

Macro Roundup Article

Headline: [The Economic Opportunity Cost of Green Recovery Plans](#)

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Tweet: [@caseybmulligan](#) estimates that decarbonization in the US will result in recurring costs of up to \$483Bper year, including \$186B for auto fuel efficiency standards, and will lower real GDP by between 2-3% by 2035.

Summary: Advocates in several countries have promoted a “green recovery” from the pandemic, with an emphasis on measures to address climate objectives. We evaluate proposals for the United States and find that as stated, ambitious plans to further cut emissions from transportation and electricity will require more inputs to produce the same outputs, resulting in recurring costs of up to \$483 billion per year. We forecast that real GDP and consumption will be 2-3 percent less in the long run if policies are implemented as stated, underscoring the opportunity costs of achieving green objectives when resources might be more efficiently deployed. We quantify the opportunity costs of four climate policies that are likely the most impactful among Biden’s proposals. The first would reduce fossil fuel consumption by light- and medium-duty vehicles by raising average fuel economy regulations, in an effort to erode the reliance of the transportation sector on petroleum and avoid associated emissions. The second would increase the share of electricity generation from renewable sources, displacing fossil generation in an effort to reduce emissions. The third would require additional renewable electricity generation to help satisfy the electrification of transport. A fourth, holding companies financially liable for historically emitted carbon and other pollutants, may help finance subsidies for renewables, but would impose additional opportunity costs, such as the impact of the implied higher uncertainty regarding future after-tax profits.

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Primary Topic: Global Warming

Topics: Academic paper, Database, GDP, Global Warming, Growth, Science, Weekly

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