

Carbon pricing – so polluters pay and people prosper

On Wednesday 30th March the second in a series of 'Reading climate forums' discussed 'carbon pricing' – under which the cost of damage expected from global warming would be reflected in the price of fossil fuels.

Introduction to Carbon Fee and Dividend:

Speaker **Clive Elsworth** from the UK branch of the **Citizens Climate Lobby** <https://www.facebook.com/CitizensClimateLobbyUK/> explained the '**Carbon Fee and Dividend**' approach under which a fee would be paid when fossil fuels were imported or extracted by mining or drilling ... and the money raised would be shared equally between all households.

He said he had been inspired by climate scientist James Hansen's book "*Storms of My Grandchildren: The Truth About the Coming Climate Catastrophe and Our Last Chance to Save Humanity*". Hansen supports a carbon tax returned to citizens as a dividend.

Clive said global decarbonisation is urgently needed – globally demand for fossil fuel use is increasing as people join the 'middle class' – global-scale solutions are needed. But economies thrive on cheap energy, the industry funds climate denial, and the 'tragedy of the commons' (the risk of 'freeloading' by those who don't decarbonise) kills the incentive to take action.

He argued that **fossil fuels must be priced out of the market** – subsidies to renewables or energy efficient travel only reduce cost of activities so lead to more consumption.

To prevent energy-intensive industries moving abroad in response to high carbon prices '**border adjustments**' – a system of duties on imports and subsidies to exports – would have to be imposed.

There are two main ways to price carbon:

- '**Cap and Trade**' - where governments set emission levels and the market sets the price - leads to volatile price signals to industry and 'price' is hard to return to consumers, so politics will prevent price rising sufficiently. The European Emissions Trading Scheme has been ineffectual because many free permits have been given away.
- '**Carbon Taxation**' - where governments set the price and the market sets emission levels, so price signals would be stable. Government could mandate increasing prices so long as this had political support.

'Carbon Fee and Dividend' – would be a form of carbon taxation, but critically the fee would be 100% rebated to households.

This would mean that around 70% of people – those who use less energy - would be better off because their 'dividend' would be larger than the surcharge on their energy use. The scheme would be 'progressive' – lower-income groups would benefit – so should be favoured by those concerned about inequality.

The 'fee' would start at £10 per tonne and increase by £7 per year so that clean energy would be cheaper than fossil fuels within a decade. The predictably increasing carbon price would create a new clean-energy economy.

Support from mainstream economic theory:

Campaigner Justin Bowles presented the views of three economists and a sociologist - saying that 90% of economists favour some form of carbon tax or carbon pricing to address climate change. He discussed the difficulties of setting a price today to reflect the risk of damage in the future.

He recommended the following further reading:

"Why Are We Waiting?: The Logic, Urgency, and Promise of Tackling Climate Change" by Nicholas Stern

"Climate Shock: The Economic Consequences of a Hotter Planet" by Gernot Wagner and Martin Weitzman

"The Climate Casino: Risk, Uncertainty, and Economics for a Warming World" by William Nordhaus

Role Play – campaigner vs MP:

Clive said Citizens Climate Lobby had been founded in the USA eight years ago and now had over 200 groups there and was growing in Australia, Canada, Germany, Sweden, UK and Bangladesh. They aim to form trusted relationships with elected representatives and news editors to generate the political will for a liveable world.

He then led a short role playing exercise – in which participants played either campaigners or MPs discussing Carbon Fee and Dividend.