

THE CLIMATE PACKAGE : **A way out of the crisis?**

Remarks by Dr Alex Bowen

Confrontations Europe Conference-Debate

Brussels, 23 June 2009

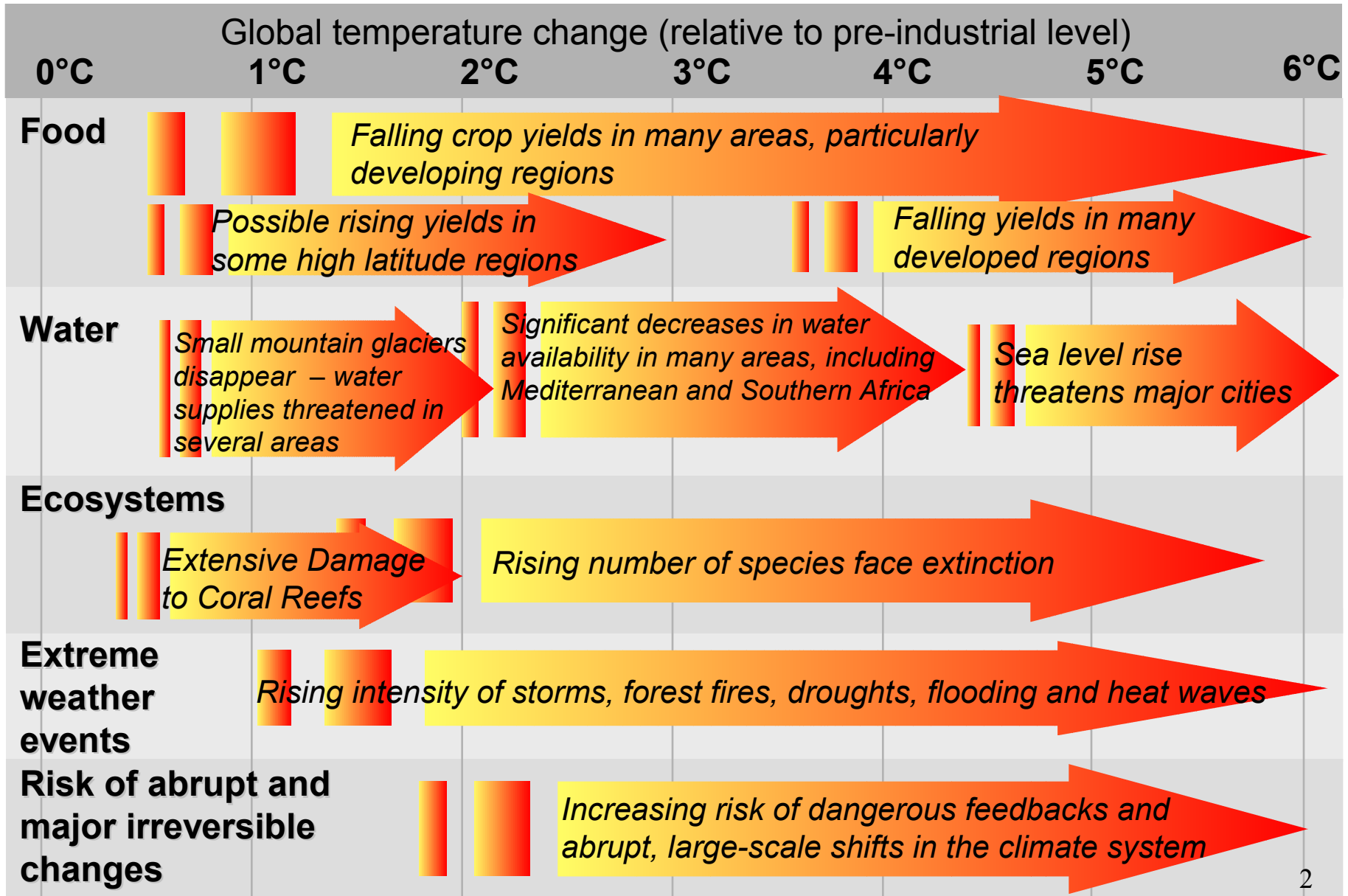


the London School of **Economics**
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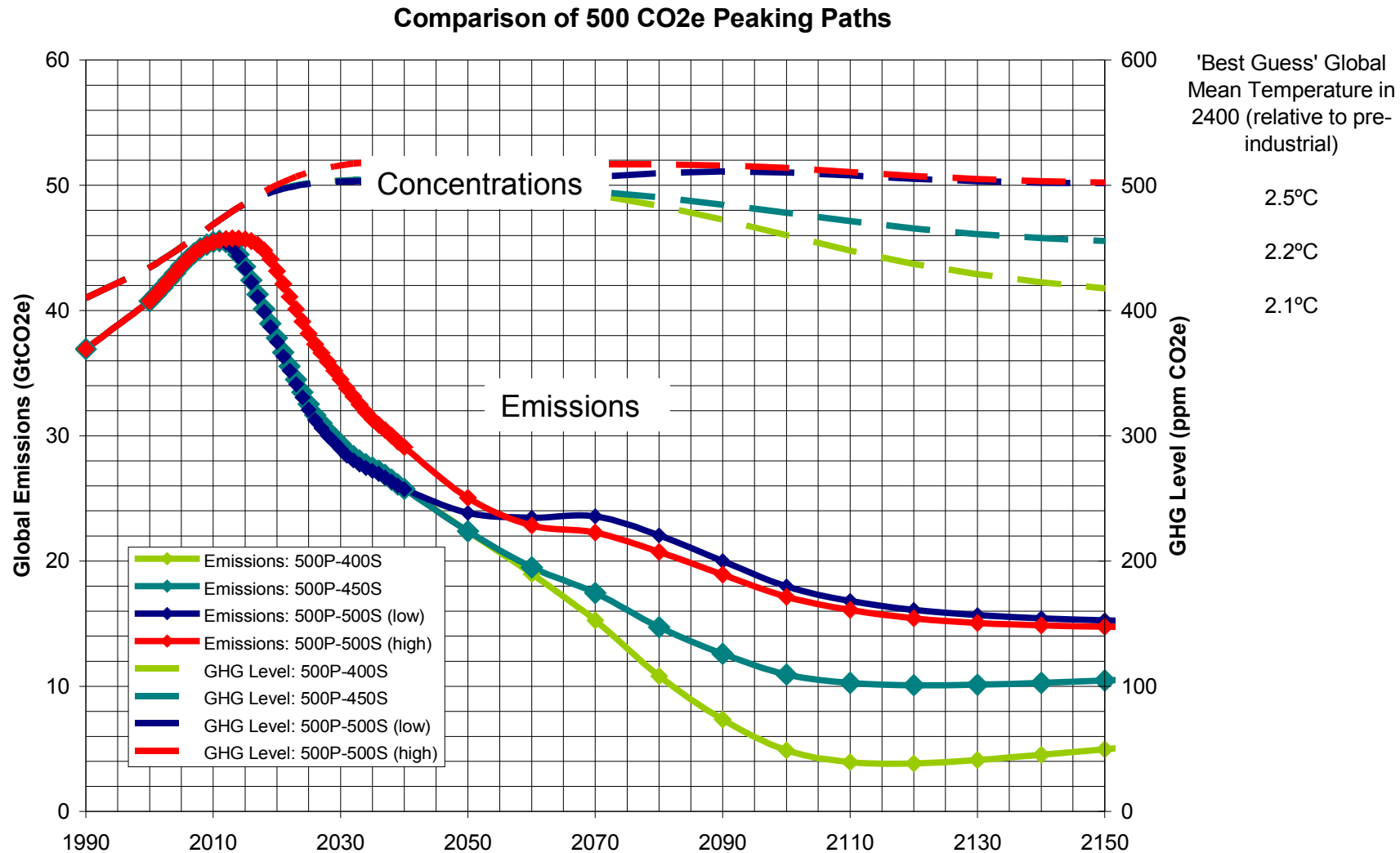


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Projected impacts of climate change



Some paths for GHG concentrations and annual emissions



Urgency of action

- Starting planning now with clear targets and good policies allows measured action and keeps costs down
- Delayed or slow decisions/actions and lack of clarity about objectives will increase costs
- Associated co-benefits (energy security, reduced pollution) and opportunities (innovations, new markets)
- Importance of good policy

IMF global growth projections for 2009 (real GDP, % p.a.)

