



A free-market perspective on climate change

Julian Jessop

 @julianHjessop

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1. Agenda

- The case *for* state intervention
- The challenges of climate change
- Possible solutions
- Some of the stupidest things others come up with
- Conclusions

2. 'Public goods'

- The environment provides many examples of 'public goods', where the benefits are 'non-excludable' and 'non-rival'
- It's not possible to exclude any particular individual from the benefits of improvements in flood defences in their local area, even if they haven't paid for them ('free riders')
- This means private companies won't be able to charge everyone who benefits, and therefore that they will invest less than the socially-optimal amount
- In this case, the state probably should intervene (e.g. by paying for flood defences out of general taxation)

3. 'Externalities'

- Similarly, the environment provides many examples of 'externalities', where someone's actions impose additional costs on others (or provide them with additional benefits)
- **Pollution** is a textbook 'negative externality' which can justify state intervention, whether by regulation or (better) by market mechanisms such as taxation (e.g. carbon taxes and congestion charges) or tradeable permits
- There are also '*positive externalities*', such as the benefit of having attractive countryside, which could justify state intervention in the form of subsidy payments to farmers...

4. Defra's ELM Scheme

Environmental Land Management

We want to pay farmers and land managers for providing environmental benefits. In 2024, we plan to launch our new Environmental Land Management (ELM) scheme as one way in which to do this.

This new approach isn't a subsidy. Those who are awarded ELM agreements will be paid public money in return for providing environmental benefits. The benefits we'll fund include:

- clean air
- clean water
- reductions in environmental hazards and pollution
- thriving plants and wildlife
- enhanced landscapes
- mitigation and adaptation measures to minimise the impact of climate change.

5. What is 'climate change'?

- Period of global warming, associated with increased number of extreme weather events, rising sea levels, desertification and other natural disasters (e.g. wildfires).
- **Climate change is nothing new.** In the last 650,000 years there have been *seven* cycles of glacial advance and retreat.
- These were periods of natural fluctuations in temperature, mainly due to variations in Earth's orbit around the sun.
- However, most scientists now agree that the current episode of global warming is largely caused by human activity.

6. What the scientists say on climate change

The world is getting warmer. Thermometer readings around the world have been rising since the Industrial Revolution, and the causes are a blend of human activity and some natural variability—with the **preponderance of evidence** saying humans are **mostly responsible**.

According to an **ongoing temperature analysis** conducted by scientists at NASA's Goddard Institute for Space Studies (GISS), the average global temperature on Earth has increased by a little more than 1° Celsius (2° Fahrenheit) since 1880. Two-thirds of the warming has occurred since 1975, at a rate of roughly 0.15-0.20°C per decade.

Source:

<https://earthobservatory.nasa.gov/world-of-change/decadaltemp.php>



7. More sceptical views

- It's almost impossible to challenge the consensus without being accused of being a 'climate change denier'. But there are some reasonable doubts. In particular:
 1. The extent to which the climate has already changed is often **exaggerated**;
 2. Long-term projections of climate change and its implications are relatively **speculative** and unreliable;
 3. Proposed responses to climate change are not always **sensible** or **proportionate**.
- I'll focus on 3 (which is largely about the economics)

8. 'Net zero'

Reaching Net Zero by 2050 with investment in clean energy solutions and green infrastructure to reduce carbon emissions and pollution.

Conservative Manifesto 2019

- 'Net zero': reducing greenhouse gas emissions and increasing the amount removed from the atmosphere, so that the UK's net emissions fall to zero
- This will be very **costly**, perhaps £70 billion a year, or more than £1 trillion, but also plenty of benefits
- The UK accounts for less than 1% of global emissions, but can set an example for other countries

9. Possible solutions to climate change

1. **Accept** climate change and **mitigate** the impacts
2. Direct state **intervention** (e.g. bans or rationing)
3. Changes in **individual choices** and behaviour
4. **Market mechanisms** (e.g. tax and price signals)

10. “Accept and mitigate”

- Devote a larger share of GDP to upgrading infrastructure, crop irrigation, flood defences, etc.
- Better management of wilderness areas to minimise risk of wildfires, etc.
- More sensible than the view that it is worth paying *any* price to reduce emissions
- Nonetheless, if there are low-cost ways to prevent climate change from happening in the first place, it seems worth exploring them...



