

Project Syndicate: Europe's Green Dirigisme

In pursuing its grand environmental ambitions, the European Commission has ignored a common sense solution in favor of an approach based on central planning and pervasive state intervention in the economy. The further the Commission goes on this path, the more reason there will be to question its motives, **writes Hans-Werner Sinn for [Project Syndicate](#)**



Economists believe an emissions trading system would be best for the job

In her first annual “state of the union” address this month, European Commission President Ursula von der Leyen confirmed that the European Union, with its Green Deal, has committed itself to a new and pervasive form of government intervention in the economy. Apparently, the bureaucrats in Brussels think that they – and only they – know which technological pathways are best for building a sustainable future.

As such, they have devised wide-ranging plans to direct the economy accordingly. The enforcement mechanisms will include tighter regulations on carbon dioxide emissions from cars (thereby dealing a death blow to the traditional automobile industry); targeted grants; and a taxonomy for the “greenness” of private investment projects that, together with complementary

actions by the European Central Bank, will effectively differentiate the interest rates at which companies in Europe can borrow in the capital market.

In adopting this approach, EU politicians are purporting to know things about the costs of avoiding CO2 emissions that they in fact do not know. But because they will be spending other people's money rather than their own, they have no incentive to seek out potentially less expensive methods of avoiding or reducing emissions. A naive faith in the wisdom and honesty of central planners – a fatal attraction we thought we had overcome in 1989 – is rearing its ugly head in Europe once again.

By contrast, almost all economists believe that it would be far better to establish a comprehensive emissions trading system for all sectors, in order to bring about a uniform CO2 price. The EU already oversees a formalized trading platform for emission certificates within the energy sector, and it would be a straightforward process to expand this system to encompass all others. In fact, complemented by a border-adjustment regime, it need only tax the fossil fuels (based on their carbon content) that are imported into or produced on EU territory.

The CO2 price emerging from a comprehensive emissions trading system would prompt all companies to look for the greenest options for investing in emission reductions. Green innovations would sprout up everywhere, and Brussels bureaucrats would marvel at the environmental benefits conferred by new technologies that they themselves had never considered feasible.

For example, hydrogen fuel cells might prevail over battery-powered electric vehicles (EVs). Green electricity from Extremadura might triumph over green electricity from the North Sea. The possibility of nuclear fusion would remain on the table. And, who knows, there might emerge entirely new types of housing, workspaces, and means of transportation.

A market solution is preferable to dirigiste intervention

Any predefined CO2 emissions target would be achieved with minimal impositions on Europeans' standards of living. And given the sacrifices in material living standards that Europeans are willing to bear for the sake of the environment, the resulting emissions reductions would be maximal.

A comprehensive emissions trading system is simply the only option that would be compatible with the basic principles of the market economy. With the market unbiased and open to all entrants, European start-ups and young engineers would find new and improved methods of reducing emissions on their own; there would be no need for input from central planners.

Of course, because this solution would eliminate the need for all dirigiste interventions, it would likely result in many of the Green Deal bureaucrats losing their jobs – or at least their newfound administrative power. The lobbyists for particular types of green industries, as well as the nuclear and electricity sectors, would no longer have anyone whom they could directly pressure to shape regulations in their favor.

Moreover, the impending demolition of the automobile industry could probably be avoided, sparing millions of jobs across the EU. According to the European Commission's latest regulatory proposals, by 2030, all passenger vehicles must effectively use no more than 1.8 liters of diesel equivalent per 100 kilometers (62.1 miles) traveled. This represents a substantial increase of the 2030 emissions-reduction goal (relative to the already ambitious goal for 2021) from 37.5% to 50%.

But not even the most talented engineers could achieve such a target unless they manipulated reported CO2 emissions downward with the authorities' blessing. The idea that targets can be met by converting large shares of conventional cars into EVs because the latter have zero emissions runs up against the fact that coal contributes to power production in all European countries. Moreover, the production of EV batteries has a carbon footprint of its own.

The EU Commission so far has shown no indication that it is willing to abandon central planning in favor of a comprehensive emissions trading system. By turning its back on the market, it exposes itself to the suspicion that its main concern is not with combating climate protection, but rather with crafting an industrial policy whose true motives and aims can only be a matter of speculation.

The full original article first appeared on Project Syndicate on 24th Sep 2020 [here](#).

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com