



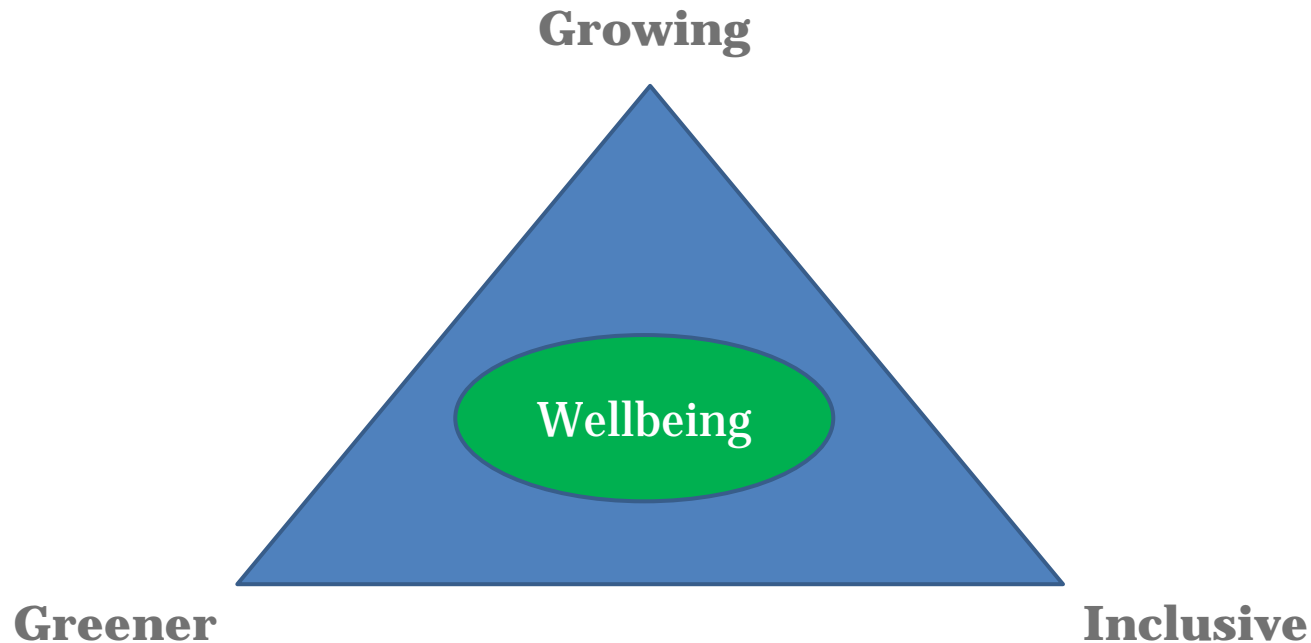
GROWING GREENER AND LESS UNEQUAL: WHAT'S NEEDED?

Giuseppe Nicoletti
Head of Structural Policy Analysis Division
Economics Department

