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CARBON TAX: WORTHY OF A NOBEL PRIZE

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On 6 October, ahead of the Climate Change Conference to be held in Katowice in December, the IPCC (Intergovernmental Panel on Climate Change) approved a Special Report on *Global Warming of 1.5°C* which reiterates the negative effects already seen following the 1°C increase in the planet's temperature, with extreme weather events, rising sea levels and shrinking ice caps. What the report particularly emphasises is that "limiting global warming to 1.5°C would require rapid and far-reaching transitions in land, energy, industry, building, transport and cities. Global net human-caused emissions of carbon dioxide (CO_2) would need to fall by about 45 percent from 2010 levels by 2030, reaching net zero around 2050. This means that any remaining emissions would need to be balanced by removing CO_2 from air". This grim warning delivered by the world's scientists emphasises that the goal of the Paris Agreement to limit the world average temperature increase to less than 2°C must be strengthened, using more incisive means than those put in place up to now.

At almost the same time, on 8 October, the Royal Swedish Academy of Sciences announced that the Nobel Prize in Economics 2018 would be awarded to Prof. William D. Nordhaus of Yale University "for integrating climate change into long-run macroeconomic analysis". In the motivations for the award it was stated that, "according to Nordhaus' research, the most efficient remedy for the problems caused by greenhouse gas emissions would be a global scheme of carbon taxes that are uniformly imposed on all countries. A global emission trading system can do the same job, provided that limits on emissions are set low enough to result in high enough price for carbon". Alongside the aim of radically reducing CO_2 emissions, Nordhaus' work also provides indications on the instruments to use to deal with the problem of global warming: a price instrument – carbon tax – or a quantity instrument – tradable pollution permits.

These two facts highlight the extraordinary choices to be made to safeguard the future of humanity and the need to use appropriate tools to achieve the goal of reducing emissions and limiting global warming. The question that remains, which will certainly not be answered in Katowice, is how to transform these suggestions into coherent political choices. The US position of refusing to accept a human role in climate change is well known, as is the opposition by many – especially industrially emerging – countries to measures restricting consumption of fossil energy. It therefore seems appropriate to refer to the choice of European Commission President Jacques Delors who, ahead of the UN Conference on Environment and Development in Rio in June 1992, had developed a European, unilateral, strategy to cut CO_2 emissions. This depended on the approval of a Directive introducing a carbon/energy tax of 10 dollars per barrel of oil (when oil prices hovered around 20 dollars a barrel), using the resulting revenue to stimulate the economy by reducing social contributions for companies and workers, thus generating the double dividend of improving environmental quality and creating new employment. Moreover, Delors' idea was that if Europe paved the way, other countries would have followed, thus seriously tackling the problem of global warming.

That proposal for a Directive was not approved; although today the European Union manages about 45% of emissions (11,000 companies engaged in the production of electricity and other strongly energy-intensive sectors) by means of a quantity instrument – the Emission Trading System (ETS) – and with reasonable results, a large share of emissions linked to transport, construction, agriculture and the production of small and medium-sized enterprises is excluded. If the objectives set by the IPCC are to be achieved, a carbon tax on the consumption of fossil fuels should be introduced to complement the ETS, accompanied by the adoption of a 'border tax adjustment' equal to the European production tax rate to be paid on goods coming from countries that do not impose a similar carbon price. This last element would prevent a loss of competitiveness of European industry, and above all, a migration of production for tax reasons – known as carbon leakages – which could even lead to a deterioration of environmental conditions as production would be delocalised from Europe to countries with less stringent environmental constraints.

After years of silence, the idea of imposing carbon pricing was taken up by President Macron in his famous speech at La Sorbonne in Paris. The idea is beginning to take root in both the cultural debate and at a political level. In a recent article (in the Italian magazine *Formiche*) the President of Compagnia di San Paolo, Francesco Profumo, opportunely links the need to introduce a carbon tax to the creation of adequate resources to finance the EU's budget. The creation of an autonomous fiscal capacity in Brussels to launch investment policies to help demand growth was formally reaffirmed by President Macron and Chancellor Merkel in the Meseberg Declaration of 19 June.

The theme of the European budget will be at the centre of the debate prior to the European elections of May 2019 and will represent the focal point of the clash between nationalist political forces and genuinely pro-European political forces. The former hope for a return to unrealistic national policies, even violating European rules, as proposed by the Italian government, while the latter not only demand compliance with those rules but are committed to strengthening – with a view to the approval of the Multiannual Financial Framework 2021-2027 – the size of the European budget. This is needed to meet the multiple needs to which Europe must respond in new terms regarding internal and external security, environmental recovery, innovation and new technologies, employment for the labour force excluded from the production process because of the globalization process and new forms of multilevel welfare that guarantee to all citizens a decent standard of living.

The decisive choice to be placed at the centre of the political debate remains the carbon tax, not least because of the substantial revenue it can deliver. With an initial rate of between €25 and €30 per tonne CO_2, the revenue would range between €75 and €90 billion; if the rate were to reach €50 per tonne CO_2 in the medium term, as estimated by the most authoritative climate change researchers, the revenue would rise to €150 billion. Part of these resources should be redistributed at the national level to promote employment and reduce poverty, lowering taxes on labour, particularly on lower incomes, while the duties on imports should be allocated to the European budget since they are part of the Union's traditional own resources. Another part of such resources should be directed towards a European Energy and Environment Agency, to promote renewable energy and fight global warming. In this way, Europe could, once again, take on a pioneering role, as suggested by Delors in 1992, and effectively counter nationalistic positions by having an active policy for sustainable growth and employment.

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(The opinions expressed here do not necessarily represent the CSF)

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