). Economic institutions – be they international or domestic – are,

¹ Lagarde was managing director of the IMF until November 2019.
on the other hand, central to these decisions but also involved in environmental policymaking. An important aspect of the central role of economic institutions is their ability to address ‘anti-climate policies’ such as fossil fuel subsidies that increase emissions and generally belong outside the realm of environmental policy (on anti-climate policies, see Compston and Bailey, 2013; specifically on fossil fuel subsidies, see Skovgaard and van Asselt, 2019). At the international level, economic governance is together with security governance the most powerful policy realm, and international institutions within this realm are as important to environmental issues as environmental institutions (Hurrell, 2007). This is partly because of the power of the international economic institutions (Pop-Eleches, 2009), but also because economic and environmental policymaking are increasingly intertwined (witness the debates about green recoveries after the Corona pandemic, Barbier, 2020). All things considered, it is difficult to imagine a transition to a low-carbon, climate-resilient world in which the international economic institutions maintain their current power and central roles and do not give serious consideration to climate change. In other words, they are either part of the solution (if they take climate change seriously) or they are part of the problem (if they do not). Yet, the role of these institutions cannot be reduced solely to a question of whether they promote or hinder climate action; it must also include how they address climate issues.

How these institutions address climate issues involves whether and in what way they treat them as economic issues. While economic objectives of maximising economic welfare have often been perceived as competing with environmental protection (Hoffman and Ventresca, 1999; Newell, 2019), and economic actors as being sceptical of environmental policy, addressing climate change and related (sub)issues as economic issues induces economic actors to take it seriously. The phenomenon of economic institutions addressing climate change issues as economic issues is particularly pronounced in the cases of two policy issues that – even before the involvement of the economic institutions – have considerable economic dimensions: fossil fuel subsidies and (international) climate finance. Fossil fuel subsidies consist of subsidies for the production and consumption of fossil fuels (oil, gas and coal). According to relatively conservative estimates, they amount to USD 300–600 billion annually or twice the amount provided as renewable energy subsidies (IEA, 2016; OECD and IEA, 2019) and reforming them could deliver a quarter of the emissions reductions pledged under the Paris Agreement (Jewell et al., 2018). Climate finance refers, in the context of this book, to financial flows to developing countries ‘whose expected effect is to reduce net greenhouse gas emissions and/or to enhance resilience to the impacts of climate variability and the projected climate change’ (Gupta et al., 2014). Developed countries have
pledged to *mobilise* USD 100 billion in climate finance annually by 2020 (UNFCCC, 2009a), and the delivery of climate finance is considered crucial for a global response to climate change (Pickering et al., 2017). The definitions of both issues are essentially contested, and these contestations constitute important aspects of how they have been addressed as more or less economic issues (see Chapters 4 and 9).

This book claims that it is useful to understand the three institutions addressing fossil fuel subsidies and climate finance as instances of the ‘economisation’ of (environmental) problems: being addressed by economic actors and framed as economic problems. The book uses the concept of economisation to understand the three institutions’ respective output regarding fossil fuel subsidies and climate finance respectively, as well as the factors that shaped this output and the consequences of the output at the international and domestic levels. (see Section 1.1.2 for the discussion of how this definition of economisation relates to other uses of the term, e.g. Çalıkışkan and Callon, 2009, 2010). Economisation entails framing an issue in a particular way (as an economic issue) as well as – to paraphrase Michael Zürn (2014) – transport it into the field of economics, thus enabling particular (economic) actors to address the issue within their own routines. In terms of temporality, the framing does not necessarily precede economic actors addressing the issue.

I argue that such economisation may have profound consequences for how environmental problems are addressed. The existing literature has found that the roles of economic institutions have mainly been negative in terms of limiting effective action and downplaying justice objectives (Bernstein, 2001; Schalatek, 2012; Storm, 2017; see also Section 1.3). Yet, applying the concept of economisation to the institutions’ handling of the two issues provides a different set of insights into the consequences as well as causes of economisation. In this book, economisation is used as a lens to understand the output of the three institutions (i.e. their way of addressing the issues).

