

Economics and Climate Change

“Missing Links” or “Missed Lessons”?

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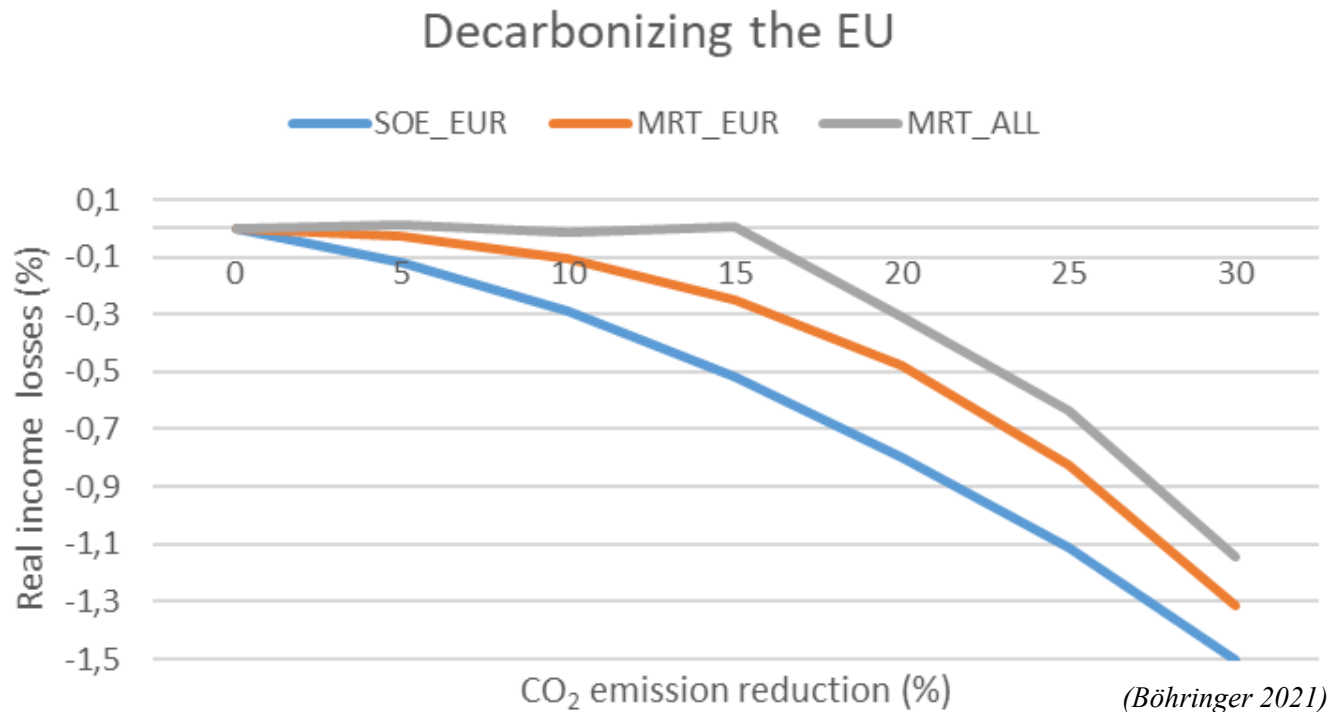
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TOWARDS A CLIMATE NEUTRAL ECONOMY- WHAT ROLE FOR ECONOMIC POLICIES?

ECFIN webinar, March 25, 2021

Lesson 1:

Missing out on international spillover effects may lead to substantial mis-assessments.