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The magic triangle



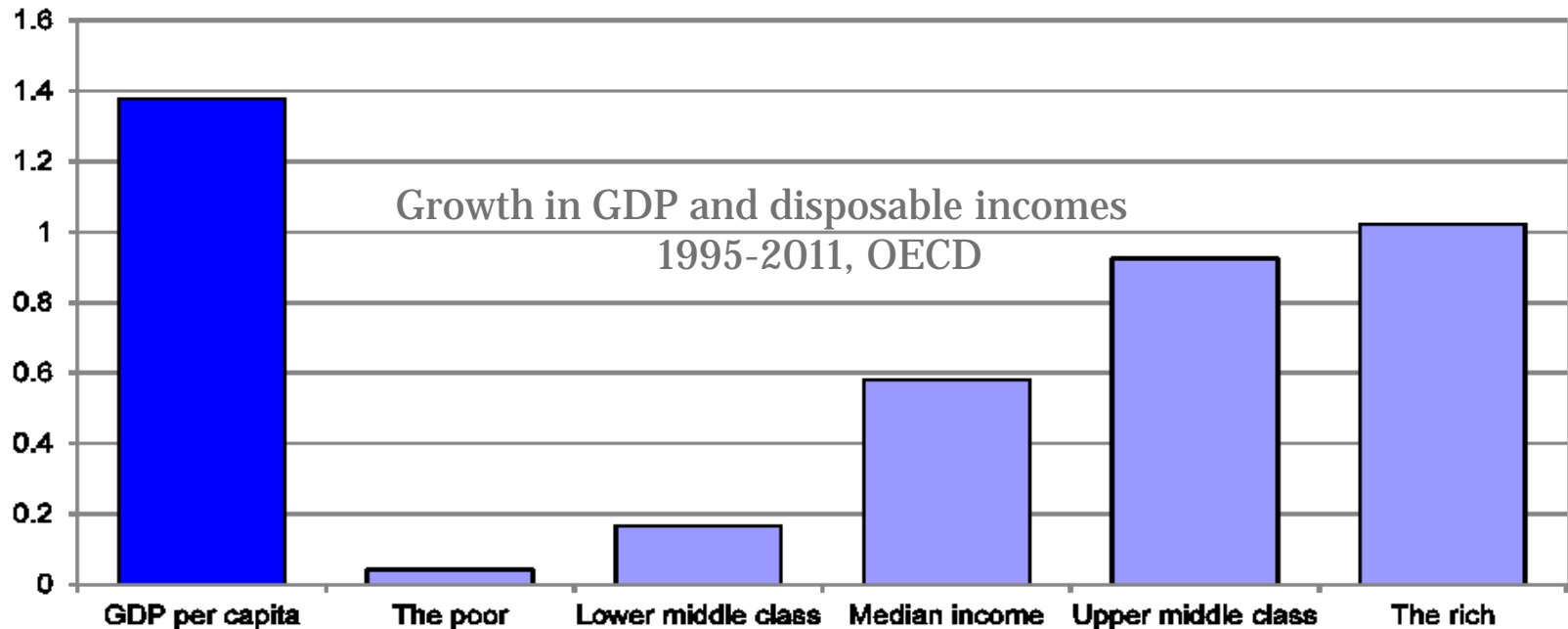
- We know something about the effects of growth on inequality and the environment
- We know a little about the effects of inequality and environment on growth
- We know very little on the effects of the environment on inequality

**Growth can increase inequality and worsen the environment
- but it doesn't have to...**



What is happening?

