



Minouche Shafik

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## We can choose the economy of the future

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The dangers for Africa of inaction on climate change are stark, but there are great opportunities for the continent if we act now. We must collectively harness the power of public and private finance to create a greener, fairer, and more stable economy.

Minouche Shafik is the Director of the LSE and was speaking at the opening plenary of COP27 in Egypt.

I am honoured to speak today in the country of my birth, a country that has been a cradle of human civilization for millennia, on a topic that will determine the future of human civilization and whether it lasts for more millennia. I am an economist who has worked on development and environment issues for several decades and I wanted to speak to you about the economy of the future.

Let me start with a story from the past. Over 3000 years ago a different kind of climate change caused by volcanic eruptions and changing weather patterns resulted in persistent droughts that caused famines and political unrest in ancient Egypt. The pharaohs of the Ptolemaic dynasty such as Cleopatra went to great lengths to adapt – transferring grain from productive regions to drought plagued areas, opening grain stores, crossbreeding cattle to develop more heat resistant animals, and providing tax relief. These foresighted efforts managed to prolong the Egyptian empire for a half century longer but ultimately one of the greatest empires the world has ever known collapsed because of the effects of climate change. The difference between then and now is that we are the cause of today's climate change, and we have the means to stop it by changing our economy.

**LSE Director Minouche Shafik speaks at the COP27 opening ...**



What could the economy of the future look like? We have a choice. It could be one based on familiar technologies, markets, and institutions. We could continue with polluted air and water where our children suffer from respiratory diseases; where our economies are struck by frequent shocks caused by unpredictable weather events which cause catastrophic losses; where people have to move across borders as their livelihoods are destroyed by rising sea levels or persistent droughts and rising temperatures; and one where the natural world continues to diminish.

I can also paint a different picture of the economy of the future: one in which we made the needed investments and created cities in which we can move, breathe, and thrive. One in which the food we eat regenerates the earth rather than depletes it. Where our economies continue to grow, and, especially in poor

countries, living standards continue to rise. Where growth is greener, more stable, and where human well-being is enhanced through co-existence with nature.

Just as we had an industrial revolution that transformed our economies in the 19th century and a green revolution that transformed agriculture in the 20th century, we need a green industrial revolution in the 21st century that makes our economies more sustainable. The low carbon economy will have huge opportunities for innovation, new technologies and a more attractive way of life.

How do we get to this different economy of the future? We know it will take a great deal of investment – meeting the climate goals of the Paris agreement requires investment of \$3-6 trillion per year – about 5-10 times what we are currently achieving.

In difficult economic times of war, recession, and inflation, where will the money for this investment come from? In tough times, we need to use our limited resources efficiently. Given the history of climate change, we need an appropriate balance between responsibility and resources. As we learned from the covid pandemic, when we try to tackle global problems in national silos, it is more expensive and less effective – so we need to do this together.

Public sector investment will play a key role in many areas and in the advanced economies, despite current fiscal constraints, these investments can be financed and will generate positive returns. For the developing countries, many of which already face high debt burdens, we need to enable the multilateral development banks to massively increase concessional finance to make clean investments cheaper than dirty ones. The actions needed are laid out clearly in the report of the Independent High Level Expert Group on Climate Finance chaired by Nick Stern and Vera Songwe that will be launched this week. Lending by multilateral development banks needs to increase at least threefold, supported by more capital and a more innovative approach to using their balance sheets – as has been suggested in a recent report to the G20. This lending needs to be subsidised so that the big emitters are compensated for incurring costs of producing global public goods, and so that adaptation funding is provided on generous terms for vulnerable countries where loss and damage is high. Such an approach would accelerate the green industrial revolution using the most efficient financing channels we have in the most cost-effective way for the world as a whole.

Of course, the private sector has an important role to play. Governments can de-risk the regulatory environment by providing clear policy frameworks and guarantees. Development banks can provide platforms that crowd in private finance, create leverage, or share risks around first losses and frontier projects. All sources of financing need to play their role and they all need to stretch beyond their comfort zones if we are to make progress at the speed and scale needed.

I applaud the Egyptian government's focus on adaptation and Africa at this COP. Africa is responsible for only 1% of emissions but will be the hardest hit by climate change. That cannot be right. At the same time, many African countries are rich in sunshine, wind, rivers, and forests. With support, they could leapfrog the dirty energy systems of the past and, if we create a better carbon market, provide a huge source of income for countries rich in carbon sinks. The green industrial revolution could be the new growth story for Africa.

The economy of the future is our choice. We face a classic intertemporal investment problem – incur some investment costs now with high returns later or opt for inaction or not enough action and incur very high costs and risks later. Even if you do not take future generations into account (which makes these arguments much, much stronger), it seems to me the choice is clear. Climate change and biodiversity loss are here, and we are already suffering the consequences. Unlike the Pharaohs, we can overcome this climate change by choosing a different kind of economy for the future.

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### About the author



**Minouche Shafik**

Nemat (Minouche) Shafik is a leading economist, whose career has straddled public policy and academia. She was appointed Director of the London School of Economics and Political Science in September 2017.

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