Region/ country	April 2008	July* 2008	October 2008	November* 2008	January* 2009	April 2009
World	3.8	3.9	3.0	2.2	0.5	-1.3
Euro area	1.2	1.2	0.2	-0.5	-2.0	-4.2
US	0.6	0.8	0.1	-0.7	-1.6	-2.8
China	9.5	9.8	9.3	8.5	6.7	6.5

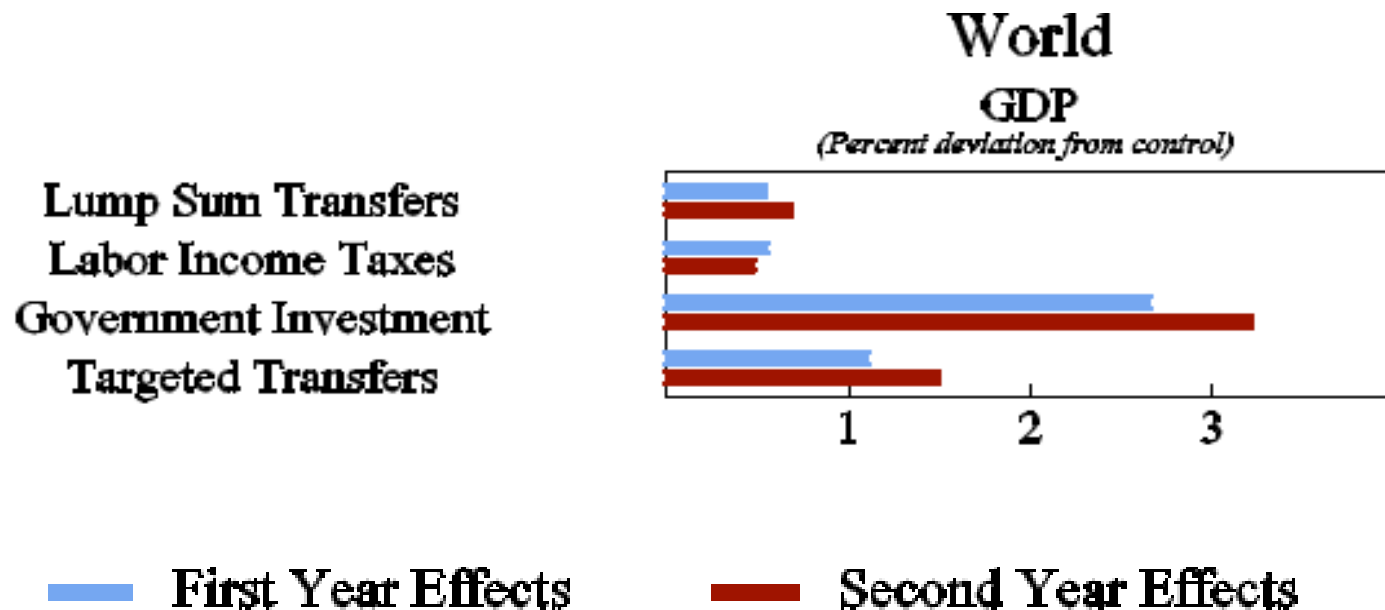
*WEO Update report
Source: IMF WEO

The return of activist fiscal policy

- Comparative advantage of monetary policy now less
 - *Interest rates near zero lower bound*
 - *Impact of 'quantitative easing' not fully understood*
- Fiscal policy more effective if
 - *Monetary policy stops interest rates rising in response*
 - *Action is taken internationally*
- Lots of credit-constrained private firms and households
 - *'Ricardian equivalence' does not hold*

