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Remarks by

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at

Les Rencontres Economiques

Session “Another growth model is possible”

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Key points

- A new growth model is not just necessary. We need to make it possible. The green transition is policy-driven but needs to harness market forces and encourage innovation to advance its goals.
- Decarbonization is imperative but it will have costs. The policy challenge is how to reduce those costs and develop new sources of competitiveness while ensuring social inclusion.
- The foundations of prosperity require not only dynamic labour productivity growth but also increased resource productivity growth and behavioural changes. We need growth metrics that measure not only output but also impacts on human well-being and the environment.

Addressing Multiple Challenges

We are confronting multiple challenges. Extreme weather events underline the urgency of climate action while unabated environmental pressures are leading to biodiversity loss and the depletion of natural resources. Following a series of shocks- from COVID-19 to the Russian invasion of Ukraine- and sluggish economic performance, it is clear that the foundations for continued prosperity are far from firm.

Necessity of a New Growth Model

In this context, with the looming threats of climate change and economic fragmentation, a new growth model is not just possible but necessary. Let me share some ideas on why this shift is essential, the implications of climate action, and the transformative journey we must embark on.

Ending Fossil Fuel Dependency

As the UN Secretary-General stated, we need to put an end to our global addiction to fossil fuels. Unlike the ongoing digital transformation, the green transition will be driven by public policy rather than technological innovations and market forces. The primary impulse for change comes from policies – resulting from the inescapable realization that this is a goal that needs to be pursued. The challenge for policymakers is to harness market forces

and encourage innovation to support this transformation, dispelling uncertainty, and facilitating the coordination of efforts.

Structural Shifts and Investments

The green transformation will bring significant structural shifts and overhaul key economic sectors. It will require substantial investments, particularly in renewable energy, green technologies, upgrading buildings, overhauling the transport sector, as well as adapting existing infrastructure to the effects of climate change. This investment boost will tend to increase aggregate demand and support economic expansion, though it is not clear if overall investment would also increase. Moreover, this is an investment aimed at reducing carbon emissions or avoiding damages associated with climate change rather than increasing output.

The Transition will have Costs

The economic costs of inaction are significant, being equivalent to no less than 5-7% of GDP and potentially much more depending on the assumptions. These estimations overlook the risk of catastrophic events. But the costs of the transition will also be large and unequally distributed. We need to think how to reduce these costs and protect those who are adversely affected, without denting incentives for the transition and economic dynamism.

Competitive Advantages and Cooperation

The green transition and global decarbonization efforts are creating new sources of competitive advantages resulting from both policy initiatives and natural endowments. For example, there are strong differences in the potential for renewable energy generation across Europe. High energy costs vis-a-vis competitors have been a major competitive disadvantage for EU producers. Avoiding fragmentation would help drive down the price of electricity and increase the resilience of energy systems. Integrating and interconnecting electricity markets can help balance the intermittent nature of renewable energy and reflect the varied capacities for renewable generation.

Resource Productivity and Innovation

Decarbonization requires large upfront capital costs but can eventually lead to the adoption of technologies that are more efficient than those based on fossil fuels and reduce the

overall use of resources. The US advantage over Europe on labour productivity widened - in the aftermath of the global financial crisis has increased while China is quickly catching up. But in addition to labour productivity, we must prioritize resource productivity. This involves improving the efficiency of natural resource use and reducing waste, including using circular models which would have a direct impact on decarbonization. Innovation will need to focus on reducing carbon intensity rather than merely improving labour productivity. Policy direction – providing a suitable regulatory framework, coordinating actors, and making critical investments – will be essential.

Behavioural Change and Systemic Transformations

We need more capital, we need innovation, but we also need to change our behaviour. Changing our behaviour is not only a question of individual choices. These will be influenced by systemic transformations – how the built environment is shaped, what are the existing mobility options, and so on.

Rethinking Growth Metrics

As we search for new growth models that seek to foster productivity and decarbonization, we should consider whether we are measuring what matters. GDP does not account for human well-being or environmental degradation. Climate action brings numerous non-monetary co-benefits that go beyond traditional GDP metrics. These include health benefits from reduced pollution and healthier diets. A shift towards climate neutrality can enhance well-being in ways not captured by GDP. The importance of Going Beyond GDP has been stressed in UN Secretary-General initiatives and is expected to be reflected in the Pact for the Future to be adopted by UN Member States in September.

Conclusion: Opportunities in Challenges

In conclusion, the search for new growth models is challenging but filled with opportunities. Harnessing innovation to boost both labour and resource productivity, recognizing the broader benefits of climate action, and fostering international cooperation, we can build a sustainable and prosperous future.