

Climate change and finance: A financial bureaucracies' perspective

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My research interest – financial bureaucracies and climate action

- Climate action policies are increasingly formulated by financial bureaucracies: Central Banks and Finance Ministries (Skovgaard 2012, 2017)
 - MoFs: can shape the conversation either as a ‘fiscal cost’ or as a ‘policy response’ (Skovgaard, 2017a, 2017b)
 - MoFs special meetings at G7/20, COPs and UNFCCC, ECOFIN (EU)
 - Coalition of Finance Ministers for Climate Action
- Existing literature is very scarce (Krause, 2012; Raudla et al., 2015; Allen et al., 2016; Allen & Krause, 2013; Allen, 2014; Juuse et al 2019; Raudla et al 2018; Mikheeva and Tõnurist, 2019; McCowan 2016) – focus on functions
 - In relation to climate agenda is even more slim (Skovgaard 2012, 2017a and b)



My research interest – why Finance Ministries

- MoFs
 - Acceptance of economic instruments to tackle environmental problems (Brundtland Report 1987)
 - ETS, carbon taxes
 - Conflicting objectives: environmental problem as a market failure vs fiscal expenditure (Skovgaard 2012) → ‘policy response’ vs ‘fiscal cost’
 - ‘Cost effectiveness’ as a narrative today, which bridges financial stability with fiscal prudence (‘fiscal rules’ in the EU)
 - This narrative is operationalised through concrete policy tools and internal capabilities
 - Further elevates the structural power of Finance Ministries within national governments
- Public agencies – financial bureaucracy – do not only represent dominant economic ideas. They possess and develop specific expertise and capabilities that are rooted in domestic political, economic and administrative contexts → better understanding decarbonisation pathways and opportunities for reform

Conceptual foundations

PE/IPE

- Contradiction between capital accumulation and legitimation (social acceptance) (Paterson 2010), following the classical notion of a capitalism state as ‘a contradiction between private and public interests’
- State as a distinct site of contestation
- ‘State of transition’ → states need to ‘square’ accumulation and legitimation imperatives → opens opportunities to rebalance configuration of social forces and hence state power(s) (Newell 2025, 13)
- Public finance as a socially contested arena (Marois 2023)

‘Green state’ and critical theory

- Ecological vs economic objectives (eg Kronsell and Hildingsson 2022)
- Normative notion: ecological action as a (new) legitimation for a democratic ecological state (Eckersley 2004)
- ‘Green state’ as a continuous political and social practice (Eckersley 2004, 2020)
- Need to re-politimize economic policies (Bayley, 2020)

Critical finance

- Infrastructural power of finance: both constrains and enables state authority, should be conceptualized as interdependent relations (Roos 2019)
- Finance has a social planning function (Sorg 2023)



