

How to square the cycle:

‘Green Transition’ and Increased Welfare

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Abstract:

The aim of the paper is to demonstrate that the ‘green transition’ is mainly a real sector challenge. The overarching planning question to be considered by the government in cooperation with other EU-member states and coordinated by the EU-Commission is, of course, to make the EU as a whole self-sufficient with durable (not imported) energy in the form of an enlarged production of ‘green’ electricity. Coordination is important to combine the sun, the blowing of wind and hydro-power in Europe. This needed ‘green transition’ calls for national and an EU master-plan, which, while undertaken, has to be financed by increased private savings, improved balance of payments and public money.

The paper consists of two, partly separated, sections: 1. How could the required real resources and factors of production be made available for the green transition in the future? This is mainly a question of how to transfer the needed production capacity into the sectors of ‘green’ production. Accordingly, a share of the future GDP-growth has to be directed by policy towards ‘green real investment in durable energy supply’ and towards ‘investment in energy savings’: e.g. insulation of houses, public transport and less meat production etc. 2. The obvious financial instrument could be a (European) energy-tax with two components. One tax should be related to the households’ use of any kind of energy and be given a progressive scale: the more energy the household uses the higher the (marginal) tax rate. The other tax should be a CO₂-tax paid by suppliers of energy i.e. power plants, petrol stations and (district) heating to give a strong incentive to switch from black to green energy supply. Such energy- and CO₂-taxes would change the behaviour of households, of firms and hereby also improve the balance of payments permanently. When the transition is fulfilled the CO₂-tax will disappear by itself; but the progressive energy tax could persist to secure continued incentive to save energy – which is still not free, although green ☺.

As Keynes said back in 1942 in quite another context; but anyhow: ‘What we can do, we can afford’¹.

¹ Keynes, J.M. (1942), How to rebuild London’, radio talk, printed in the ‘Listener’ and reprinted in Moggridge, ed. (2010), ‘Keynes on the wireless’, London: Macmillan.