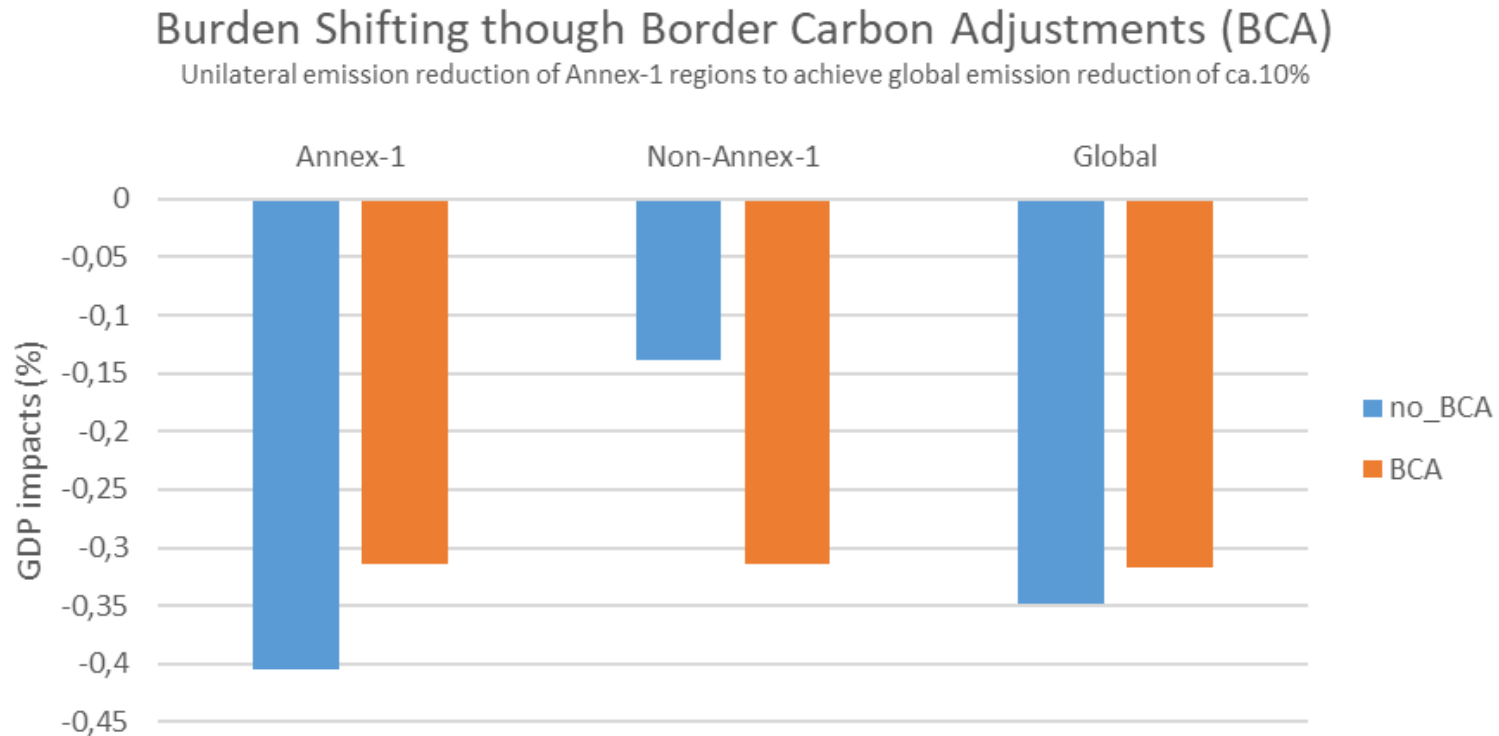
SOE_EUR: Europe acting alone with fixed terms of trade

MRT_EUR: Europe acting alone with endogenous terms of trade

MRT_ALL: All countries acting with endogenous terms of trade

Lesson 2:

2nd best proposals on unilateral emission pricing may fire back.



