

The Sensible Middle in the Climate-Change Debate

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An overwhelming scientific consensus holds that the rising atmospheric concentration of greenhouse gases is changing the global climate and presenting humanity with enormous challenges. This consensus also holds that climate change is largely driven by human actions, especially the burning of fossil fuels. Yet among the majority of the population who takes this consensus seriously, there is a highly polarized debate.

On one side are people who think we need to resist the lure of economic growth, abandon our relatively free markets, and return to a simpler way of life. According to these people, we need governments to help us “change everything”.

On the other side are people who know that dealing with climate change will require large-scale technological changes, but simply trust these changes to appear as the need arises. In their view, governments can rest easy and “do nothing”.

As is often the case in such polarized debates, there are grains of truth on both sides. More importantly, however, both sides make massive errors. The more sensible approach to dealing with climate change is somewhere in the middle.

The problem with those who want to “change everything” is their failure to appreciate the tremendous power of free-market capitalism in advancing our long-run living standards, largely through the profit-driven processes of invention and innovation that create new products and also better ways of producing existing ones. But their grain of truth is that free markets are unable to deal with environmental problems without some guidance from government.

The problem with those who want to “do nothing” aside from putting their faith in technology is their failure to recognize that technological change doesn't usually just happen. Yes, there are examples of scientists beaver away in their labs, driven only by their own curiosity, and making remarkable discoveries; the invention of the laser and the breaking of the genetic code are good examples. But most technological change occurs because researchers are working to solve real-world economic problems, motivated by the idea that their success will pay off financially. The development of the personal computer, the creation of the mass-production assembly line, and the invention of cellular technology are just three of countless examples.

If each of these polar views is mostly wrong, what is the sensible approach to addressing the problem of climate change?

The sensible approach needs to admit the power of markets in organizing our economy and allocating scarce resources. But it also needs to recognize that when the costs associated

with the emission of carbon dioxide and other greenhouse gases is not included in the prices of goods and services, free markets cease to work their usual magic. In these situations, the faulty price signals embodied in Adam Smith's famous "invisible hand" can be corrected with policies that require polluters to pay a "carbon price" whenever they emit greenhouse gases.

At the same time, the sensible approach needs to recognize that dealing with climate change will require enormous advances in our technologies, especially those dealing with the production and consumption of energy. This points to the importance of creating market-based incentives for the private sector, so it can continue to play its historic role in the rapid and efficient development of new and powerful technologies.

Putting all of this together gets us to the essence of an "ecofiscal" approach to dealing with climate change. There are two distinct parts to ecofiscal policies. First, by requiring a carbon price to be paid whenever greenhouse gases are released into the atmosphere, households and businesses would have a strong economic incentive to reduce their own emissions. At the same time, since everyone would now have an incentive to use cleaner forms of energy, a powerful profit motive would drive businesses to develop cleaner technologies and energy sources.

The second part of ecofiscal policies is just as important. The use of carbon pricing would raise revenues for governments, and these revenues could be used to generate further technological gains. The revenues could be used to drive general technological advances, by reducing taxes on investment or profits, or they could be used in a more directed way to support the development of clean, non-emitting technologies.

The debate about how best to solve the problem of climate change has unfortunately become polarized. But the argument to "change everything" is as wrong as the argument to "do nothing". The sensible middle way would use an ecofiscal approach.

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