



INCLUSIVE GREENGROWTH

The Pathway to Sustainable Development

Marianne Fay, The World Bank, June 2012

“Getting the price right” necessary, but...

- Changing behavior vs raising income
- “Getting the price right”:
 - May be insufficient:
 - Market imperfections
 - Low elasticity of demand
 - May be difficult

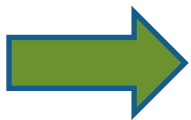
Tailoring first-best recommendations to second-best situations

- When markets fail
- When elasticity is low
- When the political economy is complex

Taking a page from the private sector?

When markets fail...

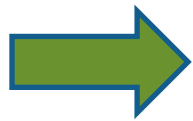
- Missing markets or institutions:
 - Housing; credit
- Lack of credibility/predictability of prices:
 - Frontier innovation; long-lived investments
- Coordination failure and knowledge externalities



Fix/develop markets so prices can work; complement with other instruments

When elasticity is low...

- Lack of alternatives:
 - US vs European drivers
- Behavioral issues:
 - Choice does NOT always follow from valuation
 - Valuation NOT always calculation-based
 - Information or capacity constraints



Complementary investments, social psychology, social marketing and nudging

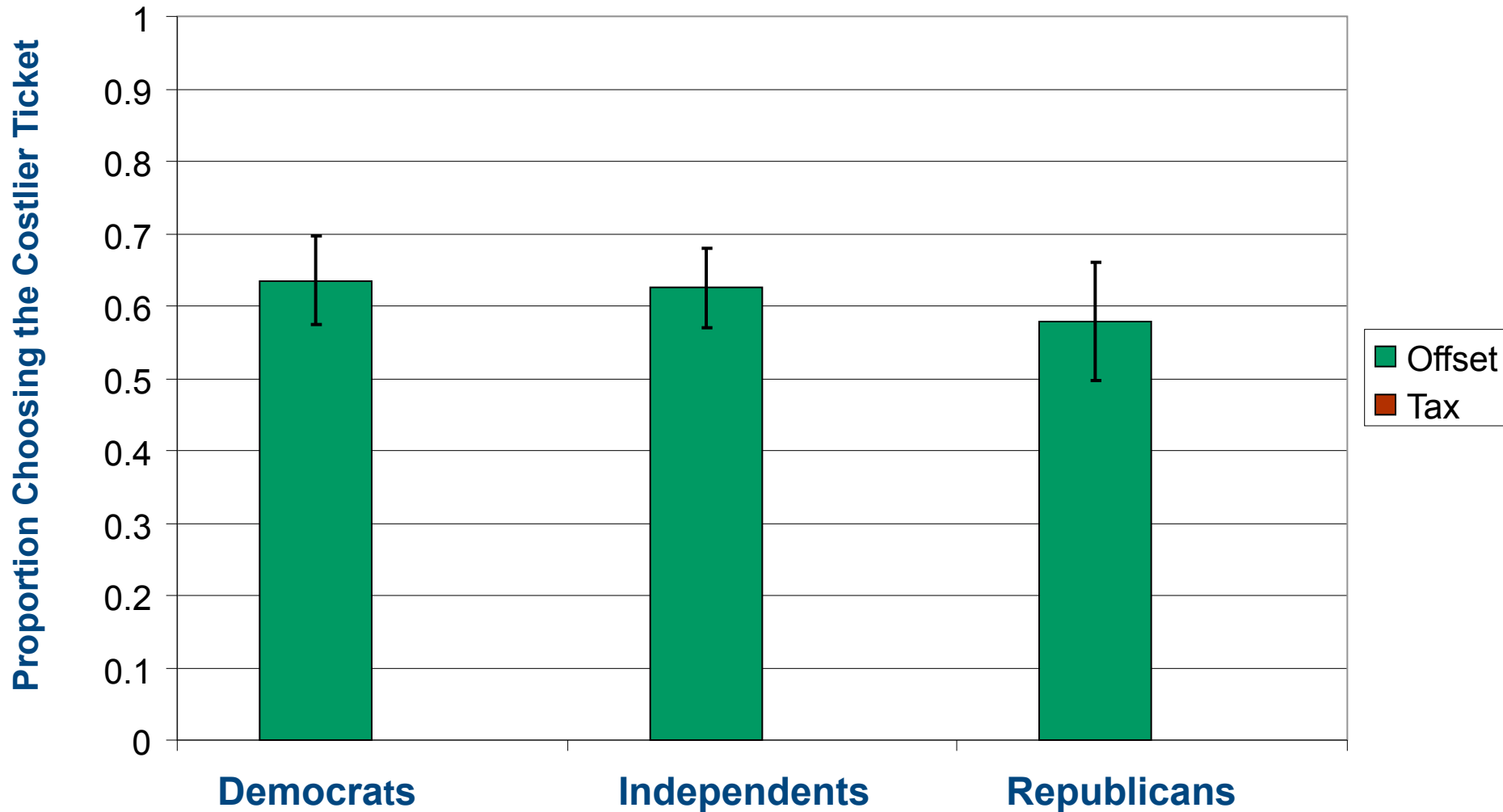


When the political economy is complex

- Fuel subsidy vs trade reforms...
- Understand constituencies
- Generate buy-in
- Avoid hot button issues:
 - Judicious choice of reference points and option labels

