INCLUSIVE GREENGROWTH

The Pathway to Sustainable Development

Marianne Fay, The World Bank, June 2012
“Getting the price right” necessary, but...

• Changing behavior vs raising income

• “Getting the price right”:
  – May be insufficient:
    – Market imperfections
    – Low elasticity of demand
  – May be difficult
Tailoring first-best recommendations to second-best situations

- When markets fail
- When elasticity is low
- When the political economy is complex

Taking a page from the private sector?
When markets fail...

- Missing markets or institutions:
  - Housing; credit

- Lack of credibility/predictability of prices:
  - Frontier innovation; long-lived investments

- Coordination failure and knowledge externalities

Fix/develop markets so prices can work; complement with other instruments
When elasticity is low...

- **Lack of alternatives:**
  - US vs European drivers

- **Behavioral issues:**
  - Choice does NOT always follow from valuation
  - Valuation NOT always calculation-based
  - Information or capacity constraints

Complementary investments, social psychology, social marketing and nudging
When the political economy is complex

- Fuel subsidy vs trade reforms...
- Understand constituencies
- Generate buy-in
- Avoid hot button issues:
  - Judicious choice of reference points and option labels
Dirty Word or Dirty World study
(Hardisty, Johnson, Weber, Psychological Science, 2010)

Proportion Choosing the Costlier Ticket

Democrats | Independents | Republicans

Chart showing the proportion of Democrats, Independents, and Republicans choosing the costlier ticket. The chart includes error bars indicating variability.
Dirty Word or Dirty World study

Proportion Choosing the Costlier Ticket

- Democrats
- Independents
- Republicans

Offset and Tax
Prices matter – if we let them

• Fix markets, bring in political economy, social psychology and complementary investments so:
  – Prices can be set right
  – Prices are effective instruments

• Use virtuous circle
Inclusive Green Growth
The Pathway to Sustainable Development

www.worldbank.org/InclusiveGreenGrowth
www.greengrowthknowledge.org