

# **Delivering high carbon prices without crucifying the poor**

Charging a high price for releasing carbon dioxide into the atmosphere is the most powerful economic tool available for lowering emissions. This is acknowledged in the summary of the IPCC Mitigation of Climate Change report. Carbon charges encourage lifestyle changes and the energy supply sector to shift away from fossil fuels. The problem is, if the charge is not imposed in the right way, the higher energy prices it causes will crucify the world's poor.

Cap and Share automatically compensates people for any increase in the cost of energy as a result of charging for the right to emit CO<sub>2</sub>. Under it, as the price of emitting goes up, so does the value of every citizen's saleable Production Authorisation Permits. While the rich have to pay more for their "luxury" energy, the poor are compensated for the rising price of their "survival" energy.

C&S not only shares out the right to emit. It also shares the profits that can be gained from producing fossil energy in an energy-scarce world. Fossil fuels are running out. The amount of energy available from the world's oil and gas production is expected to peak very soon. Suppose C&S or a similar system is not introduced, emissions are not cut and the distribution of the diminishing supply of fossil energy is left to the market. The prices of all three fossil fuels – coal, oil and gas - will increase as a result of the fierce competition for the limited supply. The producers – chiefly Russia, Saudi Arabia, Iraq and Iran – will reap huge profits.

If past experience is any guide, only a tiny fraction of those profits would go to the ordinary people of those countries. Moreover, even if the money was well distributed, the prosperity it created within those countries would be at the expense of millions of people around the world who would find it hard to pay for their food, heat and lighting.

Now consider what would happen with C&S. In this case, it would not be the fuels that were scarce but the emission entitlement certificates, so their price would go up instead, automatically spreading what economists call the "scarcity rent" amongst us all. Not only would this protect the poor, but it would create new markets for basic manufactured goods,

and thus for the machinery to make them. The economic activity the extra purchasing power would create would spread to more developed countries as well.

This is in sharp contrast to the situation that would emerge if a small group of people and companies captured the scarcity rents because we had left the distribution of the shrinking amount of fossil fuel to a completely free market. Very little of those profits would be spent in ways which created employment for ordinary people. Instead, they would be invested in real estate and blue chip shares, benefiting only the group that holds those assets at present.