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Pollution taxes vs emissions trading

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Given the urgency of the climate crisis and what is at stake, we don't have the time or leeway for error to keep adjusting the carbon tax until we settle on the right tax rate per tonne of carbon; this could take 30 years, observe Graciela Chichilnisky and Kristen A. Sheeran in *'Saving Kyoto'* (www.newhollandpublishers.com).

The book, written as 'an insider's guide to the Kyoto Protocol,' discusses a key argument – pollution taxes vs emissions trading. "In situations of great political sensitivity, knowing the cost of policy intervention to industry and commerce may be essential: this is an argument for pollution taxes. In situations of great sensitivity of the environment to pollution, knowing the aggregate level of pollution that will result from a policy may be essential: this is an argument for emissions trading."

The latter point, according to the authors, is crucial to understanding why the carbon market, rather than the carbon tax, is more appropriate for addressing climate change. There are critical thresholds in the planet's climate system, and if we pass these thresholds the consequences are irreversible, the authors reason. "We need the assurance of a fixed global emissions cap to minimise the risks that we will surpass these critical thresholds."

One other reason they present is the powerful political sensitivity surrounding the creation of a global taxing authority, which would be necessary should the carbon taxes approach be followed. "This seems almost impossible to visualise, let alone achieve. It could be as difficult as the creation of a second United Nations."

A global tax authority would be universally opposed, foresee Chichilnisky and Sheeran, because of the concern about the creation of a global bureaucracy that collects funds from all the nations in the world, corresponding to about 1 per cent of the world GDP (gross domestic product) or about \$1 trillion, and allocates them appropriately to avert global warming. "Lack of trust in a global governmental entity of this sort could sink the entire effort."

By contrast, they note, the carbon market sails easily through these difficulties. "The bad guys who over-emit pay the good guys who under-emit, simply and directly. There are no tax authorities in the middle, collecting funds and deciding what to do with them."

To the unconvinced, an example described in the book is about the effectiveness of tax on cigarettes. "A cigarette tax does not guarantee a reduction in smoking, it just provides a disincentive to purchase cigarettes."

So, in theory, if we raise the cost of smoking people will reduce their consumption of cigarettes, the authors elaborate. "But if we fail to set the price high enough, or if people choose to smoke despite the penalty, the consumption of cigarettes will not decrease. It could even increase."

The story is no different with income tax and estate taxes. "We cannot predict that people will work less, or leave less inheritance because of these taxes – and even if they did, we cannot predict by how much."

Suggested read, before the icebergs hit your shore.



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