One example of economisation is the manner in which the IMF treated the issue of fossil fuel subsidies. Rather than just adopting the default approach (OECD, 2018b; Skovgaard, 2017a) and focusing on direct government support aimed at production (e.g. mining, oil fields) and consumption (e.g. lowering the price of petrol and diesel), the IMF argued that any fossil fuel with a price that did not fully include its externalities (climate change, local air pollution) was in fact subsidised (Clements et al., 2013; Coady et al., 2015, 2019). This definition not only led to an estimate of global fossil fuel subsidies of USD 4,700 trillion in 2015 (Coady et al., 2019); compared to the International Energy Agency estimate of USD 325 billion in 2015 (IEA, 2016), but it also led to the conclusion that virtually all countries in...
the world subsidise fossil fuels. This conclusion made the IMF the unlikely hero of environmental non-governmental organisations (NGOs) around the world (Thunberg et al., 2020).

Another example of economisation is how the G20 finance ministers and central bank governors in the run-up to the fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP15) in 2009 reached a preliminary compromise on financial support from developed countries for climate mitigation and adaptation measures in developing countries (so-called climate finance). Constituting a settlement on the target and the conditions attached to it, the G20 compromise established the basis for the Copenhagen Accord’s target of USD 100 billion for such finance (Kim and Chung, 2012). The agreement was made possible by the G20 bringing representatives of the powerful finance ministries together to develop a common understanding of climate finance based on their shared economic worldview.

A third example is how the OECD has addressed climate finance, including remarks by OECD Secretary-General Angel Gurría to the G7 finance ministers and central bank governors, in which he highlighted the annual investment gap in climate infrastructure amounting to USD 3 trillion, as well as the OECD’s efforts to address this gap by inter alia promoting green budgeting (Gurría, 2019).

These examples underscore how economisation is becoming more and more politically and academically salient as climate policies involve economic actors, institutions and policy arenas to a greater degree. Economisation is also increasingly politically relevant, as climate politics globally is entering a stage where the radical transformation of societies is necessary to avoid a global climate catastrophe.

Beyond studying economisation itself, it is also important to study the causes and consequences of economisation. Studying the causes provides knowledge about the factors that stimulate economic institutions to address climate issues and that shape economisation (which does not provide a fixed set of policy responses, as discussed in Section 1.1). It describes what is needed to promote, hinder and shape economisation. Studying the consequences of economisation contributes crucial knowledge about the actual effects of economisation and consequently to what degree it is worth pursuing.

Studying the three institutions addressing fossil fuel subsidy reform and climate finance shows they can take climate issues seriously, mainly as economic instruments for addressing an environmental problem framed in economic terms. Furthermore, institutional worldview, entrepreneurs within the institutions and interaction with other institutions induced the institutions to address the issues

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2 Although not formally adopted by the COP, the Copenhagen Accord constitutes the output of COP15.
and shaped how they addressed them, and the autonomy of the IMF and OECD bureaucracies was a scope condition for the institutional worldview and the entrepreneurs. The consequences of these economisations had a more discernible effect on the international level than on the domestic, inter alia in influencing how other institutions from the Asia-Pacific Economic Cooperation (APEC) to the United Nations Framework Convention on Climate Change (UNFCCC) addressed fossil fuel subsidies and climate finance.

This chapter proceeds with defining key concepts, first, the concept of economisation and second, the distinction between international institutions and organisations. Subsequently, it outlines the relevant literature on climate governance and international institutions/organisations (particularly economic institutions) and identifies the contribution of the book to these bodies of literature. Next, the chapter explains why it makes sense to select the two cases of climate finance and fossil fuel subsidies, which are both characterised by economic institution involvement, while the relationship between their impact on state budgets and on the environment pulls in opposite directions. The section proceeds with an account of why the selection of the G20, OECD and IMF is academically relevant. The following section outlines the use of data sources and methods in the analysis. The last section outlines the remainder of the book.

