

THEIR VIEW

MINT CURATOR

# The global climate action agenda could do with trade recalibration

Emissions apportioned to countries by what they consume rather than produce could let us share the burden more equitably



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November began with CoP-26 of the United Nations Framework Convention on Climate Change (UNFCCC) at Glasgow, and ended with the 12th Ministerial conference in Geneva of the World Trade Organization (WTO).

A measurement issue links the two. Climate responsibility is carved up into national obligations and right there lies the problem of measuring nation-wise culpability. The UNFCCC measure, whereby India ranks third behind China and the United States of America (US), is based on total emissions from within the territorial boundaries of each country, even if some of the goods produced in the country are exported to other countries. That it is a production-based measure is well known and usually acknowledged upfront. But it is not accompanied by a parallel measure of emissions embodied in the final products going into domestic demand in each country (demand-based, more popularly called consumption-based, emissions). The most that is done is to report production-based emissions in per capita terms alongside, where India ranks low, with our faithfully large population denominator bailing us out.

It is not just a per capita matter. Consumption-based emissions should be the key metric upon which national culpability is measured, because it is the consumption and style of living within a country that determine its contribution to the global problem. When a car imported from China is operated by the spatially far-flung residents of the US, only the emissions from running that car are logged in the production-based US account. The manufacture of the car, complete with coal-fuelled electricity and other inputs, goes into the production-based account of China. A consumption-based measure would log that too in the US account, because the car meets US demand, not Chinese demand.

Quantifying consumption-based emissions is computationally complex, and therefore even the most updated estimates are lagged. Madanmohan Ghosh, a senior advisor with the Canadian government (formerly at the National Institute of Public Finance and Policy), pointed me to the source. The latest figures I could find are for 2015, when absolute emissions would have been different, but not so much the percentage shares. China emitted 24.72% of the world total that year by consumption and 28.75% by production. The US emitted 17.95% by consumption, but only 15.55% by production. The outsourcing of emission-intensive manufacturing by the developed world shows clearly in these figures. For India, less engaged in trade, the difference is smaller, 5.94% by consumption and 6.30% by production.

The apparent reason why countries like China do not press this point is the bogey of border taxes



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on emission-intensive imports (they go by the term Carbon Border Adjustment Mechanism, or CBAM for short). Such a tax is feared by exporting countries because emission-intensive imports of the US (and the rest of the developed world) are what China (and the rest of the emerging world) looks to for export-driven growth.

However, any border tax on imports will have to be calibrated to the technology used and emission intensity in the source country—which violates the most favoured nation (MFN) principle of world trade, and makes it an issue falling squarely within the jurisdiction of the WTO. A WTO condemnation of emission-based border taxes would go a long way towards situating climate talks on a more neutral platform.

That said, clearly there is a need to phase down, if not phase out, unabated coal-fuelled electricity in China and India, and to find least-cost technological alternatives. In India, there is the added egregious crop stubble burning in November in some northern states, a part of production-based but not consumption-based emissions, since it is not integral to the inputs going into food consumed. However, owing to an arcane reason, it does not appear even in the production-based measure as presently calculated. Too bad. Including that would at least have increased the

pressure on public policy to stamp out the practice.

But the failure to look at consumption-based measures alongside means there is no pressure on developed countries in cold regions of the world to alter patterns of settlement and space heating, which were designed in an era of cheap energy.

In the US, a new non-partisan infrastructure bill for \$1 trillion has just been passed, which is great

for global recovery from covid, but without a component for moving towards denser patterns of city living, the package does nothing for mitigation. Are patterns of settlement in the US (and Canada) still relevant to the pollution issue in a post-covid world of work-from-home? Yes, because of the continued need to transport goods to far-flung populations.

Any proposal to re-order settlement patterns in temperate zones to reduce emissions is pushed off the table as something too ludicrous to even suggest. But it is happening by necessity in coastal regions all over the world as people “adapt” to the rise in sea levels. Populations move inland and press upon people settled in the interior, causing political turbulence. Whereas a country like the US can do it in an orderly way to a plan of its own making.

There will never be climate equity, because that is exactly how powerful nations want it.

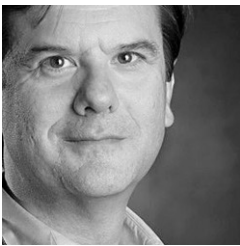
QUICK READ

Production-based calculations of emissions have allowed the advanced world to assume a lower than their fair share of responsibility for the climate emergency we confront.

A shift to consumption-based measurement would allow for a fairer way to share the burden of fending off a catastrophe but rich countries have been largely deaf to calls for climate equity.