- Over past decades growth has not benefitted all in the same way

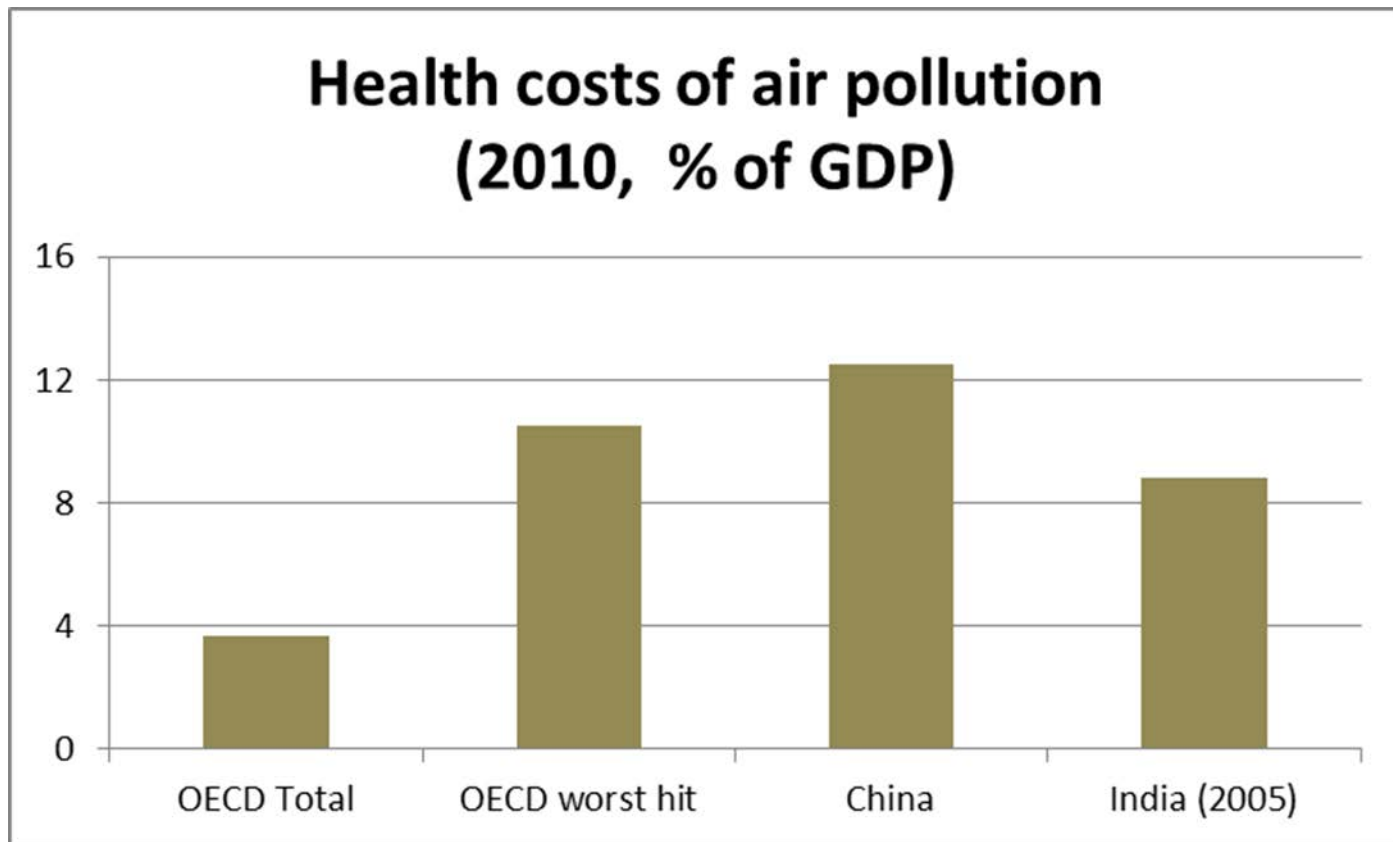


- Income inequality has often increased sharply
