

The political economy of rent-seeking: Evidence from Spain's support policies for renewable energy

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Abstract

This paper provides a theoretical framework to explore how the support policies for renewable energies can promote rent-seeking incentives in private firms. We develop a political economy of rent-seeking that considers the link between the regulatory decisions of political agents and the potential scope of socially wasteful pursuits. We argue that systematic public support schemes bring rent-seeking as a perception shared by entrepreneurs that influencing political allocations of resources is an essential and potentially preferable source of private profit than other for-profit economic avenues. As evidence of our claims, the framework is applied to the case of Spain to illustrate the economic effects of support policies on the production and distribution of renewable energy. We find rent-seeking behavior in Spain's renewable energy industry, and precisely that: (i) political regulations have induced market concentration and rent-seeking in renewable energy firms, (ii) these firms have required increasing regulations and premiums to survive, and (iii) energy consumers are forced to pay rent-seeking through increasingly expensive electricity bills. The analysis reveals some challenges and opportunities to drive efficient market-based policies to strengthen entrepreneurial competition and curb rent-seeking behavior. These insights have relevant proposals for the Spanish energy industry in complying with the EU Green Deal through a sustainable transition and comprehensive growth. © 2021 by the authors. Licensee MDPI, Basel, Switzerland.

Author keywords

Economic growth; Energy reliability; EU Green Deal; Political economy; Rent-seeking