Conceptual framework

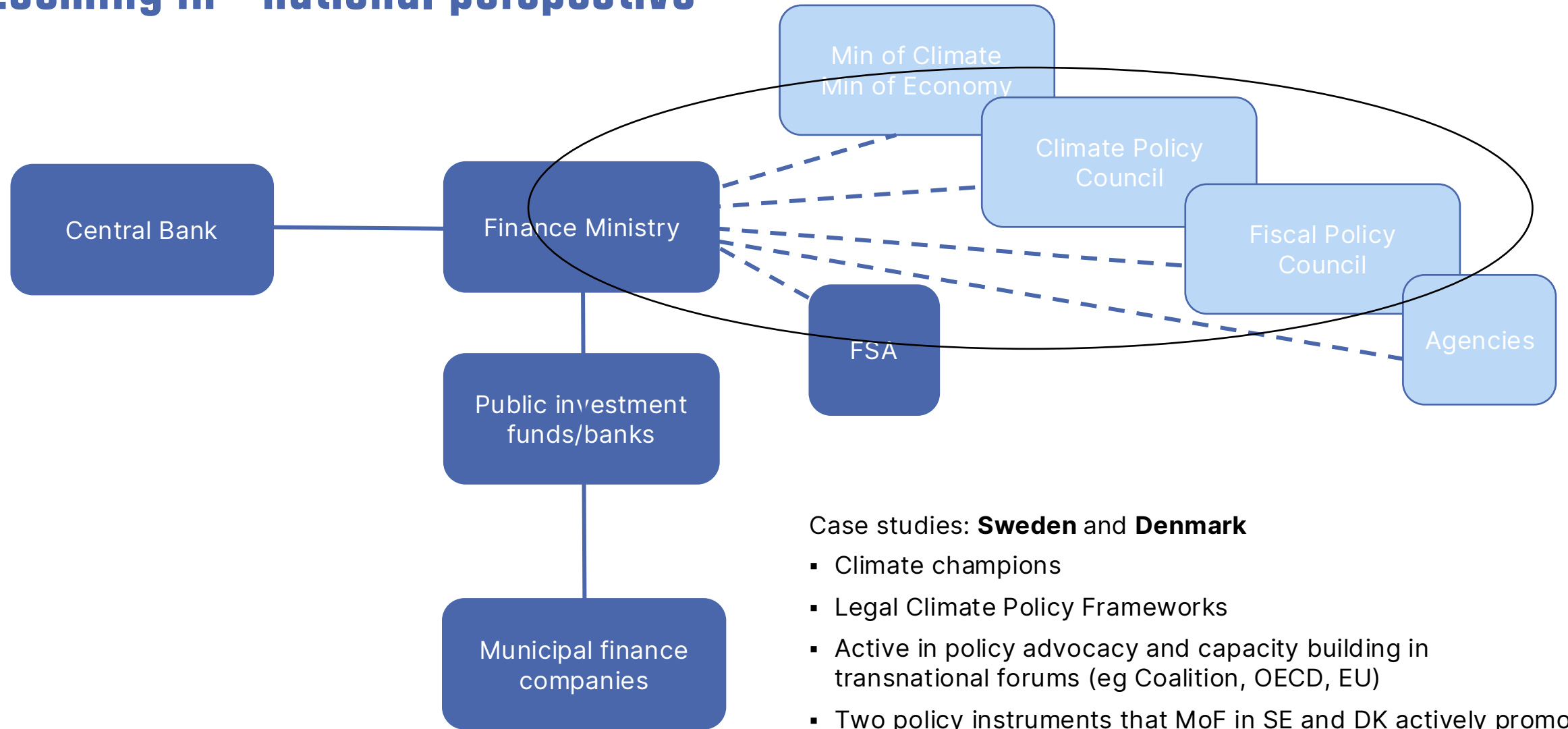
- Ecological vs economic objectives (Kronsell and Hildingsson 2022)
- Critical theory vs critical problem-solving: ‘strategic bracketing’ of a policy debate or policy prescription that are likely to carry high transformative potential, ie critical reflection and potential for incremental reform (Eckersley 2020, 49)

‘Bracketing’ of financial governance – MoF – as a site of distinct contestation between economic vs ecological ideas

How Finance Ministries act on these conflicting policy objectives may constitute their climate-related capabilities



Zooming in - national perspective



Sweden – promoting carbon tax

- Introduced in 1991, evolved since then
- Covers all firms that are not covered by the EU ETS
- Regarded as one of the most important policy instruments for reducing emissions in Sweden (Hammar & Åkerfeldt, 2010; Ministry of the Environment, 2020; Ministry of Climate and Enterprise, 2023)
- Politically important: linked to the vote on ratification of the UN Climate Change Convention to the (unsuccessful) adoption of a European carbon tax
- Success story: carbon tax directly contributed to emissions reduction
 - 33% down 1970-1990, further 30% down 1990-2015 (Kronsell, 1997; Martinsson et al., 2024)



Sweden – promoting carbon tax

- Substantial international attention
 - Introducing carbon taxes in developing countries as a cost-effective way to act on SDGs (UN Handbook on Carbon Taxation for Developing Countries, 2021)
- Capacity building programmes
 - Coalition of Finance Ministers for Climate, Sweden co-leading the Work Stream on Promoting Carbon Pricing (Helsinki Principle 3)

Carbon tax easy to implement

Swedish experience shows that a carbon tax can be easy to implement and administer, at low costs to authorities and operators. This is particularly true if existing revenue collecting systems, such as systems for levying other excise taxes on fuels, are already in place. Another feature of the carbon tax that reduces costs associated with its administration is that tax rates in Swedish tax law are expressed in common trade units (volume or weight).

**SWEDISH HOUSE
OF FINANCE**



& press > News > World Bank Visits Swedish House of Finance to Discuss Carbon Pricing and Emissions Research

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Sweden – promoting carbon tax

- Contextual details
 - More gradual success story (25+ years to achieve wide public acceptance)
 - Carbon tax emerged
 - Within a wider acceptance of using economic instruments to tackle environmental problems
 - As part of ‘tax reform of the century’ = little time for political negotiation combined with low political salience of climate change in early 1990s
 - Flexibility (in rates) was key to win over industrial firms
 - Helped institutionalise state-industry dialogue
 - Distributional concerns more complex → gradual social acceptance
- Carbon tax today
 - Strong social acceptance
 - ‘Framework in place → need to adjust towards decarbonisation needs further’ (Int)
 - No or little coordination with other policies
- Policy proposal (2021-2022) to align fiscal policy framework (budget balance target) with climate investment needs

