

## Editorial

# Applying New Institutional Economics to study climate change adaptation: A fertile research agenda

Climate change is firmly established as a global threat and according to Stern (2006) it is the greatest and widest-ranging market failure ever, thus presenting a unique challenge. Mitigating and adapting to this global phenomenon will *inter alia* require prescribing appropriate dynamic mitigation and adaptation. The effectiveness of such a course of action will depend on existing institutions pooling their resources, to facilitate and effectively govern it.

Neoclassical economics (NCE) has focused on supply and demand, and has been dismissive of the role of institutions in addressing issues of economic relevance (Reder, 1999). New Institutional Economics (NIE) on the other hand states that institutions matter and that transaction costs are not zero. It provides a more thorough understanding of how institutions affect economic performance and why different institutional arrangements are more effective in dealing with specific issues. NIE has many attractive features for climate change adaptation institutional analysis. As highlighted by Paavola and Adger (2006) the NIE approach is characterized by two main conceptual departures from the NCE approach. Firstly NIE acknowledges positive transaction costs and shows how informal and formal institutional arrangements influence desired outcomes. Secondly NIE pitches the issue of climate change adaptation within the wider realm of interdependence as opposed to solely using the standard theory of externalities as a basis to analyse and prescribe policy.

Climate change is a threat that has to be dealt with locally, regionally, nationally and globally. Solutions are complex and should therefore consider the different types of agents, their different geographical locations, their different utilities and their interdependence at each and across each level. The different types of institutional arrangements at each point need to be understood so that appropriate policies could be prescribed and implemented. Joskow (2008) argues that NIE research covers these institutional arrangements and he categorises them under [1] Embeddedness, or Social or Cultural Foundations, [2] Basic Institutional Environment, [3] Institutions of Governance, and [4] Short-term Resource Allocation. An understanding of such arrangements would indicate which types of governance institutions would be more appropriate to effect adaptation policies. Applying NIE to climate change adaptation does therefore offer fertile ground for applied economics research.

## REFERENCES

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