Bigger 'bang for the buck' with government investment

Effects of Global Fiscal Stimulus With Monetary Accommodation



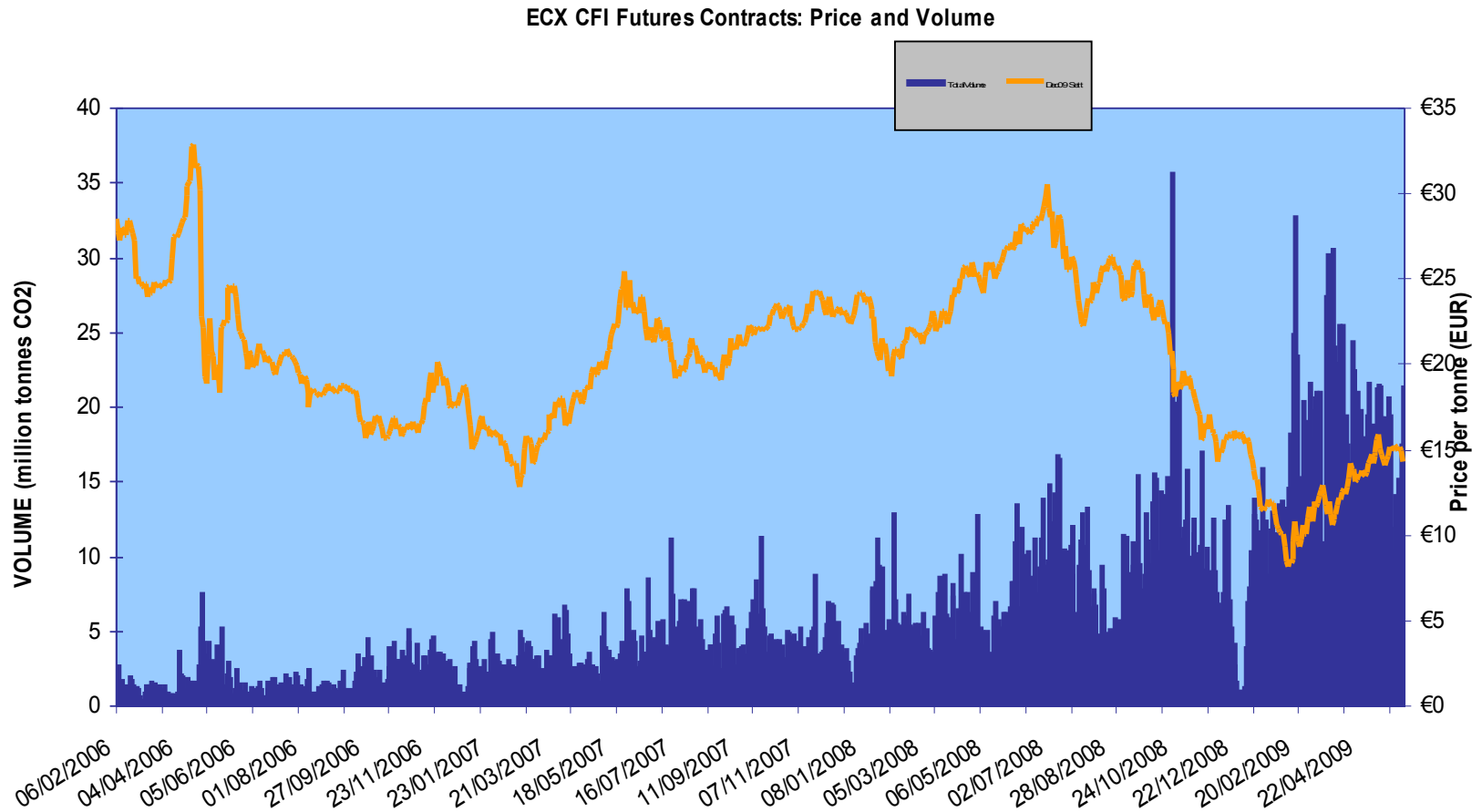
Criteria for assessing deficit-financed measures

- ***Effectiveness against recession***
 - Timely (rapid) impact
 - A large ‘fiscal multiplier’
 - Little crowding out of private sector spending: targeting sectors with slack
- ***Benefits in their own right***
 - High social returns in the longer term
 - What’s cheaper to do now than later?
- ***An ‘exit strategy’***

Policies for mitigation

- Establishing a rising *carbon price*
- Promoting a *shared understanding* of responsible behaviour
- Removing other obstacles by correcting other market failures
 - Promoting technological *innovation*
 - Providing *information and standards*
 - Establishing *networks*