# The Fed’s dumped the wrong word but what about its policy?

Maybe it should target nominal GDP instead of inflation and jobs



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The US Federal Reserve’s preoccupation with “transitory” inflation was short-lived. On Tuesday, Fed Chair Jerome Powell told the Senate Banking Committee: “I think it’s probably a good time to retire that word and try to explain more clearly what we mean.” Agreed on both counts. The crucial question for monetary policy was never the one that analysts, with the Fed’s encouragement, have been debating: whether the recent surge in inflation was transitory or persistent. It is how policy should be set, given that nobody knows.

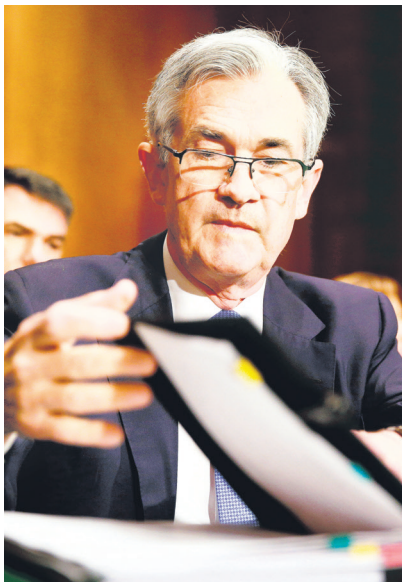
One group of commentators said the rise in prices was a blip due to the pandemic’s short-term disruptions to supply and should be mostly ignored for monetary policy purposes. The other said it’s more serious, that inflationary pressures are affecting a wider range of goods and services, pushing wages higher, and threatening to entrench higher inflation unless demand is reined in.

Powell has shifted his allegiance to the second group, and you can see why. Inflation in both the US and Europe is a lot higher than central banks expected earlier this year, and it’s no longer confined to parts of the economy directly affected by the pandemic. Granted, according to market-based indicators, investors are expecting US inflation to fall back below the Fed’s 2% target within a couple of years, and to stay at 2% or thereabouts after that. But this is a bet on how monetary policy will respond to inflationary pressures through the medium term, not a judgement about the current mismatch between demand and supply.

Eventually, no doubt, blockages will clear, supply will recover and inflationary pressure will ease—partly thanks to the slightly faster pace of monetary tightening that Powell just promised. In other words: Inflation is more likely to be transitory now that Powell has said it might not be.

But the main thing is that nobody knows how much inflation will fall, or how soon. The Omicron variant has added new unknowns. More variants might follow. Further cycles of disruption and recovery will compound the confusion.

The Fed’s most important task was to support demand, and it has. Inflation expectations suggest that, for now at least, it’s still trusted to stay on top of the problem. But the Fed’s current policy framework—its self-imposed rules about how it forms and explains its decisions—makes this job harder than it should be. The Fed’s “flexible average inflation targeting” (or FAIT), obliges it to defend judgements it can’t and doesn’t need to make.



Fed chair Jerome Powell asked for the word ‘transitory’ to be retired  
REUTERS

There’s a better way. Instead of explaining policy in terms of separate targets for inflation and employment, the US Fed should announce a target for nominal gross domestic product (NGDP), a measure of output and inflation combined—the value, at current prices, of what the economy produces. In effect, it merges the two sides of its dual mandate into a single measure.

This has enormous advantages. First, it’s simple. Instead of having to revisit, month by month, the contested meanings of ‘maximum employment’ and ‘average inflation’, the Fed would measure the stance of monetary policy against the gradual evolution of one straightforward aggregate. Second, it’s honest about what the Fed can hope to do with monetary policy. Changes in interest rates and/or central-bank bond purchases don’t directly affect jobs and prices. In the first instance, they move NGDP; how that change affects jobs and prices is beyond the Fed’s control. A third advantage is especially valuable right now. An NGDP target contends more easily with a supply-side shock. Under the Fed’s current approach, supply interruptions that force output down and prices up create a policy dilemma: Should it prioritize controlling inflation or supporting employment? Wrestling with that dilemma is why the Fed and its army of watchers have been debating whether inflation is transitory. With a target for NGDP, there’s often no need to ask. When supply is hit, inflation is allowed to overshoot until output recovers and NGDP is back on track. Growth of 4% in NGDP, for example, makes inflation of 4% “on target” when output growth falls to zero.

It so happens that NGDP is now broadly back to its pre-pandemic trend. That suggests a need to curb its future growth, and accords with the thrust of Powell’s latest remarks. Quite possibly, thinking about NGDP has been guiding the Fed all along. If so, why hide it? As Powell just proved, it’s much harder for the Fed to explain itself—and there’s a greater risk of confusing investors and undermining the central bank’s credibility—if it keeps suggesting it can do things it can’t.

