Soft Cooperation in the Shadow of Distributional Conflict? Insights from the Climate Regime

by: Antto Vihma

In climate diplomacy, negotiators frequently reject "technical" initiatives that only require simple coordination, despite the affordable reputational gains they may gain from cooperation. For example, promoting the international transparency of greenhouse gas emissions through regular inventories and reporting by all major economies has been one of the key sources of disagreement in the United Nations (UN) climate regime, although the initiatives to enhance transparency would not require countries to accept legally binding obligations concerning emissions reductions or provide climate finance. Understanding this opposition even to soft forms of cooperation can shed valuable light on state behavior ahead of and during the upcoming climate summit in Paris, France (COP 21).

Conventional cooperation theories based on neoliberal institutionalism cannot sufficiently explain such cases. If "soft cooperation", defined as coordination that does not oblige behavioral change, offers flexibility and cooperation at a low cost, why would the seemingly technical issue of measuring and reporting provoke major and long lasting controversies? Why would big developing countries not rather use it as an opportunity to realize affordable reputational and coordination gains from cooperation with industrialized countries?

Motivated by this puzzle, Dr. Antto Vihma (The Finnish Institute of International Affairs), a visiting scholar at CEEPR, and Dr. Johannes Urpelainen (Columbia University) developed a formal model to analyze negotiation dynamics. A paper titled "Soft Cooperation in the Shadow of Distributional Conflict? A Model-Based Assessment of the Two-Level Game between International Climate Change Negotiations and Domestic Politics" was published as CEEPR Working Paper WP 2015-001 earlier this year.[1]

The model is developed around the following intuition. First, it is assumed that state governments can engage in "soft cooperation" that is not characterized by distributional conflict. In the empirical case of climate negotiations, soft cooperation consists of reporting with guidelines and common accounting rules for all parties. Conversely, legally binding obligations for behavioral change are modeled as "hard cooperation," with the assumption that it features bargaining under distributional conflict. For example, hard cooperation could be about binding commitments to reduce greenhouse gas emissions, or introduction of trade tariffs. Second, it is assumed that a government's political survival is determined by a domestic audience, such as the legislature or the military elite, depending on the type of regime in place in the state. Since the domestic audience has limited information regarding the government's preferences, it uses soft cooperation as an indicator for whether the government is "moderate" or a "hardliner." In equilibrium, a negotiator's approach to soft cooperation informs the domestic audience about likely behavior in

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bargaining over hard cooperation with binding obligations.

The Working Paper proposes that countries at times reject soft cooperation in international negotiations if they worry that their domestic audiences will punish them for adopting moderate positions. If domestic audiences believe that their interests are best represented by intransigent negotiators who drive a hard bargain, then negotiators have incentives to reject even the most innocuous proposals. If the negotiators were to accept proposals for soft cooperation, their domestic audiences would worry about their willingness to compromise on other issues in the future. Since moderate negotiators might not drive hard bargains in negotiations involving a distributional conflict, such as over emissions reduction commitments, audiences would remove negotiators who appear irresolute by accepting soft cooperation. In the shadow of a distributional conflict, soft cooperation may fail due to domestic audience pressure.

To test the theory, the Working Paper conducts a comparative analysis of Indian and South African negotiation behavior in UN climate negotiations during the 2005-2009 period. At the time, reporting and international transparency had once again become one of the key "soft" issues on the agenda. The paper offers a quantitative analysis of Times of India and Johannesburg Star newspaper articles on climate negotiations, complemented with a compact qualitative case study of each country. The results are consistent with the idea that negotiators face pressures to adopt hardline positions even on issues that do not involve commitments to behavioral change. Moreover, should they ever deviate from the expected hardline position, their domestic audiences will punish them.

The strategic approach of this Working Paper to the relationship between "soft" cooperation and a distributional conflict offers an empirically falsifiable model applicable to a variety of issue areas beyond climate policy.

[1] Johannes Urpelainen and Antto Vihma (2015), "Soft Cooperation in the Shadow of Distributional Conflict? A Model-Based Assessment of the Two-Level Game between International Climate Change Negotiations and Domestic Politics." CEEPR WP-2015-001, MIT, February 2015.

How the Cash for Clunkers Stimulus Program Reduced New Vehicle Spending

by: Jeremy West

Implemented in the midst of the 2009 recession, the U.S. Cash for Clunkers program aimed to boost sales in the struggling automobile industry. Eligible households were provided with subsidies when they scrapped their old "clunkers" and purchased a new vehicle. The argument was that this would shift expenditures "...from future periods when the economy is likely to be stronger, to the present..." (Romer and Carroll, 2010).[1] However, to serve national energy and environmental goals the policy layered on a second requirement, that the new vehicles be of sufficiently high fuel economy. A recent CEEPR working paper by Hoekstra, Puller, and West (HPW, 2015)[2] finds that this multifaceted program design actually caused Cash for Clunkers to reduce overall revenues to the industry the policy was designed to help.

Cash for Clunkers as a Stimulus Policy

The academic and policy spheres have seen significant debate regarding the merits of various federal policies aimed at stimulating the economy during the last few recessions. In 2009, with the international automobile industry floundering, policies to stimulate new vehicle sales seemed particularly promising. Indeed, more than 15 countries implemented programs similar to Cash for Clunkers to target new vehicle sales.

In the United States, federal policymakers constructed the Car Allowance Rebate System. For nearly two months during the summer of 2009, households who scrapped an eligible vehicle were subsidized up to $4500 towards the purchase of a new car or truck, provided the purchased automobile met certain fuel economy conditions. By designing the policy in this way, policymakers hoped to meet two objectives: the program would provide immediate stimulus to the struggling automobile industry, and it would help reduce American use of gas-guzzling vehicles that contribute to climate change and local air pollution.

Evaluating the Effects of Cash for Clunkers on Automobile Sales

Cash for Clunkers was designed to affect not only the timing of households' new automobile purchases but also the composition of new vehicles purchased. HPW provide causal evidence on how the program affected both dimensions. They exploit the program's discrete eligibility cutoff to obtain a compelling