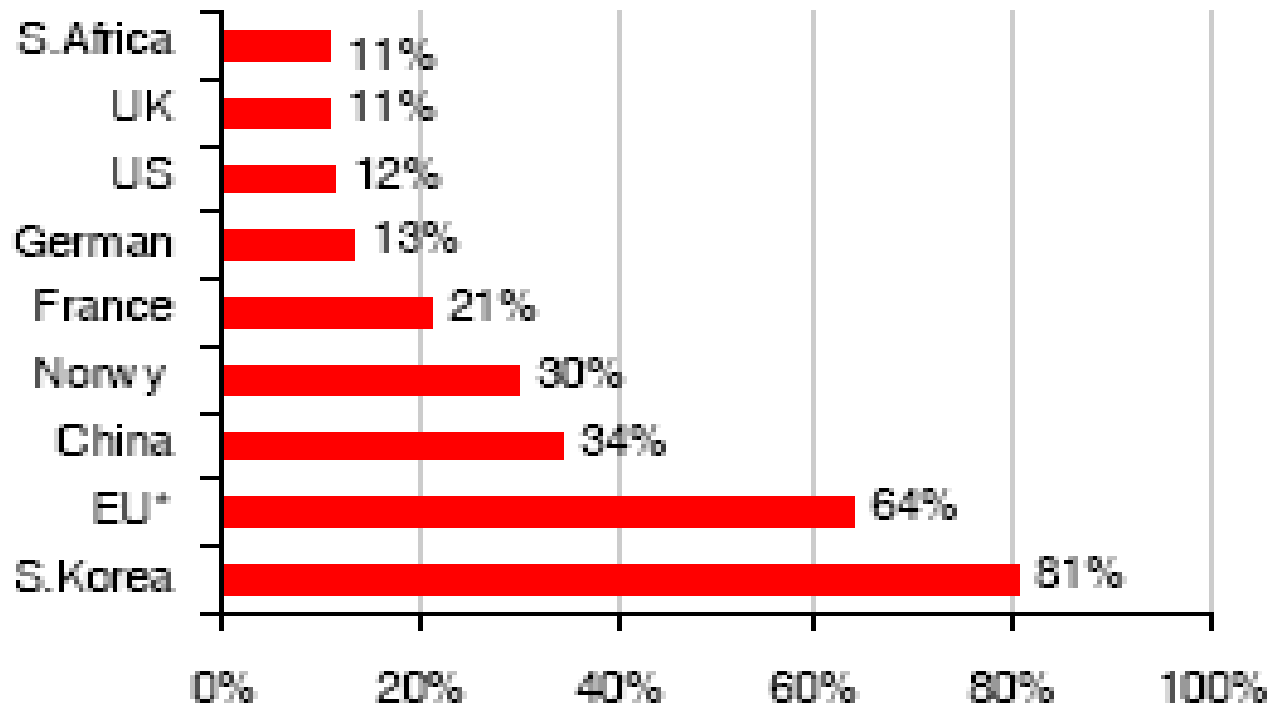
The carbon price in the EU ETS, 2006-09



Source: European Climate Exchange

.....a weak and volatile signal?

The share of green measures in fiscal stimulus packages

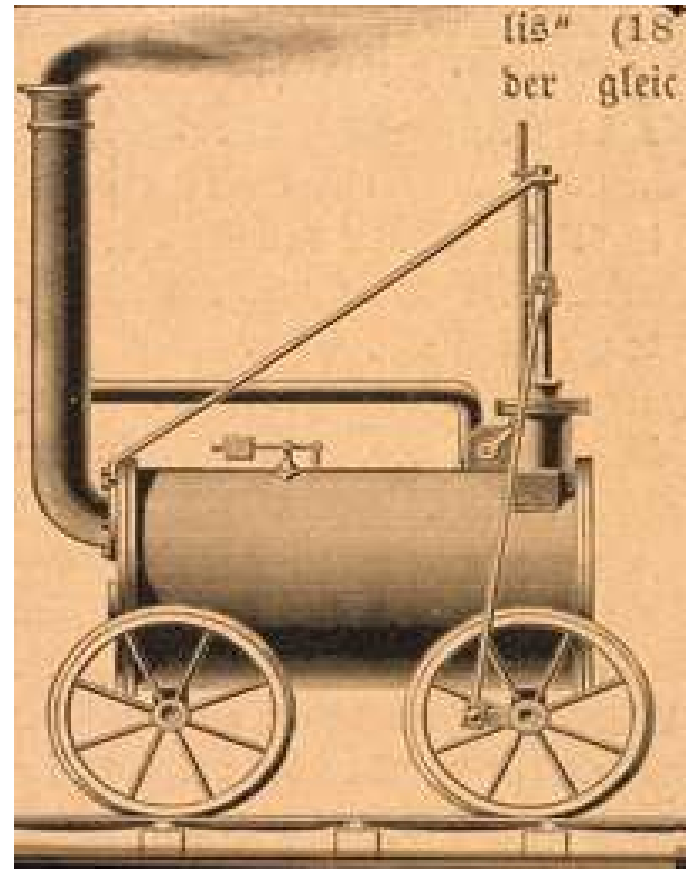


Source: HSBC: 'Building a green recovery', May 2009

The difficulty of predicting technological winners



versus



TURNING CRISIS INTO OPPORTUNITY: the case for a 'green' stimulus

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