### 1.1 The Concept of Economisation

#### 1.1.1 Dimensions of Economisation

Economisation as defined here entails both an issue that is addressed by economic actors (including *institutions* in the sense discussed in Section 1.2) and framed as an economic issue. I refer to the former as the first aspect of economisation and the latter as the second aspect, although this does not imply that the first aspect necessarily takes place before the second. Framing climate change in (mainstream) economic terms usually centres on defining the policy problem as an externality. An externality is the cost or benefit of an activity undertaken by one actor that affects another actor not involved in the activity, thus creating a suboptimal situation, since the cost of the activity does not reflect the true costs or benefits to society (Pigou, 1932). Since the concept of an externality belongs to the wider class of concepts of ‘market failures’, climate change has been referred to as the ‘world’s biggest market failure’ (Stern, 2006). Consequently, the understanding of climate change as a market failure or an externality (in this book the term externality will be used) has been influential among economic institutions, including finance ministries (Skovgaard, 2012, 2017b). Such a framing has implications for the policy solutions that are proposed (Schön and Rein, 1994). The framing consists of characterising
a given situation or policy issue as well as defining what one ought to do in light of this characterisation, thus having a cognitive as well as a normative dimension (see Chapter 2 for a discussion of the distinction between cognitive and normative ideas and frames). Frames, in this case economic frames, are grounded in the institutions and actors that sponsor them (Schön and Rein, 1994). Hence, economic actors will not only be more likely to address issues framed in an economic way, but once they have adopted such a framing, they may promote this frame and address the issue in ways that differ from and may conflict with other ways of addressing it. Importantly, economisation entails economic actors defining an issue as economic and hence belonging to their portfolio, unlike issues they may address although they still recognise the issues as belonging to the portfolios of other actors. As an example, finance ministries are constantly involved in budgetary allocations in policy areas belonging to the portfolios of other ministries, while never disputing that these policy areas belong to the other ministries.

In mainstream economics, pricing the externality of climate change in the shape of carbon taxes and emissions trading is defined as the logical solution (Grubb et al., 2014; Rabe, 2018; Stern et al., 2013), while other economic instruments (fossil fuel subsidy reform, redirecting investment, market-based instruments generally speaking) are treated as second-best solutions when carbon pricing is not possible. Inherent to the framing is not only a way of defining the problem and how it should be addressed, but also a particular way of attributing value to outcomes, namely in monetary terms (Pearce, 1993). Costs and benefits are all measured in terms of economic impact, including so-called ‘non-market’ losses such as the loss of human lives and species becoming extinct (for criticisms of this approach, see Getzner et al., 2004; Spash, 2007; Storm, 2017). Such measurements allow for comparisons – in monetary terms – between the consequences of climate change and of different policy options put into place to mitigate it. The costs of climate change are also referred to as the social cost of carbon and measured in the costs to society of one ton of CO₂.

In terms of objectives, (mainstream) environmental economics serves as an expression of neoclassical economics (and more fundamentally neoliberal ideology) that seeks to maximise economic growth (Katz-Rosene and Paterson, 2018). Environmental protection is important because it avoids the (long-term and societal) costs to economic growth resulting from environmental degradation, even if such protection may cause short-term economic loss to those subject to the protection measures (Nordhaus, 2008, 2019; Solow, 1974). Importantly, according to this approach, it is undesirable to adopt environmental protection if the (present value) costs of the protection exceed the (present value) benefits of avoiding environmental degradation. Within mainstream environmental economics, much debate
has hinged on how much the future costs of climate change should be discounted, a high discount rate leading to a lower social cost of carbon and hence recommendations of lower carbon prices (see the discussion among Nordhaus [2007], Weitzman [2007] and Stern [2006] for an example of such a debate regarding discount rates and their implications for current action).

Economisation can take place at the international or domestic level. Economisation at the domestic level involves finance ministries, central banks, economic think tanks and university departments and other actors addressing economic policy with the aim of maximising economic welfare. At the international level, it involves economic institutions such as the ones involved here as well as individuals (e.g. Nobel Memorial Prize laureates in Economics). Importantly, private companies and associations of such companies are not seen as economic institutions in this respect, since their objective is to maximise their profits rather than the economic welfare of society (national or global). Importantly, the focus here is on economic policy broadly speaking, rather than on all economic activities. Thus, this book focuses on actors, which are political in nature and address economic issues, rather than on market actors and other actors engaged in economic activity in order to obtain economic gains.