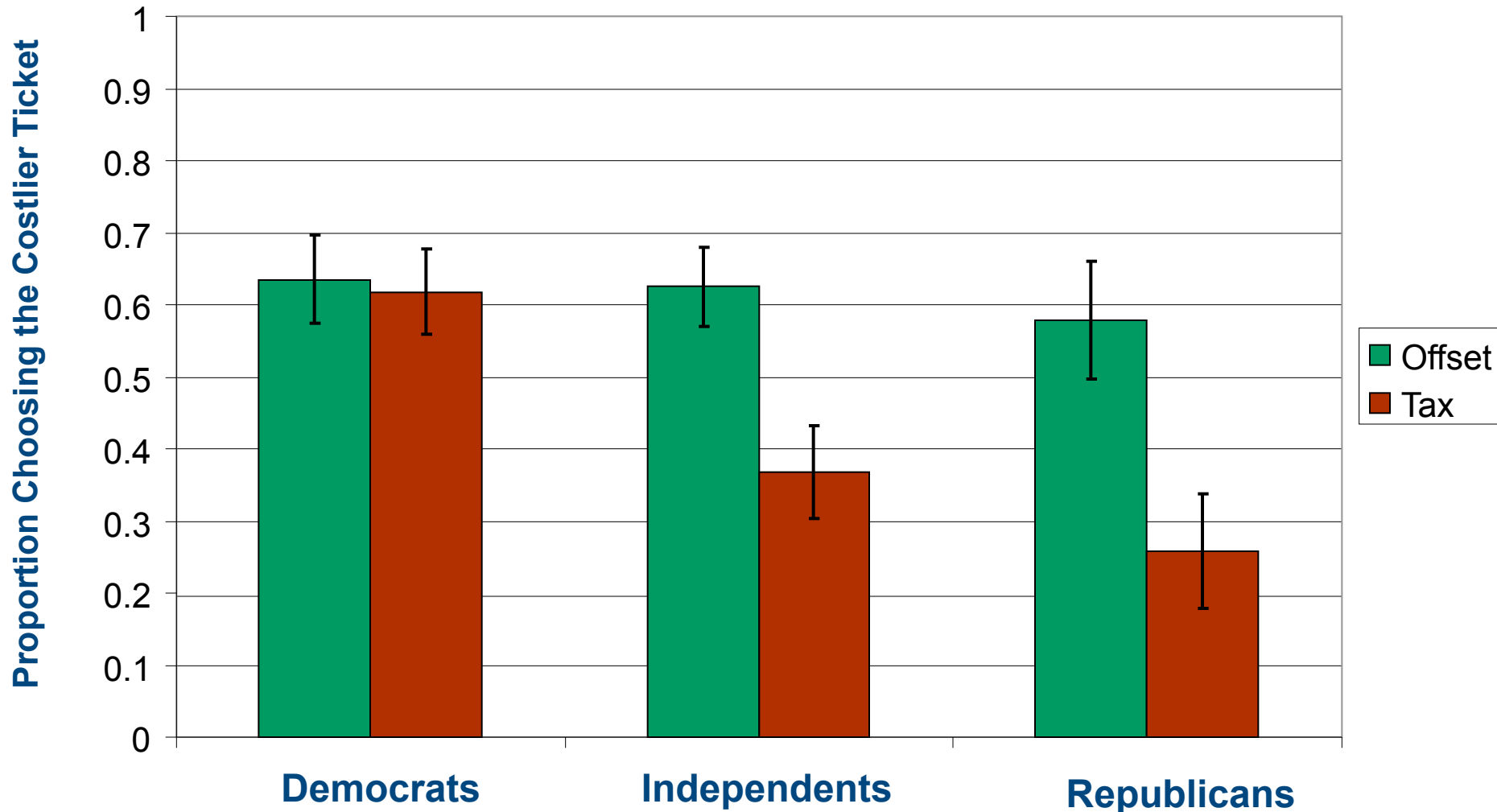
Dirty Word or Dirty World study

(Hardisty, Johnson, Weber, *Psychological Science*, 2010)



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Prices matter – if we let them

- Fix markets, bring in political economy, social psychology and complementary investments so :
 - Prices can be set right
 - Prices are effective instruments
- Use virtuous circle



www.worldbank.org/InclusiveGreenGrowth

www.greengrowthknowledge.org