Finance and Climate Change: Outdated Premises

• International finance is important

• Finance is to compensate countries for emissions reductions
  – Finance as North-South Flow

• Finance is about finance

• Private finance to substitute for public finance
# Addressing the Three Problems

<table>
<thead>
<tr>
<th>Narrative</th>
<th>Who has the greatest stake in mitigation/prevention?</th>
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<tbody>
<tr>
<td>Adding-Up</td>
<td>Technology, Technology, Technology</td>
</tr>
<tr>
<td>New World</td>
<td>Contributions calibrated to economic situation</td>
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</tbody>
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Where We Need to Get to? Technology, Technology, Technology

Global emissions/global GDP

(kgs/dollar of GDP in 2000 prices)

- Low and middle income countries
- World
- High income countries

Averting runaway climate change

Target (15 gtons, CO2)

Business-as-usual

100 plus gtons
New World Problem

Cash for cuts
New World Problem

But debt-addled rich have no cash for the poor and not likely to transfer to the Chinas and Indias.
Finance for Technology

• More rich country spending on technology generation internally or on compensating for carbon price actions domestically
  – If consequence is less international finance, fine

• Allowing more developing country spending on green technologies—
  – Need to revisit trade rules (Mattoo and Subramanian, 2013)
  – Need to change ideology on government interventions (industrial policy, research)

• International green fund for technology generation and dissemination with contributions by ALL

• Finance for Adaptation: NO, NO, NO!
### Generating a Technological Revolution: Who Does What?

#### What does the West do?

**Key step:** Raise carbon price

<table>
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<th>Progressively eliminate consumer subsidies</th>
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#### How does the Rest facilitate?

### Role reversal: The Rest Leads and Facilitates West’s Contribution

| Carbon price-related actions | Progressively eliminate consumer subsidies  
|                             | Commit to commit: “For every one dollar increase in carbon price at T, we will raise carbon price by \( X \) by \( T+Y \)” |
| Trade-related actions       | Allow limited border tax adjustments  
|                             | Eliminate constraints on green subsidies |
| Technology-Related Actions  | Contribute to global technology fund  
|                             | Raise protection of IPRs related to green energy and technology |

Key step: Raising carbon price in industrial countries
### Political Economy/Plausibility?

<table>
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<td>Commit to commit: “For every one dollar increase in carbon price at T, we will raise carbon price by $X by T+Y”:</td>
<td>China Started</td>
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<td>West that must Agree</td>
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<th>Technology-related actions</th>
<th>Contribute to global technology fund</th>
<th>Broaden Green Fund</th>
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<td>Ensure strong protection of IPRs related to green energy and technology</td>
<td>???</td>
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Not There Yet: Little more domestic imperative for action
Narrative Problem

Rest: Focusing on past

West: Focusing on future

Log of emissions (in tons) per capita, 2008

Log of GDP (PPP) per capita, 2008

Annual Emissions (Gt)

Year

South

North
**The Adding-Up Problem**

- **Business-as-usual CO2 needs**
  - Gtons (2005 to 2050)
  - Developing countries = 900
  - High income countries = 580
  - Total = 1480

- **Global CO2 budget**
  - Gtons (2005 to 2050)
  - Global total = 750

- **Allocate budget to high income**
  - Developing country emissions will satisfy only 20% of their emission needs

- **Allocate budget to developing**
  - Developing countries will satisfy only 85% of their emission needs, and
  - High income countries cannot consume any energy!
Unilateral Alternatives to Failed Cooperation:

EU Unilateral Action

US Unilateral Action
Are We Making Progress?

Global emissions/global GDP
(kgs/dollar of GDP in 2000 prices)

- Low and middle income countries
- World
- High income countries

The Stall / Reversal