Session Report

4405 - On the macroeconomic opportunity of climate policy

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1. What are the session key findings? What are the new Lesson(s) learned / Scientific progress (since AR5 release, if relevant)?

The session's key finding is that climate policy can provide macroeconomic opportunities, that is, climate policies can be designed in a way to improve a country's economic conditions even beyond the direct benefit they provide via a reduction of climate change damages. Various mechanisms through which this can work were highlighted in the session's presentations: a carbon price, adaptation, investment-oriented climate policies, micro-finance instruments, and linking climate policies with other policy goals such as social security. This is in contrast to the view prevailing in the debate, and also in AR5, that climate policy causes a reduction in consumption and growth.

2. What are the major knowledge Gaps and Research Needs identified in the session?

Research needs were identified in the field of economic modelling for climate policy assessment: while the works presented showed mechanisms through which climate policy can create macroeconomic benefits, many commonly used models cannot or do not represent these mechanisms, and hence the economic opportunities provided by smart climate policies are beyond their horizon.
3. Did the session discuss/identify promising approaches in the fields of Adaptation and Mitigation, or both?

Both mitigation and adaptation have a role to play in creating a macroeconomic opportunity of climate policy. For mitigation, a shift to a "green" economic system requires substantial investments that are also needed from an economic point of view for creating jobs and growth, in particular after the financial crisis. Also, carbon taxes can be more efficient in raising public revenues than other forms of taxation. Being partly paid by the “scarcity rent” enjoyed by the owners of fossil resources, these taxes result less distortionary than taxes on domestic factors of production like capital or labour. Adaptation expenditure has to be financed through earmarked taxes or deficit spending. This last option is troublesome for those countries that experienced growing levels of deficit and debt in the last decades and feature public budgets under stress. However, successful adaptation avoids future post damage recovery expenditure and – by decreasing future GDP losses – also reduces tax revenue losses, which are typically linked to GDP. Via these two mechanisms, investing in adaptation can be financially sustainable in a medium term perspective, even if financed by issuing public debt.

4. Are there take-home messages from the session?

Viewing climate policy as as a trade-off among generations, where costs have to be incurred now while the benefit of avoided climate change will accrue in the future, little room seems to be left for international environmental agreements supporting substantial emission reductions or adaptation efforts. Instead, climate policy has to be considered as a macroeconomic issue in order to identify opportunities it presents.

5. Are there Important Quotes from the session?

6. Please include any other remark that you might have.