- and redistributive policies have become less effective in some countries



What is happening?

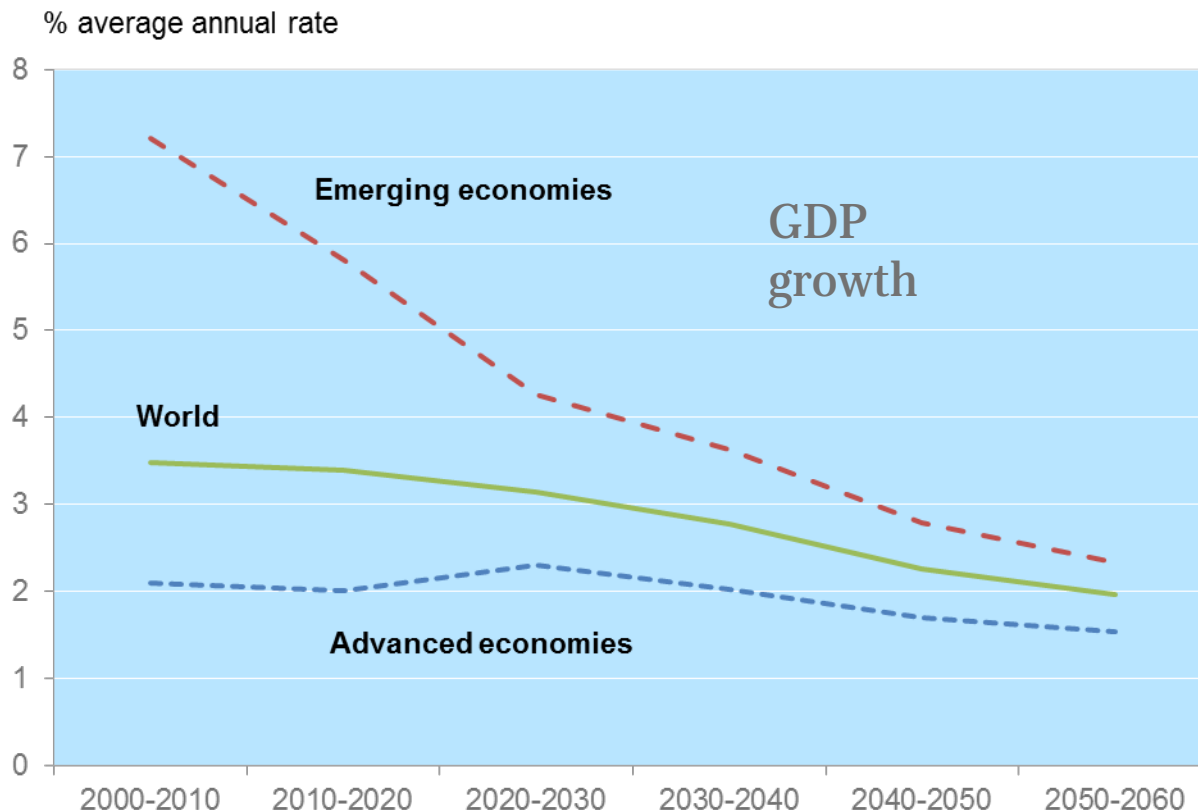
Environmental degradation has had sizeable impacts





