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A green “whatever it takes” moment

On 26 July 2012, Mario Draghi, the then president of the European Central Bank, delivered a historical speech in London that marked the defining turnaround in the euro crisis. His famous “whatever it takes” remark calmed international financial markets, reassured national politicians, and signalled to citizens that the EU (and the eurozone) was ready to go above and beyond to secure its future at a time of existential threat and crisis.

Today, as the world is confronted by one extreme weather event after another, from drought in Madagascar to floods in Western Europe, I am increasingly reminded of Draghi’s famous words because this climate crisis too demands a new, green “whatever it takes” moment. Going into 2022, this *can* and *should* be brought about by an unequivocal commitment to the permanent reform of the EU’s conservative fiscal rules under the Maastricht Treaty.

At the current time, it is hard not to resort to pessimism. On a world scale, the post-pandemic recovery will likely not be as green as originally envisioned, or at least hoped for. Of the staggering \$17 trillion (€15trillion) in global stimulus spending, only a small fraction is ‘climate-friendly’. In the G20, some \$280 billion (€248 billion) in recovery funding has now been allocated to support clean energy, but this is eclipsed by the \$325 billion (€288 billion) dedicated to fossil fuels.¹ Carbon emissions are yet again shooting back to pre-pandemic record levels, and even with the new climate commitments made at COP26 we are heading towards 2.4°C warming by the end of the century – a far cry from what was collectively agreed in the Paris Agreement.

Foundations of green recovery

The EU has been taking important steps in laying the foundations for a long-term climate plan, as well as for the more immediate post-Covid-19 green recovery. But for any Social Democrat, evaluating these plans and actions requires two criteria to be fulfilled: the plans and actions must be both *green* and *just*.

¹ See: www.vivideconomics.com/wp-content/uploads/2021/07/Green-Stimulus-Index-6th-Edition_final-report.pdf; and www.energypolicytracker.org/region/g20/.

On the first, the EU has delivered some remarkable progress lately. The Climate Law now legally enshrines the 2050 climate neutrality goal; the ‘Fit for 55’ package is a coherent and concrete set of legislative proposals and policy initiatives to realise the 2030 objectives; and considerable progress has been made on the EU’s sustainable finance agenda. Perhaps most importantly, this progress shows that climate action has fast been given a place at the heart of all EU institutions. This, by all accounts, is a great achievement.

On the second, a number of important initiatives, such as the Just Transition Mechanism and the Social Climate Fund, have been introduced. The latter is a key part of the ‘Fit for 55’ package as it seeks to cushion the social impacts of the expansion of the new Emissions Trading System. Billions of euros are rightfully being poured into these funds to protect coal regions from the costs of the energy transition or to help families living in poorly insulated houses confront their rising heating bills. These solidarity mechanisms must remain the foundational element of any green recovery.

But there are still cracks in the foundations. Solidarity and justice do not end at the European borders. The Carbon Border Adjustment Mechanism (CBAM), one of the key features of ‘Fit for 55’, has been proposed to prevent the risk of carbon leakage; in other words, to protect European jobs. But can we expect (far) less advanced economies to have the institutional, technical, and financial capacity to implement climate regulation similar to that of the EU; and do we expect them to pay for this if they do not? The European Commission has said it will provide “technical assistance”, but there is a need for far more robust and concrete measures to support the most vulnerable countries that will be affected by CBAM. A starting point would be for the EU, and its member states, to close the gap between the financial promises it made to developing countries at COP15 in 2009 (\$100 billion – €88 billion – per year by 2020) and what it has so far delivered along with other developed countries.² Additionally, the EU should also further work on a comprehensive taxonomy that not only clearly outlines *green* activities but *dirty* ones as well.

A green “whatever it takes” moment

The climate crisis is imminent, if not already here. Going into 2022, truly engaging with the magnitude of the climate challenges would therefore require permanently and radically revising the now temporarily suspended Maastricht criteria – in other words, the obligation for member states to have a deficit of no more than 3 per cent of GDP. Like that other moment in 2012, the EU’s new, green “whatever it takes” moment should be brought about to reassure citizens, national politicians and financial markets (for example, by further institutionalising debt mutualisation) that the EU is ready to face this crisis and that it will be addressed come what may.

For too long, the EU’s conservative fiscal architecture – dating back to 1992, the year when the United Nations Framework Convention on Climate Change (UNFCCC) was adopted – has left EU member states ill-equipped to face the new realities of the climate crisis.

2 See: www.nature.com/articles/d41586-021-02846-3.

The 'retreat of the state' has led to a period of dominance by market-based solutions, self-regulation and private governance. But where has this led us? Permanent and structural reform of the Maastricht criteria will give fiscal and financial oxygen to governments and allow them to become more actively involved in climate action.

This call for reform should not be conflated with a call for the end of fiscal rules. Rather, new rules should allow for flexibility so that governments can explicitly engage in long-term, climate-friendly public spending programmes. This stimulus should further be in line with a strict and comprehensive taxonomy of sustainable and social activities, both within and outside the EU's borders.

The stars are now aligning. During the pandemic we, as citizens, have all been reminded of the need for a strong government that provides vital public services; a new centre-left coalition in Germany has taken office; millions of people continue to take to the streets to demand climate action and this is now at the heart of the EU's long-term planning. The foundations for a green recovery have been laid, the objective is clear, the momentum is there. So, let us build. Whatever it takes.