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Plugging in to Boris Johnson's green deal will cost us all a pretty penny

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After eight months of severe restrictions on our liberties and businesses, the British people are painfully aware of the reality of economic trade-offs. It was therefore bold of the Prime Minister, so soon after news of successful vaccine trials that could end this pandemic, to start rolling the pitch for our next round of sacrifices.

Obviously, Boris Johnson didn't put it like that. The launch of his 10-point plan for a "green industrial revolution," incorporating everything from investments in hydrogen to bringing forward the ban on sales of petrol and diesel cars to 2030, was articulated as only having economic upsides. It was an opportunity, Johnson wrote, to "build back better" from the pandemic, showing "green and growth can go hand in hand."

But the truth is that just as curbs on social activity are deemed a painful, necessary evil to mitigate the spread of Covid-19, mitigation policies will hurt economic activity on the path to decarbonisation.

The 19th century French economist Frédéric Bastiat warned that good economists must "see the unseen". Those reviewing Johnson's plan must read between the lines to identify these trade-offs.

Central planning

Three things about the plan struck me. First, it shows that the Government (if it wasn't clear already) will engage in significant amounts of central planning to achieve its climate targets.

Economists generally favour trying to "price" the broader external harms of greenhouse gas emissions through a simple, broad, border-adjusted carbon tax, thus allowing producers and consumers to reduce emissions as efficiently as possible.

The UK government has instead embraced mandates, subsidies, and bans, with an aim towards aiding particular technologies. Though Boris has said he will discuss carbon pricing with industry leaders, his talk of the UK becoming the "Saudi Arabia of Wind," building new nuclear plants, and throwing money at electric vehicles shows that climate policy has become industrial policy.

Higher prices

Second, though Boris might not admit it, such green industrial policy, entailing tilting the decks towards more costly technologies, brings inevitable economic inefficiency, which in turn produces higher prices.

Some commentators celebrate any new policy that "takes action" on climate, irrespective of these effects. But talk of the creation of "250,000 new green jobs" is itself a tacit admission that future policies will make industries such as the energy sector more labour-intensive, raising costs for consumers.

This matters, not just because higher retail energy prices would raise fuel bills of old, rural, and low-income households disproportionately. Electricity and gas power are also, of course, essential inputs to almost all other industries. Expensive energy increases the cost base for transport, manufacturing, mining, food, and chemicals sectors, bringing acute industrial pain and threatening other jobs.

As leading climate economist Richard Tol explained to me a few weeks ago, such are the sizes of the energy and non-energy sectors, "a large relative increase in employment in energy is easily offset by a small relative decrease in employment in the rest of the economy".

Indeed, beyond the sectors benefiting from new government largesse, Johnson's "green industrial revolution" may be better described as a "deindustrialisation revolution" given this cost effect.

That might be regarded a price worth paying to accelerate domestic decarbonisation, in the optimistic belief that other countries will follow our self-sacrifice. But let's not pretend, as Johnson does, that it is unalloyed economic good. Moving resources from industries of higher value-added to lower makes us poorer, not richer.

Going electric

Finally, perhaps the area where Johnson's failure to acknowledge trade-offs is clearest relates to bringing forward the ban on the sale of new diesel and petrol cars to 2030. Toyota recently admitted that fully electric vehicles will unlikely be price competitive by then, meaning either yet more subsidies will be needed to encourage wide take-up, or people will use older internal combustion engine (ICE) vehicles.

Banning new ICE vehicles not only risks raising the costs of new car ownership – currently electric versions of cars are about £10,000 more expensive – but also deterring investments to improve ICE fuel efficiency too.

According to Professor Gautam Kalghatgi, a visiting professor at Oxford University, "even with an improbable hundred-fold increase to 10 million in battery electric vehicle numbers in 2030, 75pc of cars will still run on petrol and diesel. But no manufacturer is going to invest in more advanced cars if they are banned from selling them".

Given how energy intensive it is to manufacture battery electric vehicles, the International Energy Agency calculates that greenhouse gas emissions over a car's lifecycle are currently only 25pc lower for an electric vehicle than an ICE equivalent.

Even on optimistic assumptions of electric vehicle take-up, Kalghatgi calculates that Johnson's ban would reduce carbon emissions by just 4pc by 2030. That fall could have been easily eclipsed by improvements in ICE vehicle fuel efficiency, absent the policy.

Painful transition

What Johnson's "green industrial revolution" amounts to then is industrial planning that will bring significant near-term economic costs. The investments required in the energy network to incorporate electric vehicle charging will bill into multiple billions of pounds alone.

Maybe some of the other bets on technologies will prove prescient. But given the performance of the UK state in dealing with the Covid-19 crisis, you'd have to have blind faith to trust that the Government knows best on efficient decarbonisation.

Yes, climate change is real and a difficult challenge. Yet nobody is helped by pretending the transition to a low-carbon economy won't be painful, just as social distancing has been. And the British people, having endured economic hardship, deserve more candour about the trade-offs than fantasies about "green jobs" and green going "hand-in-hand" with growth.

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