

Davos: Global leaders must fight inequality through carbon pricing

World leaders are gathering once again in Davos this week for the World Economic Forum, under the theme of “Globalization 4.0”, a reference to the fourth industrial revolution brought about by digital technologies. Climate Change and environmental concerns such as water shortages and air quality are continuing to grow in importance, and dominate the ranking of most likely and most impactful risks of [2019](#).

While people, businesses and governments are increasingly worried about these risks and impacts, global GHG emissions [continue to rise](#), and extreme weather events have killed thousands and [directly impacted millions of people around the world in 2018](#). Yet, in the face of this growing concern and undeniable impacts, the debate around “carbon pricing” intensified in 2018.

In a letter published on January 17th, 2019, 45 US economic advisors, Nobel laureates, and US Fed chiefs, [called for the adoption of a US-wide carbon tax](#). Greg Mankiw, prominent economist and former chair of the Council of Economic Advisors under George W. Bush, commented that “Among economists, this is not controversial”. Indeed, but the important part here is “among economists”. As the yellow vests movement in France attests, there is unease among segments of society when it comes to carbon pricing. President Macron had to freeze the price hike of the French carbon tax as a (fruitless) attempt to ease the protests.

So why is there such opposition to carbon taxes, and how can we overcome it?

Let’s drop the economic jargon

Today, if you read a news article on carbon pricing, you are likely to be confronted with a mysterious sentence such as: “*carbon taxes are cost effective, they help internalize environmental externalities, and their adverse distributional impacts can be mitigated through mechanisms such as tax rebates and direct dividends*”. Say what?...

To build popular support for carbon pricing, we need better communication. We already have a very good understanding of what should and shouldn’t be done to make polluters pay, what we need is to explain it to everyone. Try, for example, to ask a member of the public what they think of the generation of windfall profits from free allocation under the EU Emissions Trading System, and they will walk away before you have the time to say “*cost-pass-through*”. However, explain how heavy polluters [gained over €25 billion from free permits](#) which allowed them to continue to pollute, and your listener might be interested to hear more.

Why should we support carbon taxes?

Of course, good communication will not improve acceptability of bad policies. But while many existing carbon pricing measures have shortcomings, most of these can be corrected. A crucial aspect in this regard is the fairness of the proposed measure.

Making polluters pay sounds intuitively fair. However, there is a perverse effect to this, which is that the goods bought by poorer citizens tend to be more polluting. Since they have less money than better-off neighbors, they will also spend a higher *share* of their income on goods and services -made more expensive by a carbon tax. For example, a carbon tax on road transport could disadvantage worse off people who purchase older, less efficient cars on the second hand market. Similarly, a tax on electricity makes a much bigger difference for someone who cannot save a cent at the end of each month, compared to someone who is comfortably accumulating wealth.

Fair Share

In [a new article featured in the respected scientific journal Nature](#), researchers presented the results of a survey on the public acceptability of carbon taxes. While they found that there was significant support for such taxes, even in tax-reluctant societies such as the US, the level of support varied significantly, according to how revenues were proposed to be spent. Specifically, they found that three systems were supported by a majority of people: using the money to lower taxes on income, giving the money back to citizens from the country in which it was raised, and spending the money on global actions to reduce the impacts of climate change.

It is clear that a balance of social and climate-related spending of carbon taxes should be reached, with a priority to compensate the poorest people impacted the most. Returning money directly to citizens, as is the case in Switzerland and Canada for example, can even *reduce* inequality by returning more money to the poorest people than what they had initially contributed. This is because the money raised can be distributed equally across the population, meaning that the poorest people, with lower carbon footprints, will receive some of the money paid by wealthier citizens who must chip in more to compensate their carbon-rich lifestyles.

A well designed carbon tax should hence decrease inequality globally, which would promote multiple goals of social and environmental progress. World leaders meeting in Davos, should therefore accelerate their discussions on implementing carbon pricing across the globe, and keep in mind that the fairness and communication of these measures are crucial elements for public acceptability.