What may happen?

- GDP growth is likely to slow
 - Even though global GDP will more than quadruple
 - And cross-country income differences will narrow

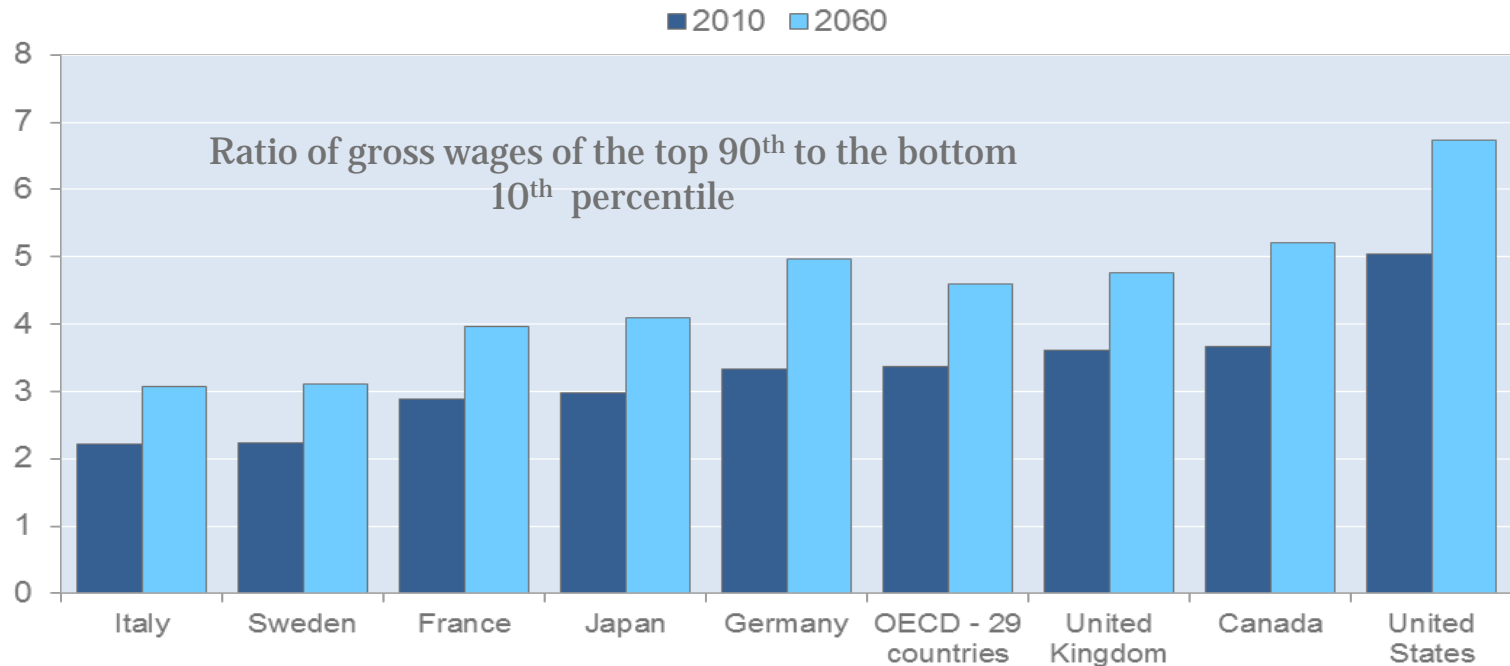




What may happen?

At unchanged policies, we can expect future growth to:

- Sharply increase inequality (due to skill-bias and perhaps persisting fall in labour shares)



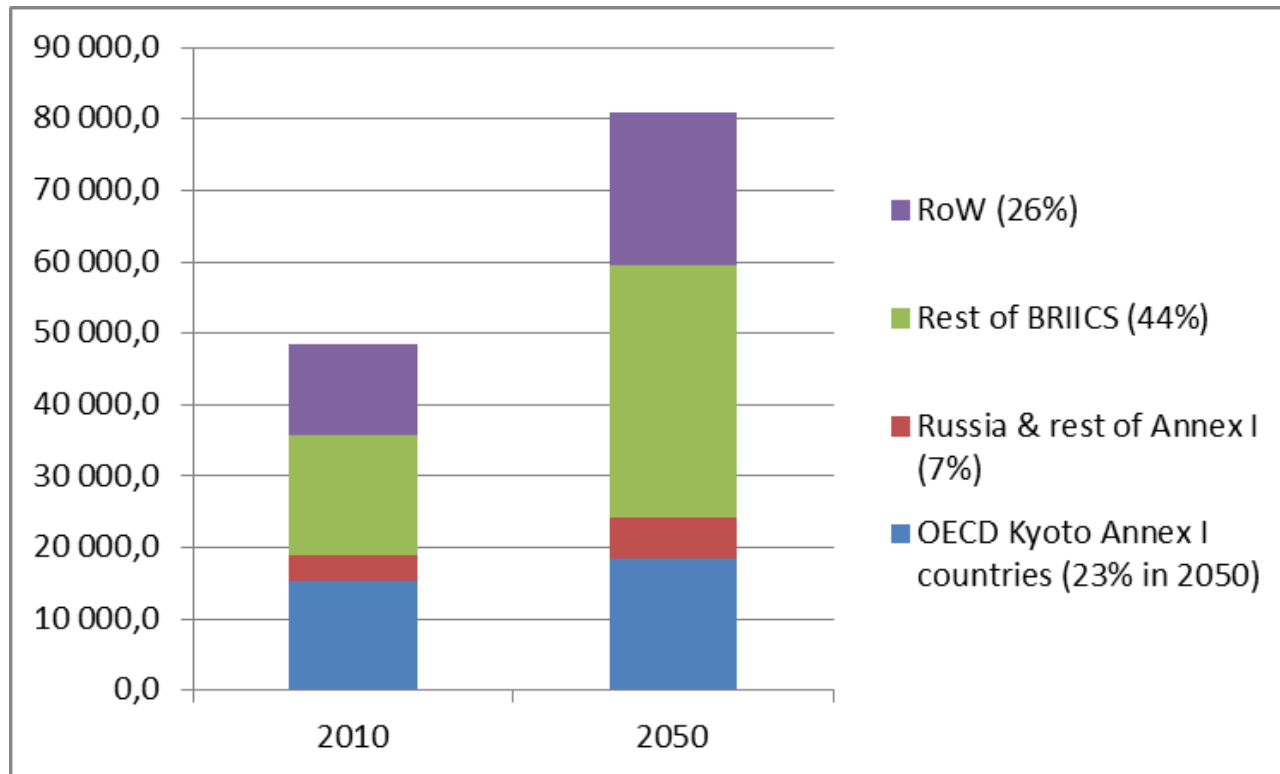


What may happen?

