

Consistent climate policies

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Global warming and the resulting climate change are some of the greatest challenges facing humanity. Scientists, particularly climate researchers, agree that if CO₂ emissions continue, the earth will heat up to the point that large portions of the globe will become uninhabitable. Other effects, e.g. the impact on ocean currents, are a topic of debate in the climate sciences. What is clear, however, is the prospect of catastrophic conditions if we cannot limit the warming of the earth. In international climate agreements, countries have agreed to limits of at best 1.5 degrees Celsius, and at most 2.0 degrees Celsius. What is also debated is the extent to which global warming is associated with tipping points, after which the negative effects of climate change can no longer be stopped.

This roughly outlined consensus in climate research is not supported by a consensus in the economic sciences regarding the right climate policy. However, a big majority of economic players support a policy that is designed to prevent additional warming, and which is based on four pillars: CO₂ pricing, international agreements in the sense of a climate club, climate payments for social redistribution purposes, and the promotion of technologies that reduce CO₂.

The main player in terms of climate policy is CO₂ emission pricing. If emissions of CO₂ become more expensive over time, emitters have more of an incentive to reduce CO₂ (and therefore their emissions). Those who can reduce CO₂ emissions at a lower cost will save more than those who have to pay more to achieve the same end. In that way, the transition to climate neutrality can be achieved through relative efficiency. Emission trading systems such as the EU-ETS, in which approximately 40% of all emissions in the EU are priced together with industry, the energy industry and intra-European air transport, offer an efficient option for pricing CO₂. Following an experimental phase, the system is now demonstrating its full effect: The volume of allowed CO₂ emissions is fixed by issuing certificates. The price per tonne of CO₂ is determined through the trade of these certificates in the market. If the certificates are reduced as time goes by, the price goes up.

If this form of pricing only happens in Europe, it would create competitive disadvantages for European producers. They could move abroad and emit much more CO₂ there. This would not help the fight against cli-

mate change. Therefore it requires global coordination. While international climate agreements are increasingly degenerating into development policy events, a foray by German Chancellor Scholz regarding the establishment of a climate club is receiving support. It is important that the US is included in such a club. Until now, this has not been possible, which could have something to do with the jurisdictions surrounding climate policies in the US. Because it is the US states that are responsible for emission trading systems.

And now to the other two players of climate policy: Climate payments are required to mitigate the unfavourable distribution effects of CO₂ pricing. While higher-income households use more CO₂ and would therefore pay more at an absolute level, CO₂ pricing would create much more of a burden in the lower income groups, relative to income. Climate payments redistribute the revenues from CO₂ pricing per capita, which results in a significant redistribution effect.

Government subsidies for promoting new technologies that reduce CO₂ are a component of public research and innovation policies. They create additional incentives for reducing CO₂. Using new technologies, this will become easier and create more of an incentive to emulate, particularly in emerging and developing economies.

This list does not include broad subsidy programs for industry to facilitate the transition to low-CO₂ technologies, or administrative initiatives involving requirements and prohibitions (e.g. for heating buildings). These are just extras. Both are extremely expensive climate policy instruments that in no way guarantee a successful transition to climate neutrality. But they are the instruments that are most favoured by the German government at the moment. They have been turned from extras into the main players. This is not a sensible strategy.

Sincerely yours



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