Pricing Carbon is a Magic Job Machine *by Frank de Jong, Earthsharing Canada*

Randy Fath, unsplash.com

"No army can stop an idea whose time has come" — Victor Hugo

Hugo was referring to the French Revolution, but his quote also nailsthe unstoppable logic of carbon pricing. Recently, the Supreme Court of Canada wrote, "Climate change is a real and existential threat to the entire world, and evidence shows a price on pollution is a critical element to addressing it."

The world watched as the Ever Given blocked the Suez Canal highlighting the overdependence on long and precarious supply lines. A charge on carbon will right-price transportation and thus help repatriate outsourced manufacturing.

Al Gore suggests we tax what we burn, not what we earn. Carbon levy revenue could perhaps best be used to offset the hated income tax, to make local labour competitive again. Income taxes were never meant to be permanent.

Pollution taxes are actually not a tax, they are a fee for service. Carbon fees permit people and businesses to get rid of their CO2 by dumping it into the air, like any other fee for disposal of waste.

Emitting CO2 is a privilege not a right, so being required to pay for this privilege makes good sense. The community should be compensated for the loss of its clean air. The atmosphere belongs to all, so carbon fee revenue should perhaps be shared to all as part of a basic income, like the Alaska Permanent Fund shares oil royalties.Canada legislated a $15 USD charge per ton of CO2 in 2019. It increases $8 per year, rising to $140 per ton by 2030. The revenue is returned to citizens as a dividend – low emitters rebated more than they paid in, high emitters paying more than their rebate.

As the world emerges from COVID-19 lockdowns, there are fears of a jobless recovery. A carbon charge reflecting the externalized costs of long-distance cargo will kickstart local manufacturing. Local self-reliance in basic goods and services will, in turn, spur local spinoff industries, the multiplier effects creating jobs.

CO2 levies will shrink the wealth gap without resorting to politically fraught wealth or estate taxation. Everyone — rich or poor — will be incentivized to reduce emissions without disincentivizing ambition or wealth creation.

A price on carbon sends planet-friendly feedback to manufacturers, fund managers and stock brokers. Like coal drove the industrial revolution, so clean fuels and clean electricity are driving the green industrial revolution. Solar panels, wind turbines and geothermal energy will power clean production, heat pumps, fuel cells, electric vehicles, boats and planes.

While emergency monetary stimulus had been needed to float businesses and citizens during the COVID pandemic, there is consensus that the taps must soon be turned off. It is also evident that rock bottom interest rates, which have superheated real estate and bond prices, must be raised.

However, since central bank monetary policies appear to be increasingly ineffective, pressure is mounting for governments to enact fiscal policies. Aggressive carbon pricing, along with rental value capture of land and resources, are examples of elegant market mechanisms which can address the twin challenges of climate change and re-starting economies post pandemic.

The genius of rental value capture is that it's hands off the economy, rental value capture collects unearned income not earned income. It doesn't discourage any business activity—"good" or "bad", climate damaging or climate remediating.

Oil and coal fields are monopoly leased or owned and therefore can charge above their cost of production. The magic of emissions rental capture is that it creates a level playing field between the fossil fuel economy and the job-rich efficiency, renewables and conservation industries. Pricing carbon removes the super profits from the fossil energy spreadsheets, giving renewables and conservation the fair chance they deserve.

But carbon levies are fraught with variables, a whack-a-mole game of cascading effects. But interestingly, I think they will reduce both housing costs and C02 emissions.

If fossil energy was purely a house-like asset, i.e., the price reflecting the cost of production, a carbon fee would behave like a Pigouvian tax, reducing emissions directly proportional to the size of the fee.

But fossil energy is also a land-like asset, i.e., the price is determined by what the market will bear. Therefore CO2 reductions will not respond like a tax on cigarettes. Fossil energy producers may simply choose to absorb the tax, forgoing some of the super profits they normally pocket, leaving the price, and thus the amount of energy used, unchanged.

To further complicate things, if energy costs rise but people decide fossil fuel use is inelastic, some of the rent capitalized into the price of land (which reflects available disposable income) will have to be diverted to fuel costs, thus reducing land values, and again, leaving emissions unchanged.

To recap, fossil energy has a cost of production

Brandi Alexandra, Unsplash

AND it attracts rent, it's both house-like and land-like. But since fossil fuel use is obviously only somewhat elastic, the effect of carbon fees will be distributed between reducing C02 emissions and lowering the purchase price of land.

By definition, economic rent sharing is not punitive to any industry or lifestyle. It doesn't encourage nor discourage any enterprise because it always leaves an operating profit in place. Picking winners and losers is the job of Pigouvian taxes, not Geonomics.

Economic rent capture is not political or environmental, it's just sound economics that forces the speculative economy to shift to the productive economy.

To reduce activities like smoking, drinking or fossil fuel use, politicians instinctively think Pigouvian taxes, not rent capture. Sin taxes make substances like cigarettes and booze more expensive because these substances are endlessly replicable and thus don't attract economic rent. Fossil fuels, on the other hand, are monopoly-held, finite gifts of nature which usually command prices above the cost of production.

But never mind that most politicians and consumers won't understand that eco-sin taxes won't reduce fossil fuel use until all the economic rent has been stripped off by LVT. It's not important to understand the difference between rental value sharing and sin taxes, nor does it matter if carbon fees also reduce land values, the effects of both are positive for the economy, nature and society.

Furthermore, whether carbon levies work or not, they are still highly beneficial since they offset economy-damaging, dead-weight taxes on jobs, business and sales.

And regardless of how effectively carbon levies reduce emissions or lower land values, they clearly remove some of the super profits from the fossil energy industry, giving renewables and conservation closer to the level playing field they deserve. (Remember that renewables and conservation don't attract rent and thus can't generate profits above the cost of production, which means they don't attract equivalent investments.)

So, drive your Chevy to the carbon levy,
everybody wins.

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