Retire the word ‘transitory’. But then give NGDP a try. It’s better for the Fed to offer a simpler and more modest account of its powers than to pretend it can hit two shifting, vaguely defined and sometimes conflicting targets at once.

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MY VIEW | BEHAVIOUR BY BRAIN

# The subtle art of getting folks to take another covid jab

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In the next few weeks, health experts will figure out whether existing covid vaccines are good enough to tackle the Omicron variant of the Sars-CoV-2 virus that causes the disease. If, and this is a big if, it is proven that the newly designated variant of concern can evade the immune protection provided by current vaccines, would everyone need to take an updated dose of vaccine? How do we persuade the larger population to take yet another covid shot?

For the past several months, health experts and policymakers have been telling the world that there is light at the end of the pandemic tunnel for those who are “fully vaccinated”. For most formulations, that means two doses of a double-shot regimen. Countries like India have done a good job of vaccinating their intended target audience with at least one dose. But the proportion of people who have taken their second dose in India is less than half of those who have taken their first dose. Such a decline in our vaccination rate was to be expected.

The human brain has a tremendous ability to adapt to any situation, including risky ones. As humans interact with any risk on a sustained basis, the sense of danger associated with that source of risk diminishes with time. Slowly, they start interacting with that source of risk in a more casual manner. This is the reason that experienced employees are found to suffer worse factory accidents than trainees. For nearly two years, the world has been in the grip of a pandemic that doesn’t seem to end. After an initial encounter with fear, risk perceptions began to reduce sharply as the first wave of infections ebbed. It was only the catastrophic second wave that took feelings of risk back to higher levels.

It is easy to motivate people to take corrective or defensive measures when they sense high levels of risk. The tragic outcome of the second wave did push many fence-sitters to get vaccinated. After that brutal experience earlier this year, people were slowly moving towards normalcy. Seemingly endless months of restrictions left people eager to get their lives-as-usual back, with much exasperation commonly expressed. At this juncture, asking ordinary citizens to be super-vigilant once again is not going to be an easy task in India. More so because cases of infection and death are very

low right now. So, getting most citizens to take yet another jab would be a Herculean task. If, after rigorous analysis, our health authorities conclude that existing vaccines are good enough to fight Omicron, there is no cause for worry. We could all go back to shopping malls and theatres with confidence. But what if health authorities find that Omicron is indeed a serious threat and another round of vaccination is the only way to secure our health? What could policymakers do to better prepare the world for such a scenario?

Many patterns of human behaviour are affected by non-conscious cues. The vocabulary we create around an event or object is one such non-conscious cue that impacts our behaviour. For example, calling a road an ‘expressway’ and expecting drivers to drive slowly on it is a bit of a problem. So if another dose of vaccine is required to provide the requisite protection, one could call it either a

‘booster’ dose or ‘third dose’. What terminology will best provide people at large the non-conscious motivation needed to take another dose?

The term ‘booster dose’ evokes a perception of incrementalism. Its use will create the feeling that Omicron is just another variant of the virus and all that is required is a slight addition to the existing protection granted by the previous two doses. When the predominant present mood is to recover our pre-pandemic lives and restriction-free days, the ‘booster’ terminology will not do

much to make people more cautious of getting infected. Most people will probably conclude that taking a ‘booster shot’ is optional, just an act of abundant caution.

On the other hand, the term ‘third dose’ will better communicate the need for an additional layer of protection from the covid virus. This term non-consciously generates the feeling that this dose is distinct from the first and second doses.

No doubt, the term ‘third dose’ will also stir up more intense social conversations. That is the aim. Many questions will likely be provoked. Why do we need a third dose? Why are the first two doses ineffective against the new variant? Such questions will provide an ideal opportunity for health experts to explain how significant this new variant is, should it turn out to be dangerous. But they should not make the mistakes they did in the early phases of the pandemic.

In the initial phase of covid, there were several cases of inconsistency in expert recommendations. At one point, some experts had said “masks are not required”. Soon, they changed their opinion. This kind of vacillation, especially at the highest levels of policymaking, should always be avoided. Humans will always latch onto any message that reassures them that everything is okay and no further action needs to be taken. Once such a message of reassurance is absorbed, it is difficult to move people out of that mindset. So before policymakers jump to issue reassuring statements, they need to carefully examine the likelihood of having to take their words back later.

Getting people to take yet another jab won’t be easy. Policymakers would need to be more innovative in their thinking.

QUICK READ

Should Omicron require extra protection from covid, it may well be better to call it a ‘third’ rather than ‘booster’ dose so as to provoke conversations and questions to good effect.

What must be avoided by policymakers in the context of observable behaviour are credibility losses caused by early statements of reassurance that later require reversal.