

The global economic response to climate change: what's the plan?

April 23 2021, by Delphine Touitou



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World leaders participating in the virtual Earth Day summit are unanimous: fighting climate change will be good for economic growth

worldwide.

US President Joe Biden, Chinese President Xi Jinping and IMF Managing Director Kristalina Georgieva were among the officials who backed calls for higher carbon taxes and massive investments in [green energy](#) to curb rising temperatures and put the world on the path to prosperity.

Here is a rundown of the latest in the global effort to fight [climate change](#):

What's at stake?

Climate change is a major threat to global growth, with perils ranging from declines in crop yields, [extreme weather](#) that devastates tourist economies, disease outbreaks and other catastrophes that would sap productivity.

The effects could reduce global gross domestic product by as much as 18 percent by 2050 compared to estimates without [climate](#) change, according to a report published Thursday by Swiss Re, one of the world's largest providers of reinsurance.

China could lose 24 percent of GDP in the worst-case scenario, the largest impact, while Europe could lose 11 percent and the United States around 10 percent, according to the report.

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What needs to be paid for?

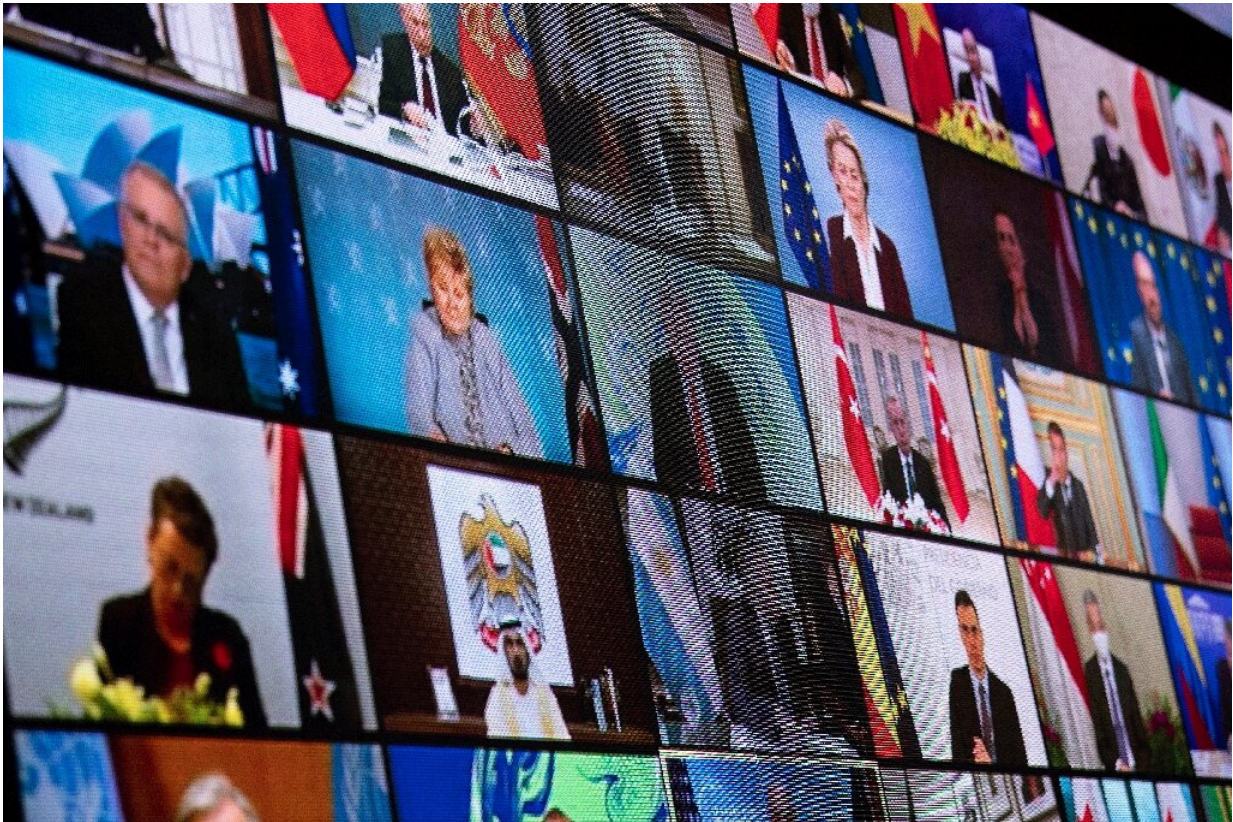
The World Bank has identified five priority areas for investment: early warning systems, climate resilient infrastructure, dryland agriculture, mangrove protection and water resilience.

The Washington-based development lender has estimated that investing \$1.8 trillion in these areas globally over the next nine years could generate \$7.1 trillion in returns.

The International Energy Agency in January urged "decisive action" by 2030.

It called for increasing electric cars' share of annual sales to more than 50 percent from three percent currently, raising low-carbon hydrogen production to 40 million metric tons from just 450,000, and increasing investment in clean electricity to \$1.6 trillion from \$380 billion.

Global leaders and multilateral institutions say these investments will generate millions of jobs, without giving precise figures.



World leaders who participated in a virtual global summit to address climate change are pictured on April 22, 2021

Why a carbon tax?

A carbon tax aimed at the biggest emission sources would be intended to change consumer behavior by encouraging them to use less energy, buy electric vehicles and more energy-efficient household products.

The IMF argues that such a tax is the only way to keep the planet's temperature within 1.5 degrees Celsius (2.7 Fahrenheit) above pre-industrial times.

"Over 60 pricing schemes have been implemented, but the average

global price is currently \$2 a ton, and needs to rise to \$75 a ton by 2030 to curb emissions in line with the goals of the Paris Agreement," IMF chief Georgieva said at the virtual summit Thursday.

She proposed a minimum carbon price for the largest emitters that would cover up to 80 percent of global emissions, but "with differentiated pricing for countries at different levels of economic development."

A carbon tax combined with increased investment in environment-friendly infrastructure could raise global GDP more than 0.7 percent a year over the next 15 years, Georgieva said.

What would be the impact?

The IMF calculates that a carbon tax of at least \$50 a ton in 2030 for G20 countries, and \$25 a ton for emerging economies, would double emissions reductions compared to current commitments.

The tax revenues collected would be substantial, ranging from 0.5 to 4.5 percent of national wealth depending on the country.

Those funds could be used to reduce taxes on income, or redistributed to the poorest households.

What about poor countries?

The IMF and the World Bank are considering the possibility of reducing the debt of poor countries in exchange for green investments. The objective is to make concrete proposals by the COP26 climate summit later this year.

How does the Green Climate Fund work?

Backed by the United Nations, the Green Climate Fund is intended to transfer funds from wealthy countries to poorer nations at risk of climate change in order to pay for projects to fight the effects of rising temperatures.

The United States wants to add an additional \$1.2 billion to the fund next year.

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