Comments on
“Towards a comprehensive approach to climate policy, sustainable infrastructure, and finance”

The present paper contributes to the discussion of making progress against the Sustainable Development. In their policy paper, the authors propose a reorientation of public and private investment to achieve sustainable growth. Furthermore, the authors also discuss the role of the financial sector for sustainable investment and the importance of appropriate carbon prices. Even though several aspects have been discussed already in the literature (i.e. in particular the role of carbon pricing), the connection with the SDG debate appears appropriate and timely. The paper is well-structured and well-written.

Although, it is not the main focus of the paper I would like to focus on the short to medium run economic perspectives the authors touch in their paper. The authors claim that their policy proposals are also well suited to lay “the foundations for strong and inclusive growth”, in contrast to the “low and uneven growth” the world economy is facing today.

While I totally agree that it is highly likely that the world economy will be better off in the long run when we initiate successful climate policies today, simply because costs of climate change can be reduced, the perspectives for the closer future are rather mixed. The following aspects have to be considered regarding the short to medium run economic outlook:

- Additional (pollution) taxes or carbon prices weigh on the economy. The negative impulse is likely to have a similar size as the measures financed by the additional tax revenues. One should also keep in mind that many spillovers to be internalized via higher taxes or carbon prices today show their negative effects rather in the future. Thus, gains from internalizing spillovers do only show up many years from now.
- Investments in “old” energies and related infrastructure will drop. This negative reaction may be of a similar size as the additional private investment into new the infrastructure triggered by improved climate policies.
- Further, parts of the capital stock, devoted to the “old” infrastructure may lose their value. This could dampen labour productivity and lead to financial turbulences: So far banks have financed coal and oil. When these investments lose their value non-performing loans may increase.
- Some commentators argue that the current low growth is still a consequence of the financial crisis, which was rooted in large malinvestments. The turnaround on US housing markets triggered the financial crisis. From a long run perspective, investments in oil and coal may also be regarded as large malinvestments. Thus, policies to restructure the economy are highly beneficial in the long run. However, a bold policy change could function as a trigger for a financial crisis.

Overall, the hope that climate policies will also bring the world economy back on track seems to me rather optimistic. There are many effects of intensified climate policies, also under the comprehensive approach, that will negatively affect economic dynamics in the short run. I my view it is rather unclear whether the positive impulses can outweigh the negative reactions in terms of economic activity. This does not say that politics should not follow the comprehensive approach, long-run gains seem well grounded, but it should be sold with reliable arguments. And we should take into account that a fast and forced restructuring of the capital stock could trigger financial turmoil.