11. Direct intervention

- There are some sensible and proportionate things to do, e.g. laws against dumping chemicals into rivers
- But calls for state intervention often go much further, such as **banning sales of petrol cars** and **rationing air travel** (who decides whether a flight is necessary?)...
- ...or huge amounts of public spending ('**Green New Deal**', financed by money printing)
- Government's track record here is poor: e.g. the push for **diesel** and the '**war on plastic**' (which may actually have increased waste and pollution)

12. Changes in individual choices & behaviour

- With **better information**, consumers can make better choices – without the need for coercion.
- Consumers and **investors** can also put pressure on the companies to change their behaviour.
- But bans on lending to companies in fossil fuel industries are clumsy and counter-productive.
- Who else will make electric cars, or develop alternative energy sources?



13. Market mechanisms



- Put a proper value on environmental resources ('**natural capital**' and property rights)
- Tradable **pollution permits**
- Use taxes to correct for environmental externalities – the **IEA*** has published several pieces broadly in favour of **carbon taxes**
- Road **pricing**

** The Institute of Economic Affairs, not the International Energy Agency!*

14. Climate change and inequality

- Claim: *“We have to have a more equal society. It’s the wealthy who are causing climate change; 70% of flights are taken by the richest 15% of people.”*
- *Tackling climate change means we have to address the desperately unequal way both wealth and power are distributed.”*
- Reality: redistributing wealth or income could simply mean that more people can afford to fly!



15. Climate change and population

- Claim: “*Overpopulation is causing climate breakdown*”
- Reality: recall how **Thomas Malthus** was wrong about the ability of the planet to feed a growing population
- Similarly, modern-day pessimists are under-estimating the scope to support more people, grow economies and raise living standards without harming the planet.
- Europe already has a demographic problem – too *few* children. Future population growth will mainly come from developing countries, especially in Africa.



16. Climate change and corporates

- Claim: *“Just 100 companies are responsible for more than 70% of the world’s greenhouse gas emissions since 1988”*
- Reality: it is true that fossil fuels have been the biggest source of CO₂ emissions and that this sector is dominated by a small(ish) number of large companies
- But these companies are simply responding to demand. It is *consumers who are ‘responsible’ for climate change*, not ‘evil corporations’
- Targeting these companies (e.g. with ‘direct action’) completely misses the point

17. Climate change and capitalism (part I)



Laura Pidcock
@LauraPidcock

The sea is on fire but some people *still* think capitalism can be managed.



From Manuel Lopez San Martin

9:11 AM · Jul 3, 2021 · Twitter for iPhone

4,427 Retweets 4,127 Quote Tweets 20.6K Likes

- Reality: the underwater pipeline from which this leak sprang belonged to **Pemex**...
- ...an oil company owned and (badly) managed by the **Mexican government!**

18. Climate change and capitalism (part II)

- Claim: “*Ending climate change requires the end of capitalism*”
- Reality: simply **nationalising** a company would change nothing (pollution is at least as bad – probably worse – in socialist countries and planned economies)
- The best way to tackle climate change is by using **market mechanisms** and changing **individual behaviour**...
- ...both of which work best in capitalist economies, with freedom of choice

19. 'Buy local'

- Claim: *"Buying local is better for the planet"*
- Reality: transporting goods over long distances can involve higher environmental costs, but this can be addressed by specific taxes
- The *overall* carbon footprint of imports can still be lower, especially if goods are produced more efficiently (e.g. NZ lamb, Kenyan flowers)
- **What** you eat matters far more than **where** the food comes from...



20. My conclusions

- Climate change is real and probably exacerbated by human activity, but that alone doesn't justify crashing the economy (or becoming off-grid hermits)
- Questioning whether proposed policy responses are reasonable does not make you a 'climate change denier'
- Focus should be on consumers, not producers
- A lot can also be done without coercion, including providing better information, and through market mechanisms - within a capitalist economy!



Any questions?

Julian Jessop

 @julianHjessop

www.julianhjessop.com