Two qualifications are important to bear in mind. First, the story of economisation is not necessarily a story of paradigmatic change to the output of economic institutions and actors. While the economisation of climate change may have increased in scope and political importance, how far it has become central to the activities of economic institutions and actors remains an open question.

Second and on a more complex note, since the discipline of economics is not monolithic in its treatment of environmental issues, economisation does not entail one distinct way of framing climate change. Yet, including heterodox economic approaches to environmental issues such as ecological economics, evolutionary economics and limits to growth approaches (see e.g. Berr, 2017; Meadows et al., 1972; Mulder and Van Den Bergh, 2001) under the concept of economisation would broaden it to a degree that would severely reduce its usefulness and academic relevance. Rather, the focus here is on mainstream economic approaches to environmental problems, since they – despite internal differences – share central tenets (including a focus on prices and equilibria) which have dominated the discipline of economics and economic policymaking. Moreover, most of the key tenets of mainstream economics are unique to economics (e.g. the focus on markets and prices), whereas much of the heterodox environmental economics share key tenets (e.g. power inequalities or ecological boundaries) with other disciplines. Specifically, I define mainstream approaches as being distinguished by an emphasis
on efficiency (understood as maximum utility) while leaving questions of equity to other disciplines (Storm, 2017).

While it is difficult to exactly delineate mainstream economics, the core of mainstream economics has for the last century consisted of neoclassical economics and the theoretical strands and schools drawing on it. Neoclassical economics is broadly understood as economic approaches based on markets and equilibria between opposing forces (e.g. supply and demand as reflected in the market price) being central concepts and on methodological individualism (Vroey and Pensieroso, 2016). A range of (mainstream) economic strands have drawn on neoclassical approaches, including the so-called neoclassical synthesis, monetarism, classical economics, new Keynesian and the so-called ‘New Synthesis’, in some cases without being considered as belonging to the neoclassical economics approaches (Hibben, 2016; Vroey and Pensieroso, 2016). These approaches can be placed along a continuum based on how they conceive the role of the state vis-à-vis the market, with neoclassical approaches arguing for minimal state intervention and Keynesian approaches for direct state interventions in the market (Storm, 2017). I include all these approaches under the term of economisation, while arguing that it is important to identify the degree to which the economisation draws on purely neoclassical approaches or more Keynesian approaches. Given the predominant role of neoclassical economics within the discipline of economics, I argue neoclassical economisation is a more ideal-typical kind of economisation.

The theoretical fragmentation characterising economics on a general theoretical level is mirrored on the level of mainstream environmental economics (and even more so if one moves beyond the mainstream). Mainstream environmental economics includes differing approaches (Stern et al., 2013), most importantly regarding the role of government. While adherents of Arthur C. Pigou (1932) argue in favour of a carbon tax enforced by government and imposing the full costs of climate change on the polluter, adherents of Ronald A. Coase (1960) argue in favour of distributing tradable rights to pollute. Thus, Pigouvian carbon markets are based on a greater belief in government regulation than Coasean emissions trading systems, with Coase’s criticism of Pigou centred on the transaction costs of government intervention. This is not surprising, considering that Pigou was inspired inter alia by the Keynesian efforts to address market failures, and Coase was a member of the Chicago School (Katz-Rosene and Paterson, 2018). Yet, both approaches share a significant number of premises, including the key emphasis on addressing externalities, the objective of maximising economic welfare in society (Pigou is considered to be the ‘father of welfare economics’) and the belief in leaving the key decisions to the market (Aslanbeigui and Medema, 1998). Hence, Pigou and Pigouvian environmental economics are best understood as neoclassical
economists, although envisioning a slightly larger role for the state than Coase and his adherents. Importantly, the belief in leaving key decisions to the market sets Pigou and Coase’s carbon pricing approaches apart from so-called regulatory approaches which impose non-tradable obligations on companies or subsidise green technologies. Hence regulatory approaches leave the decisions of how to reduce pollution or who should do it to the government rather than the market, an approach at odds with neoclassical economics but inspired by traditional Keynesianism (Lauber and Schenner, 2011). Regulatory approaches in the shape of Keynesian (or Schumpeterian) green growth or green deal policies aimed at mitigating climate change and stimulating growth have become increasingly popular following the 2008–9 economic and financial crisis (Meckling and Allan, 2020; Skovgaard, 2013). While regulatory and green growth policies are not necessarily identical (it is possible to promote regulatory policies without adhering to green growth and vice versa), they share a belief in industrial policy in which a range of decisions are left to policymakers rather than the market, and that such policies can enhance growth (Jacobs, 2012). Yet, promotion of regulatory approaches will be treated as instances of economisation only if they involve other economic framings – such as a Keynesian focus on green growth. This is because while regulatory approaches may be promoted for economic (mainly Keynesian) reasons, they may also be promoted for other reasons (e.g. to address an environmental problem for non-economic reasons, as discussed later in this section).