Denmark – building climate super-model

- GreenREFORM environmental economic modelling tool
 - Dynamic GE model allowing to assess how econ policies interact with the environment and vice versa
 - Housed in MoF (developed by a separate team outside of MoF) and is based on existing model that is used to simulate the DK economy
 - Two major extensions: 1) Accounting for natural resource use and emissions of pollutants; and 2) A more detailed (disaggregated) modelling of key sectors that are important for environmental and climate policy in the Danish economy (Sand Kirk et al., 2024, p. 6)



Denmark – building climate super-model

- Powerful analytical tool vis-à-vis other Min and agencies
 - ‘An unresolved need for appropriate analytical tools that would facilitate the systematic integration of climate and environmental considerations into the design of economic policy’ (Sand Kirk et al., 2024, p. 4)
 - Civil servants: while measuring various policy interactions, the model provides ‘a formal definition’ (what policy can be regarded as green in terms of reduced emissions)
 - Policy integration: ‘provide the public sector and other stakeholders with such an integration device’
- Strong emphasis on assessment tools
 - DK leading on this work stream within the Coalition and provides capacity building on mainstreaming climate (Helsinki Principle 4)



Denmark – building climate super-model

- The model does not incorporate financial sector, nor qualitative factors and cannot account for non-linear evolution of highly complex socio-ecological systems (Schinko et al., 2017)
- Eg GreenREFORM assumes technology costs trajectories as exogenous since Denmark is a small open economy → cannot simulate the evolution of green energy sector in DK
- Relies on high-quality data: needed for sub-models and for baseline scenarios (sectoral experts, public agencies)



Denmark – building climate super-model

- The actual use of the model goes beyond ‘policy integration and assessment’
 - Civil servants: the MoF increasingly uses own analytical framework(s) when negotiating/coordinating with other ministries over climate-related issues
 - GreenREFORM model is being used by various stakeholders to ‘assess the importance of credible announcement of climate policy’
 - A simpler version of the model had been developed through the EC-sponsored Technical Support Instrument (TSI) program for institutions in four EU countries → a blueprint for other countries to build customized models
 - International recognition: OECD and EU green budgeting



Preliminary analysis (incl. interviews)

- Finance Ministries raised in importance vis-à-vis climate action
 - Decarbonisation becoming high on political agenda → MoF increasingly involved (all interviewees noted positively)
 - At the same time, this elevates the structural power of MoF towards other ministries and agencies
 - Policy/ideational framework of cost-effectiveness is strong and being reinforced in view of 'fiscal rules' (EU)
 - Analytical capabilities → climate as part of econ modelling vis-à-vis analysis conducted by other Min/agencies
 - Planning capabilities → potential alignment with medium- and long-term fiscal targets
 - Political (intra-gov) → responsibility for reporting on climate action in the annual fiscal budget (within existing climate policy framework)

Preliminary analysis (cont'd)

- Individual MoFs actively promote policy instruments through transnational forums and coalitions
 - Certain economic ideas (economic instruments to tackle climate change) are operationalized and then promoted at the transnational level
- The boundaries of climate and environmental policies have been expanding to include macroeconomic policy considerations, such as sustainability of public finance, fiscal policy frameworks, cost-efficiency, and public budget deficit targets.
- The boundaries of macroeconomic policies have also been expanding towards incorporating climate considerations. However, the structural position of Environmental/Climate Ministries tends to be substantially weaker than that of Finance Ministries.

To conclude...

- Individual states through MoFs directly feed into how certain economic ideas (economic instruments to tackle climate change) are operationalized and then promoted at the transnational level
- Transnational forums and coalitions where lines between finance-led and more transformational narratives/frameworks are very blurry → Finance Ministries
- Economic instruments are subject to the national political and administrative contests, which are not considered in policy advocacy
- Finance Ministries' dilemma: market failure vs expenditure → cost-effectiveness
- Principles of cost-effectiveness are/can be contested → can be re-politicized and subject to reform

- Policy implications
 - Decarbonisation requires a 'balance of powers': MoF, CB and investment banks (Monnet, 2024)
 - MoF: beyond carbon taxes → aligning fiscal policy frameworks with climate investments: long-term view without re-writing fiscal policy principles
 - Credit policy on the national level is missing (strong on local level in Scandinavian countries – Kommuninvest)
 - Financial Stability Council (SE): intra-gov coordination between fiscal, monetary (and credit policies)

Thank you!