

World economy seen risking 1970s-style disruption in green shift

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The global transition to a carbon-neutral economy will cause economic disruption reminiscent of the energy crisis of the 1970s, according to a paper by the Peterson Institute for International Economics.

Even if efforts to drastically cut emissions are digestible in the long term, the immediate impact from the difficult adjustments needed may be similar in scope to the period of subdued growth and rampant inflation that stemmed from that oil-price shock, according to Jean Pisani-Ferry, an economist at the Washington-based think tank.

"Reasonable optimism about the long-run effects of the transition to a carbon-neutral economy is no reason to overlook transition costs," he said in the study published on Wednesday. "These costs, while bearable, are likely to be significant. Rather than pretending that they are trivial, [policy makers](#) should face reality and design transition strategies accordingly."

One reason for the scale of disruption is that governments procrastinated too long, making an abrupt transition necessary, Pisani-Ferry argues. The European Commission in Brussels this year released a flurry of legislation to retool the [economy](#) with the aim of cutting pollution by at least 55% from 1990 levels by 2030.

The economic consequence of such a transformation fundamentally amounts to "putting a price on a resource that used to be free," he wrote. While consumers will benefit from a preserved climate, welfare is likely to take a hit in the short run and [public finances](#) could suffer as governments try to mitigate the [negative consequences](#), according to the study.

"A better, more precise discussion on the macroeconomics of climate action is urgently needed," Pisani-Ferry said. "It is not by minimizing the challenges ahead that concerned analysts and policy experts will convince politicians and the public to step up decarbonization efforts, but rather by addressing them thoroughly."

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