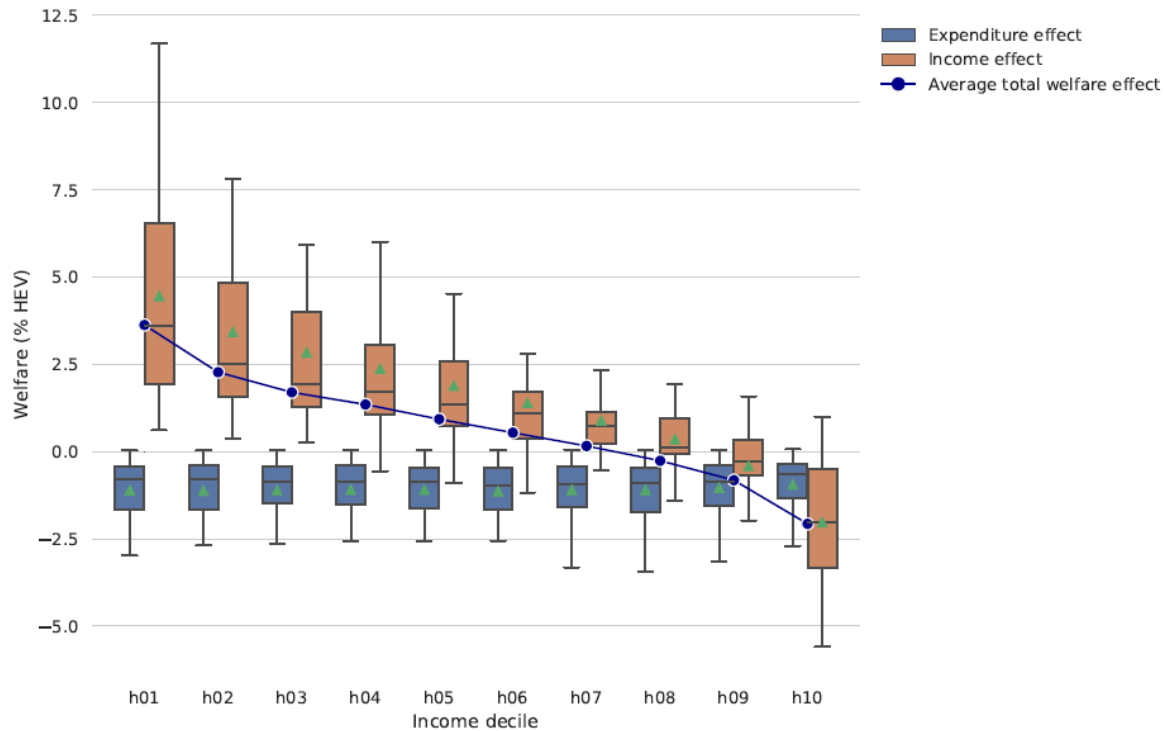
(Böhringer et al. 2012)

- Carbon tariffs are mainly redistributive.
- Are they credible sanctions? Maybe not – retaliation and the threat of a trade war.
- Alternatives to BCA: rebates (+consumption taxes)

Lesson 3:

Greener and fairer – redistribution matters.

Figure 10: Summary on decomposition of households' total welfare into expenditure and income effects across models and regions



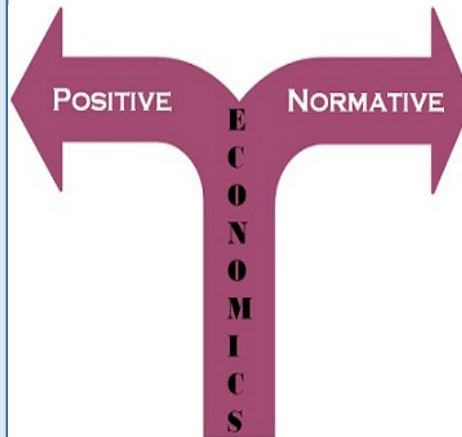
Note.—Box-Whisker plot shows the median (line), mean (green triangle), the first and third quartile (box), and Whiskers showing the last datapoints within 1.5 times the interquartile range (IQR). Outliers omitted. Graph incorporates values from the models BC3 (Spain), UOL (Germany), SNoW (Norway), JRC-GEM-E3-ECOMOD-ITT (11 European countries), and CEPE (21 European countries).

What role for economic analysis?

Positive economic analysis can provide a useful basis for normative policy conclusions.

Positive and Normative Analysis

A positive statement is a statement about what is and that contains no indication of approval or disapproval.



A normative statement involves value judgments about whether a situation is desirable or undesirable, “what ought to be.”