At unchanged policies, we can expect future growth to:

- Worsen the environment

**Projected GHG emissions by region,
baseline scenario (thousands of GtCO₂e)**

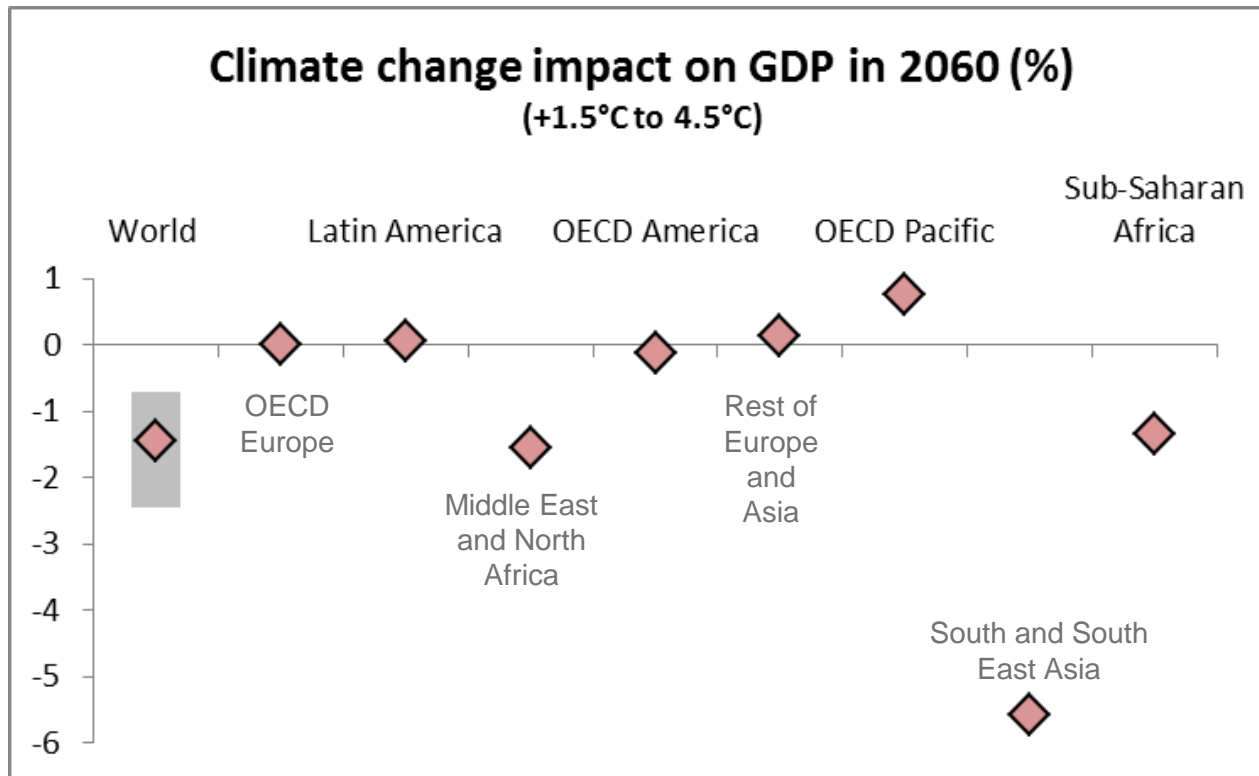




What feedback on growth?

If left unchecked, these developments may curb GDP:

- GDP damages from climate change can be sizeable
- Also, increased risks of large, systemic disruptions





What feedback on growth?

If left unchecked these developments may curb GDP:

