DECARBONISING THE ECONOMY
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BLANCHARD-TIROLE REPORT (2021)

Chapter on climate challenge

The obvious:

- Absolute urgency. Much delay in decarbonization and green R&D
- Some good news however
  - Progress in some technologies [solar/wind, LED, electric vehicles, alternative proteins...]
  - Urgency widely perceived by citizens.
But a problem with citizens’ perceptions

- Correct: losers and winners. Carbon tax is regressive (but so are most green policies)
- Incorrect
  - visible policies (carbon tax) more unpopular than
  - invisible policies (cap & trade, feed-in tariffs and subsidies for renewables or insulation, standards & bans), some of them much more expensive per ton of CO2 avoided than the carbon tax
- Myth of green growth/green jobs/happy energy transition.
The report’s (holistic) recommendation on the climate challenge

1) A carbon price. Absolutely necessary. 3 reasons:
   - To create the right incentives and not to spend more than necessary
   - To encourage R&D (monetization of green innovations)
   - To simplify the decisions of
     - the State (only information required = measurement of emissions)
     - economic actors (billions of decisions to be made, by households, companies, governments & communities).
More in detail:

- *No exemptions* (inefficient, unfair, likely to create lobbying) and an end to fossil fuel subsidies
- *Carbon Border Adjustment Mechanism* (essential, but not obvious to do: on product rather than on pollution itself; independent verification body?)
- *Allowances* (extension of the ETS system) rather than carbon tax
  - with price floor and ceiling (or Carbon Central Bank or puts); flexibility versus predictability
  - at the European level
- *Explicit redistribution*, in part, to losers (complex as well); applies also to green deal.
2) Research and development subsidies

Need for significant technological progress to meet promises (e.g., storage technologies)

- Why? High probability that the carbon price be too low (politics)
- Even if it is not: Other externalities (R&D...)

a. An EU ARPA-E for disruptive innovations

- with appropriate governance (criteria: science-based and independent authority, real manager, sow where the soil is fertile, evaluate and stop what doesn't work, set objectives and not strategies to get there, associate private sector when feasible, etc)

- comparisons with other French and EU institutions

b. Do not put all your eggs in one basket.
3) Standards and mandates

- Why? Complement price mechanism
  - carbon price too low for political reasons
  - imperfect information of households, collective decision problems
  - measurability of emissions

- But important to estimate the implicit cost (in terms of € per ton of CO2 avoided). Creation of an independent agency (or extension of the mission of an existing agency)
4) Electricity

Consumption will increase significantly with decarbonization ⇒ need to build:

- Generation
- Grid

Discussion around nuclear power

- Existing: absolutely necessary
- New generations?
5) International

Europe: a small fraction of global GHG emissions. Yet
- Role model
- Border tax adjustment
- Green IP can be transferred to LDCs
- Design of international agreements

Climate club or G7?
False good ideas

a. *Inclusion of environmental criteria in public procurement*
   Mandatory in France, raises two issues
   - ability to measure emissions
   - free riding, cronyism, pandering, wide implicit price diversity...

b. *Green central bank* (except stress testing)
   - ability to measure emissions
   - independance

In no way can these substitute for carbon pricing!

The State must be a strategist who assumes its responsibilities
CONCLUDING REMARKS

- Climate is a time bomb, like other topics covered by report (inequality, aging), or not (education, public finances...)
- Understand perceptions and adopt a holistic approach to reconcile impact ("bang for the buck") and acceptability.