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## Opinion

# The Green Deal is mostly bad policy

The strategy of many governments to fight against climate change makes little economic sense. An efficient solution is to tax carbon.



[Charles Wyplosz](#)

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Farmers have demonstrated in many European countries, voicing opposition against the constraints imposed upon them to fight against climate change. Farmers pollute, quite heavily, which means that much is asked from them. However, what is asked and, especially how it is asked, makes little economic sense. In fact, it is the whole strategy to fight against climate change that makes little economic sense.

The farmers target the European Green Deal, which has been promoted by the Commission and approved by the EU mem-

ber countries. The Green Deal is built around objectives set over time to meet Net Zero by 2050. To each date is associated a long and detailed list of what must be done, mostly subsidies, regulations, obligations, and interdictions.

However, there is no indication of how these measures will make it possible to achieve the stated objectives. There is no evaluation of the costs of public subsidies and of the restrictions imposed on the private sector. In a surprising return of central planning thinking, the Green Deal is ambitious in its intentions, but falls short of generating practical actions. For instance, the farmers are asked to sharply cut their use of pesticides and fertilizers but not told how to make a living from their trade.

## **Do it right**

We all know that the efficient solution is to tax carbon, in one way or another, but this is unpopular. Most governments have learnt the wrong lesson from the French ‘gilets jaunes’. It looked like a carbon tax, but it was not. It taxed a narrow range of carbon emissions and it did not intend to compensate the specific segment of the population whose lives would be turned upside down.

The lesson is not to avoid the carbon tax, but to do it right. A carbon tax aims at all goods and services that emit greenhouse gas and it uses its revenues to protect the households and firms that cannot bear the associated burden and to provide alternatives to polluting goods and services, for example innovative public transport.

Most governments hate to impose new taxes or to cut existing spending, but they love subsidies. Subsidies please the recipients, and they give power to the governments and their bureaucrats. They create the illusion of effectiveness, espe-

cially as interest groups line up hat in hand to collect some of the bounty.

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**«The Green Deal is developing an ever-expending list of activities to be subsidized.»**

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The Green Deal is developing an ever-expending list of activities to be subsidized. Some aim at encouraging heavily polluting activities to pollute less, like financing home isolation or capturing carbon. Others finance R&D in clean production processes, like electric vehicles or hydrogen. The economic logic of paying polluters to pollute less rather than making polluters pay for pollution is fraught.

Worse, the Green Deal provides little detail about the financing of its poorly-evaluated costs. Running budget deficits for a good cause may be easy to sell to voters, and what is a better cause than fighting climate change? But debt must be serviced so, in the end, some spending will have to be cut, or taxes will have to be collected. Absent a carbon tax, other taxes will not target carbon emissions and therefore will not help as far as climate change is concerned.

### **All are becoming green**

We must be grateful to the farmers for having challenged the Green Deal. The ecological fad had become so powerful that the other producers did not dare go against the tide. Nowadays, every corporation is keen to present itself as becoming green, including oil producers and airlines. Financial firms and even some central banks have promised to only invest in

firms that have adopted Environmental, Social, and Governance (ESG) norms, allowing contrarians to achieve better earnings, without ‘starving the beast’ of brown production. At the latest COP in Doha, even oil producers conceded that, eventually, oil will not be pumped, which was hailed as a major progress, as if it will happen.

Quietly, however, the fad has started to recede and the Green Deal is being weakened. Under pressure from its powerful automobile lobby, the German government is retreating on the commitment to ban the sale of combustion engine vehicles by 2035. It previously had to give up on its decision to ban new oil and gas heating systems from 2024 in the face of rampant opposition.

In Norway, the heaven of electric vehicles, the government is pressing for new exploration of offshore oil and gas fields. In France, President Macron has successfully pressed the Commission to lighten the burden on farmers, while promising them fresh subsidies of 400 million euros. Switzerland will vote next year whether to repeal a previous referendum that mandated the closure of nuclear plants, a move that will be closed followed in Germany where second thoughts are emerging as well. The UK is widely backtracking on its previous green commitments.

## **In jeopardy**

More worrisome is the way this rebellion is playing in politics. Nearly everywhere, the hard right has sensed the emergence of doubts about the tide of interdictions and regulation. Elections and public opinion polls suggest that it is a winning strategy. The Dutch government fell following the surge of a new farmer party created to protest the mandatory halving of cattle herds, and the hard right is currently trying to put together a ruling coalition.

This trend seems poised to deeply affect the coming June elections to the European Parliament. If so, the Green Deal will be in jeopardy. In the US, Trump is running on a fierce opposition to green policies as he even claims that climate change is not happening.

It would be sad that the politicians fail to accept that the Green Deal is mostly bad policy, which could be politically easy. Indeed, the redeeming value of the Green Deal is that it has absorbed the Emission Trading System, a stealth version of the carbon tax, under construction since 2005. It imposes a tax on greenhouse gas emissions that exceed allocated quotas (rights to pollute) in selected industries. The quotas are traded among firms part of the system.

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**«Europe already has  
the proper instrument,  
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Initially, few industries were included, and the quotas were generous enough to result in a tax close to zero. Gradually, more industries have been subjected to the system and the amount of quotas have been reduced, so that the tax equivalent is now close to 100 euros per ton of CO<sub>2</sub> equivalent.

It would be relatively easy to bring all economic activities into the system and to gradually cut the quotas to achieve a tax that delivers zero carbon by 2050. No need for ever expanding regulations, no need for an explicit carbon tax, and the system could generate substantial revenues, which ought to be entirely spent on compensating those most affected. A

few decades later, with no more carbon emissions, the implicit tax income and the spending that it supports, will come to their natural end.

## The proper instrument

When the need of fighting climate change became pregnant, any government move was seen as helpful, with little discussion about the overall strategy and the details of the measures. Governments typically went the easy way, creating significant inefficiencies through subsidies to well-organized pressure groups and imposing administrative burdens on polluters. Diffuse opposition has started to grow, slowly transforming the political landscape.

The traditionally spectacular farmer demonstrations may be a turning point. Farmers must adapt, of course. A carbon tax stand to provide the right incentives, while the resulting hardship can be compensated with targeted support. Europe already has the proper instrument, the Emission Trading System.

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