

The Political Economics of Green Transitions

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Abstract :

Reducing the emissions of greenhouse gases may be almost impossible without a green transition—a substantial transformation of consumption and production patterns. To study such transitions, we propose a dynamic model, which differs from the common approach in economics in two ways. First, consumption patterns reflect not just changing prices and taxes, but changing values. Transitions of values and technologies create a dynamic complementarity that can help or hinder a green transition. Second, and unlike fictitious social planners, policy makers in democratic societies cannot commit to future policy paths, as they are subject to regular elections. We show that market failures and government failures can interact to prevent a welfare-increasing green transition from materializing or make an ongoing green transition too slow. JEL Codes: D72, D91, Q58.