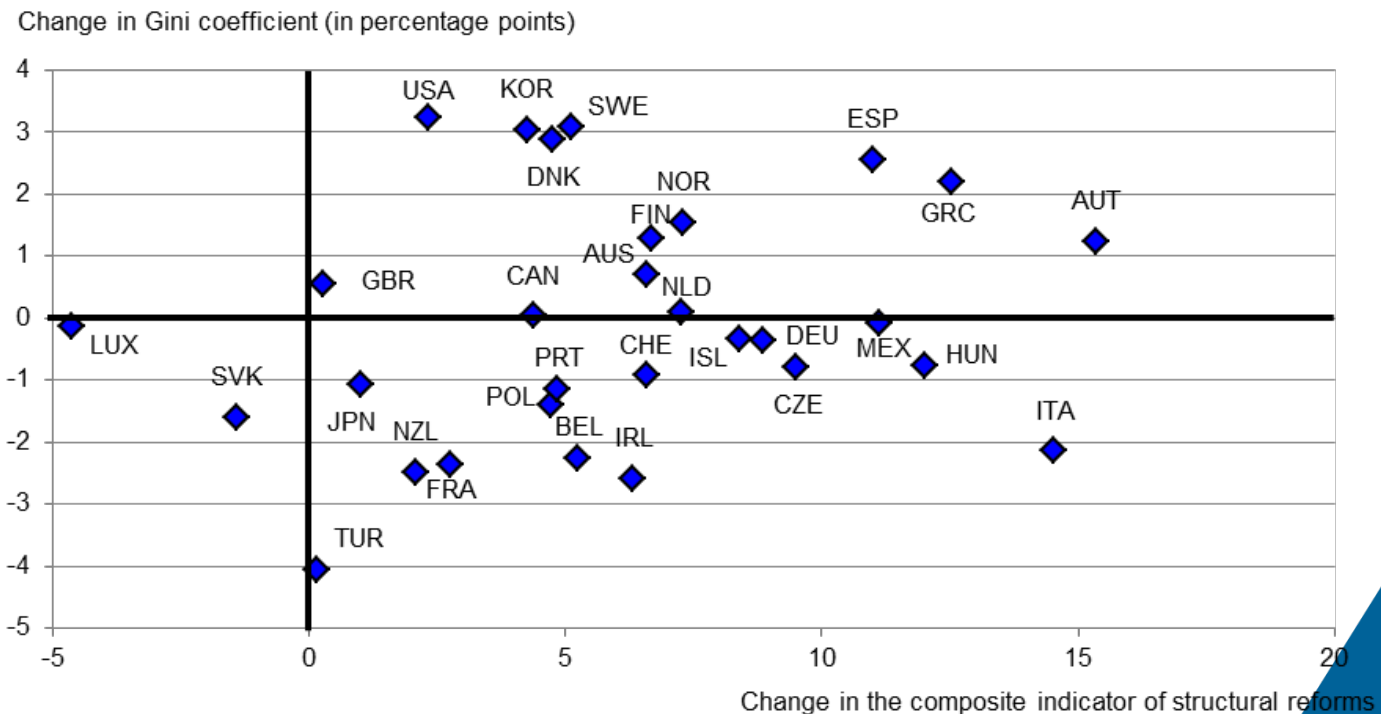
- Strong presumption (less evidence) that environmental degradation is comparatively more harmful for poorer households (Serret & Johnstone, 2006)
 - hence it could further increase inequality (in full incomes/wellbeing), though differential effects across households are difficult to estimate
- Excessive inequality has curbed growth in the past and may continue to do so in the future (ECO and ELS analysis)



The role of policies

- Growth-enhancing policies have not been found to increase inequality or worsen the environment (Going for Growth)
 - other than indirectly by strengthening growth!
 - but redistributive policies may have become less effective over time in some countries

