

WHAT MIGHT GO WRONG WITH FEE & DIVIDEND (REVENUE NEUTRAL CARBON TAXATION)

In a democracy like the UK, for things to get done they should grab people's imagination or passion. Predictably, the idea of not burning fossil fuel hasn't done that yet. As a result, it is now very, very late, and something precipitous must be done. So a revenue-neutral carbon tax sounds really good. However, we should think through the implications. Right from the start, it will have to be a hefty tax (or fee/revenue) and it will have to get bigger very rapidly. So, whatever it does, it will do it with a vengeance. It will be, inevitably, a massively progressive (in the technical sense) tax. In other words, it will take humungous amounts of money away from rich people and give it to poor people. There will, in fact, suddenly be no poor people. Nor will rich people feel keen to spend their money. Not until there is a whole new structure of energy generation to replace what we have spent the last couple of centuries building. What will rich people think of that proposal? Not much, I suspect, and rich people are good at obstructing changes they don't like. And, in this case, by "rich" we mean the whole population with income above the mean. Rich people like college lecturers, executives, lorry drivers.... Will they let it happen? Let's assume they do, and go on to the next issue. There is very little practical carbon-free, or even low-carbon, energy to be had, at any price. There will be plenty of incentive for anyone to provide some, of course. That's part of the point of the exercise, after all. But no one can work miracles. Nuclear is the credible source for so much energy with so little fossil carbon content that can fit our demands, but it takes years to get such things in gear. What will happen to the economy after significant carbon taxation has been introduced but before there is enough low-fossil energy? By the time fossil-free (ish) energy becomes available in the form of nuclear electricity and nuclear-derived liquid fuels, the poor (who will no longer be poor) will have got a taste for their new life. Now, not just democratic weight of numbers but also a secure economic position will be on their side. Are they going to let their affluence be taken away from them by letting low-carbon energy sources take over, just to save the planet? I doubt it. Of course, ideally any revenue-neutral tax would be brought in small, then slowly increased, but there is no longer time for much of that. No adequate supply of carbon-free energy will appear until it is well worth someone's while to invest in creating it. And here is an irony, because one thing revenue-neutral taxation cannot do is provide capital to build a thousand new power stations. Ordinary taxes do that. So maybe that's what we need.

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