

KEY POINTS

- **Targets for restraining global temperature increases will not be met.**
- **The UNFCCC is a “dead man walking” and the G20 will not lead on climate change.**
- **The IMF, with inspired leadership, could initiate the necessary actions.**

THE IMF AND CLIMATE CHANGE

Barry Carin

Unless we take action on climate change, future generations will be roasted, toasted, fried and grilled. — Christine Lagarde (2013)

There is much confusion about climate change. The report from the Intergovernmental Panel on Climate Change (IPCC) released on September 27, 2013, indicates no appreciable warming over the last 15 years. But a close reading of the report’s “Summary for Policymakers” makes clear that the climate change skeptics have not done their homework. “Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia. The atmosphere and ocean have warmed, the amounts of snow and ice have diminished, and the sea level has risen” (IPCC 2013). Cherry picking decades can provide any conclusion desired.

Current trends all but guarantee that the target to limit Earth’s temperature increase to 2 degrees Celsius, agreed at the Cancun Conference of the United Nations Framework Convention on Climate Change (UNFCCC) in 2012, is already in the rear-view mirror. The population increase, economic growth, consumption patterns of a growing middle class and the cost advantages of fossil fuels all lead to the failure to restrain temperature increase, even to 4 degrees Celsius above pre-industrial levels. Each year that action is delayed exacerbates the problem — increasing the perverse consequences and the future costs of adaptation. Current climate change negotiations are paralyzed. If the Doha Round is dead, then the UNFCCC process has been cremated and its ashes scattered. It is clear that: the trend of rising CO₂ emissions will not be reversed; there will be no legally binding global deal restricting emissions; the Copenhagen “commitment” of US\$100 billion a year transfers to developing countries will not be realized; and there will be no agreement on internationally coordinated taxes on airlines, billionaires, carbon, currency exchange or financial transactions.

The IMF leadership and staff have laid the groundwork for progress. Political will is required, not more study. IMF Managing Director Christine Lagarde’s (2013) statements in January at Davos, Switzerland were as clear as a rallying cry can be:

- “Even more important is the issue of climate change, which, in my view, is by far the greatest economic challenge of the 21st century. The science is sobering — the global temperature in 2012 was among the hottest since records began in 1880. Make no mistake: without concerted action, the very future of our planet is in peril.”
- “. . .we need growth, but we also need green growth that respects environmental sustainability. Good ecology is good economics.”

The IMF staff has produced significant material on climate change that should be followed up. There is a wealth of materials to guide decisions and policies on climate finance and on “how to raise the money,” ranging from innovative uses of special drawing rights (SDRs) to removing inefficient fossil fuel subsidies. IMF publications provide an extensive list of ideas about “how to spend the money” — there is no need to reinvent the intellectual wheel. The IMF is in a position, under existing authorities, to catalyze actions that would have significant positive implications and possibly lever game-saving multilateral action.



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The IMF could agree to a new SDR issue, citing section 1(a) of Article XVIII that authorizes a new SDR allocation to meet “the long-term global need.” An allocation worth, for instance, US\$400 billion, with the shares of G20 members being transferred to a new “Trust Fund,” could be administered by the World Bank. The Trust Fund could exchange the SDRs for currency from foreign exchange reserve authorities. Donors to the Trust Fund would pay interest on the transferred SDRs. The Trust Fund would provide the currency proceeds to countries in proportion to their quota¹ to invest in climate change-related projects. Each country invests the proceeds in adaptation and mitigation projects in their own country. Before the Trust Fund allocates funds, a plan describing how the proceeds would be solicited should identify the beneficiaries of the potential expenditures. Powerful constituencies, motivated by self-interest, would lobby for the idea because the benefits accrue to them. US congressional action would not be required if the total amount of SDRs allocated to the United States is smaller than the current US quota in the fund.²

The IMF completed “work includes research on getting the prices right and the right incentives to help countries address climate change and other environmental challenges...fiscal instruments are the most effective instruments for reducing emissions, through encouraging investments in renewables and energy efficiency while providing government revenue” (IMF 2012). In an ideal world, Christine Lagarde, on her own considerable authority, would take the gloves off and aggressively promote the policy prescriptions in the IMF handbook “Fiscal Policy to Mitigate Climate Change.” She could explain the macroeconomic, fiscal and financial implications of the climate mitigation and adaptation policies she recommends for individual major emitters, including: the appropriate design of environmental taxes; the scaling down of energy subsidies while protecting the poor; World Trade Organization-consistent border tax adjustments; and the taxation of resource industries.

Unfortunately, Lagarde and IMF officials are not operating in an ideal world. Robert H. Socolow (2012) wrote that “Climate change is unwelcome news... The natural reaction of anyone hearing unwelcome news is to shoot the messenger.” In addition, powerful vested interests provide an intimidating barrier. The prognosis is not favourable. Unless Lagarde is provided with a bulletproof vest, the IMF will have to “do good by stealth,” as Alexander Pope said. The IMF could exploit its bully pulpit, rally influential lobbies by highlighting the selfish interest that each could have in a green economy and encourage appropriate policies in provocative language the majority understands.

Works Cited

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Endnotes

- 1 The idea is inspired by proposals made by Peter Kenen, Hugh Bredenkamp and Catherine Patillo, George Soros and Action Aid International, who have all suggested directing proceeds to developing countries.
- 2 The current US quota is about US\$64 billion (SDR 42.1 billion), to be doubled to US\$128 billion under proposed legislation to conform to the 14th General Review of Quotas, agreed by the G20.