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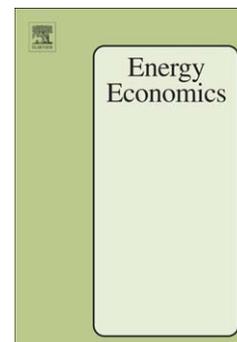
Energy Subsidies and Policy Commitment in Political Equilibrium

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# Energy Subsidies and Policy Commitment in Political Equilibrium<sup>☆</sup>

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## Abstract

Because non-renewable energy subsidies affect incentives for investing in energy-saving technologies, they entail a classic investment hold-up problem: once investment has taken place, policymakers will tend to overuse them for distributional reasons, which will in turn depress investment by forward-looking agents. Reforming energy subsidies thus requires overcoming a policy commitment problem. In this paper we show that, even when commitment is feasible, it may fail to materialize in a political equilibrium due to politicians' re-election incentives. In particular, it will be those politicians who are comparatively less favorable to energy subsidies who may fail to commit to phase them out.

*Keywords:* Policy Commitment, Energy Subsidies

*JEL:* H1, D7, D9

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