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Decommodify electricity

To achieve the green transition, actors in the private and public sectors must face the simple reality — its not all about profits

The international community has long recognised the urgent need to reduce dependence on fossil fuels and shift to renewable energy, and in recent years many governments have pledged to reach net-zero greenhouse-gas emissions, albeit over extremely long timeframes. But they will never get there so long as they treat electricity, which is central to the clean-energy transition, like any other market good.

The green transition is driven by several factors, such as energy intensity, investment flows, consumption patterns, and distribution systems. But its success hinges on humanity's ability to move away from 'dirty' fossil fuels toward clean, renewable energy sources, particularly solar and wind. And that requires a profound transformation in how electricity is generated, distributed, and consumed.

The failure to confront truths

Economists and policymakers have long framed the energy transition as a question of relative prices. In recent decades, wind and solar costs have plummeted, driven by technological advances – especially in China, where government interventions have helped scale up green industries and drive down the so-called levelized cost of energy (LCOE). According to this widely used metric for comparing power sources, renewables have consistently outperformed fossil fuels, even before external shocks like the Ukraine war sent oil and gas prices soaring.

In theory, these developments should have expedited the global transition away from fossil fuels. In practice, however, renewable-energy sources merely supplement the total power supply. Meanwhile, both developed and developing countries continue to increase fossil-fuel production and invest heavily in exploring new reserves.

The discrepancy cannot be fully explained by market forces or relative

prices. Over the years, many have blamed political leaders for the lack of climate progress, especially after climate-change denialists rose to power in countries like the United States and Argentina. But this explanation, too, is incomplete.

The nature of electricity makes it ill-suited to being 'governed by the market,' inevitably leading to suboptimal outcomes in the absence of massive government intervention.

As economic geographer Brett Christophers argues in his book *The Price is Wrong: Why Capitalism Won't Save the Planet*, the real problem lies in the failure to confront two fundamental truths about the limitations of open markets. First, the driving force behind private-sector investment and production is not output prices but relative profitability. Second, the nature of electricity makes it ill-suited to being 'governed by the market,' inevitably leading to suboptimal outcomes in the absence of massive government intervention.

Electricity, Christophers notes, aligns with economic historian Karl Polanyi's definition of 'fictitious commodities.' In his seminal work *The Great Transformation*, Polanyi argued that land, labour and money were not intended to function within market systems. Unlike conventional goods explicitly produced for trade, the commercialisation of fictitious commodities leads to inefficient and unstable market transactions and inevitably results in economic and social distortions.

To operate, these markets rely on extensive public intervention in the form of laws, regulations, social norms and subsidies – both explicit and implicit. Such interventions create the illusion of a functioning market, even though prices and profits are ultimately shaped by public and social mechanisms.

A self-cannibalising cycle

For much of its existence, Christophers notes, electricity was treated as essential public infrastructure, with its production and distribution operating outside the market. In recent decades, the pursuit of profits has fuelled a global push to unbundle and commercialise generation, distribution and consumption. But, despite the façade of competitive markets, the sector still depends heavily on various forms of state intervention.

Electricity's unique characteristics pose significant challenges for the clean-energy transition. Wind and solar power are inherently intermittent, resulting in fluctuating output and price volatility.

Compounding the problem, public subsidies for 'green' investments can lead to overcapacity during periods of low demand, while their withdrawal often causes investors to exit the sector. Moreover, although renewable energy has become cheaper than fossil fuels, the profits it generates are low and unreliable. Christophers vividly describes this self-cannibalising dynamic, highlighting how it has played out across different economies, from the US and Norway to India.

Instability undermines the 'bankability' of green projects, making it harder to secure financing for renewable energy. It should be no surprise, then, that the much-hyped Glasgow Alliance for Net Zero, launched in April 2021 at COP26 and championed by former Bank of England Governor and UN Special Envoy on Climate Action and Finance Mark Carney, has already begun to falter after the six largest US banks withdrew from it in quick succession. This was before Donald Trump's return to the White House further disincentivised such investment by issuing an Executive Order that effectively terminates efforts to achieve a Green New Deal in the US.

Before the rise of neoliberalism, governments played a pivotal role in building and managing critical infrastructure, including energy systems.

But the solution is not to subsidise green capitalism by derisking investments, although such measures are unavoidable if renewable energy is to remain viable. Instead, the key is recognising that electricity is not a commodity. Consequently, we must restructure all aspects of energy production and distribution, encompassing renewables and fossil fuels alike.

Most importantly, achieving true decarbonisation requires governments to adopt a more proactive approach. Instead of acting as behind-the-scenes market facilitators, policymakers must take direct responsibility for producing and distributing renewable energy.

Such an approach is far from radical. Before the rise of neoliberalism, governments played a pivotal role in building and managing critical infrastructure, including energy systems. To facilitate the green transition, they must reclaim that responsibility. The expected private-sector profits from renewable-energy generation are simply not sufficient to drive the necessary transformation, despite the urgent global demand. Until policymakers come to terms with this reality, their efforts to accelerate the shift to renewables will continue to fall short.

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