In practice, Pigouvian carbon taxes have generally been promoted by economic actors together with Coasean emissions trading (Katz-Rosene and Paterson, 2018), increasingly under the heading of carbon pricing (Skovgaard and Canavan, 2020). Generally speaking, the mainstream approaches to climate change and climate policy studied here always favour policies that work through providing economic incentives and leaving as many decisions as possible to the market (Grubb et al., 2014, chapters 6–8). For instance, Nordhaus (2008) argues that for a problem such as climate change characterised by non-linear costs and linear benefits, taxes are preferable in economic terms, while the trading of allowances is preferable as regards linear costs and non-linear benefits. Yet, given the political obstacles to carbon taxes, he argues that a hybrid system of emissions trading with auctioning may be the best solution when considering both theoretical economic and concrete political factors (Nordhaus, 2008).

Another, increasingly important, strand of mainstream economics addressing environmental issues consists of the literature addressing green, climate and sustainable private finance and investment (Barnett et al., 2020; Campiglio et al., 2018). This literature focuses less on the nature of climate change as an environmental problem and more on directing finance and investment to ensure the transition to a climate-friendly
low-carbon society, especially the role of risk and uncertainty in affecting such investments. Such (perceived and real) risks are relevant both to investment in green technologies and in fossil fuels (thus concerning mitigation) and to investments that may be affected by climate change and other environmental degradation (Campiglio et al., 2018). This literature is rooted in the study of finance and institutional economics rather than environmental economics and economic theory (Grubb et al., 2014; Hong et al., 2020). The focus is on overcoming barriers to climate friendly and sustainable investment, and while carbon pricing is defined as an important factor in this, other instruments such as green bonds, certificates and carbon disclosure requirements may be as important or more so.

Beyond economisation in the shape of framing climate issues in terms of environmental economics and other subdisciplines of mainstream economics, there are also other, less ideal-typical kinds of economisation based on other economic but non-academic framings. For instance, it is possible to focus on the fiscal consequences of fossil fuel subsidies or climate finance and define them as belonging to the portfolio of economic institutions (Skovgaard, 2012, 2015, 2017a, 2017b) without drawing on environmental economics. Thus, these less ideal-typical cases of economisation define a climate issue as belonging to the portfolios of economic institutions because of the economic features ascribed to it, but are not necessarily predicated on the understanding of environmental problems constituting economic problems, and do not necessarily take environmental damage into concern. Beyond the economic framings, climate change may also be framed in purely non-economic terms, that is, without defining the damage caused in economic terms, but rather in terms of impact on social justice or on the intrinsic value of environmental diversity (Clapp and Dauvergne, 2011).

1.1.2 Economisation and Other ‘Aversions’: A Question of Framing and the Actors Involved

The emphasis on agency in the shape of economic actors and institutions addressing the issue, rather than solely on how the issue is addressed, distinguishes economisation from previous uses of the term economisation (see e.g. Bina, 2013; Çalışkan and Callon, 2009, 2010; Schimank and Volkmann, 2012; Wenzlaff, 2019). These previous studies of economisation have focused on processes that constitute particular ‘behaviours, organizations, institutions and, more generally, the objects in a particular society . . . as “economic”’ (Çalışkan and Callon, 2009). Scholars studying economisation in this sense mainly come from sociology, and have drawn on the description of how economic logics colonise non-economic spheres of social life going back to Karl Marx and Manfred Weber (Jessop, 2012; Wenzlaff, 2019). In spite of the historical roots of the concept, it is often used to