Ideas on improved analysis on the socio-economic implications of mitigation policies

William Wills, talking points of a panel discussion at EconLab2, 24 October 2013, Rio de Janeiro

The effects of development strategies as well as economic policy choices, including mitigation policies should be studied and well understood before they are actually implemented. This would help the policy-maker to become more confident about the policy proposed.

The range of policy issues subject to these evaluations is broad and includes the following:

- **Tax policies:**
  - How a carbon tax would impact on welfare, unemployment and income distribution?
  - How a tax reform can help mitigation, inducing the economy to a low carbon path, and at the same time keep social issues under control?

- **Carbon Markets:**
  - How the carbon market would affect the cost structure of productive sectors, and what would be the effect on the economy and on social issues?

- **Public expenditures:**
  - What is the poverty impact of specific shifts in public spending (to implement mitigation measures, for example)?
  - How social indicators are affected by large investments in public transport and renewables?

- **Structural reforms:**
  - How can labor market reforms, trade liberalization, or privatization, among other reforms, affect income distribution?

- **Macroeconomic policies:**
  - More specifically, what is the poverty impact of changes in the fiscal system, or in monetary and exchange rate policies?
  - What is the most effective macroeconomic policy setting to foster investment and productivity in order to achieve long-term, low carbon growth that is beneficial to all?

**Questions for discussion**

- **What kind of tools can provide us information on the socio-economic implications of the mitigation policy proposed?**
- **How could we develop new tools to provide information on the socio-economic implications of mitigation?**

To answer these questions, different methodologies have been developed and can be classified in three groups:

1. Microeconomic techniques, based mostly on incidence analyses and econometric approaches in partial equilibrium settings;

2. Macro-micro techniques, which, with different degrees of integration, combine macro and micro modelling frameworks, usually in a general equilibrium context; and

3. Different income groups represented inside the CGE model. This tends to be more robust, but computational complexity grows very fast.

But there are still some questions: How to combine national accounts data to household surveys data? How to analyze what would happen to the informal sector and its influence in the rest of the economy?