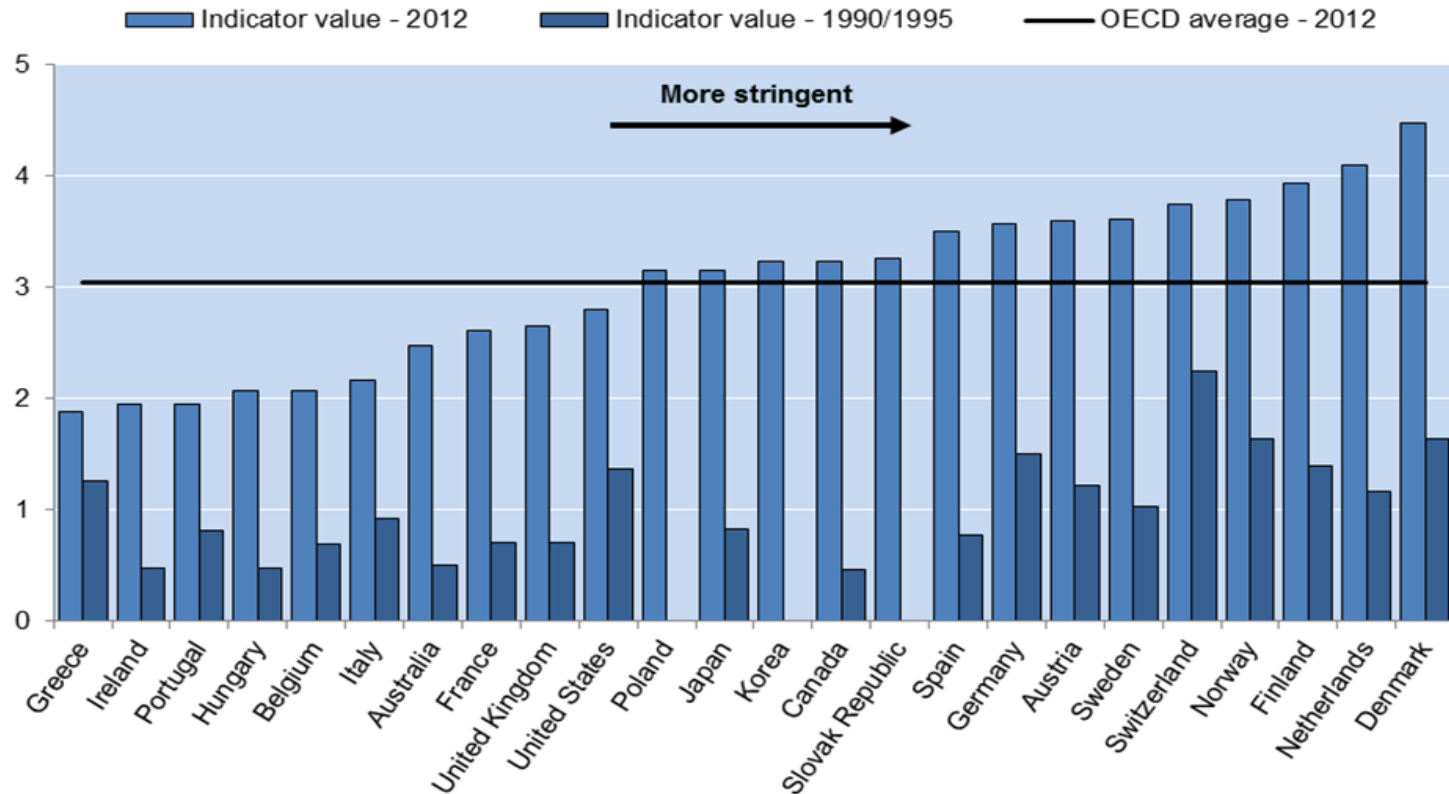
Structural reforms and inequality (2000-11)





The role of policies

Environmental policies have become more stringent





The role of policies

- But, given the headwinds, the challenges for growth-enhancing, redistributive and environmental policies will be huge
- Further stringency of environmental policies will gather consensus only if growth and distributive effects are shown to be:
 - benefitting growth and low incomes, or
 - income neutral or compensated



The role of policies

- One source of relief is that stringent environmental policies can go hand in hand with productivity growth (Albrizio et al. (2014))
 - if they are well designed, flexible and minimise barriers to entry and competition
- Evidence about distributive effects of environmentally enhancing/damaging policies is still scant, though some examples exist (e.g. fossil fuel subsidies)
 - IMF estimates that, in non-OECD countries, over 40% of subsidies goes to richest 20% while only 7% goes to poorest 20%
 - Preliminary CTPA/ENV results (OECD countries):
 - Taxes on transport fuels - not regressive,
 - Taxes on heating fuels - slightly regressive.
 - Taxes on electricity - clearly regressive.



The role of policies

- Big gap to fill in analysis, policy design and evaluation...
...as well as in communication
- No time to waste
- **This is why this forum is important!**