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The Australian Climate Dividend Plan

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Grand Challenges

INEQUALITY

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The Problem

- Average temperature of the Earth's surface has increased by 0.6°C in the last three decades and 1°C since pre-industrialization.
- Global sea levels have risen by around 3mm per year in recent decades.
- Extreme Weather Events.
- Extinction of animal and plants species.
- Air pollution.
- Paris Agreement: keep global temperature rise below 2.0C
  - Australia has agreed to cut its emissions by 26-28% from 2005 levels by 2030.

Guiding Principles

1. **Address Social Costs / Internalise Externalities**
    - Benefits of economic development versus social cost of carbon emissions
    - Optimal tradeoff
2. **Affordable Energy**
    - Heat & cool homes; Drive to and from work
    - A major expense—impact on low-income households
3. **Reliable Energy**

The Australian Climate Dividend Plan

- **Carbon Tax**
  - A$50 per MT.
  - Implemented where carbon enters the economy.
  - Electricity, direct combustion, transport, fugitives, industrial processes.
- **Carbon Dividend**
  - Proceeds returned equally to voting-age citizens.
  - $1300 p.p.p.a.
- **Border Adjustment**
  - Exports to non-carbon tax countries receive rebate.
  - Imports from non-carbon tax countries charge a fee.
- **Rollback of subsidies**
  - Additional $2.5B p.a.

Average-income household $585 pa better off

Bottom-income-quintile household $1305 pa better off

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Why it Works

Market Balancing:

- Gets the incentives for individuals/households right.

- Provides incentives for producers to shift to more efficient types of energy.

No Policy Rabbit Holes

- Universal application

- Universal compensation

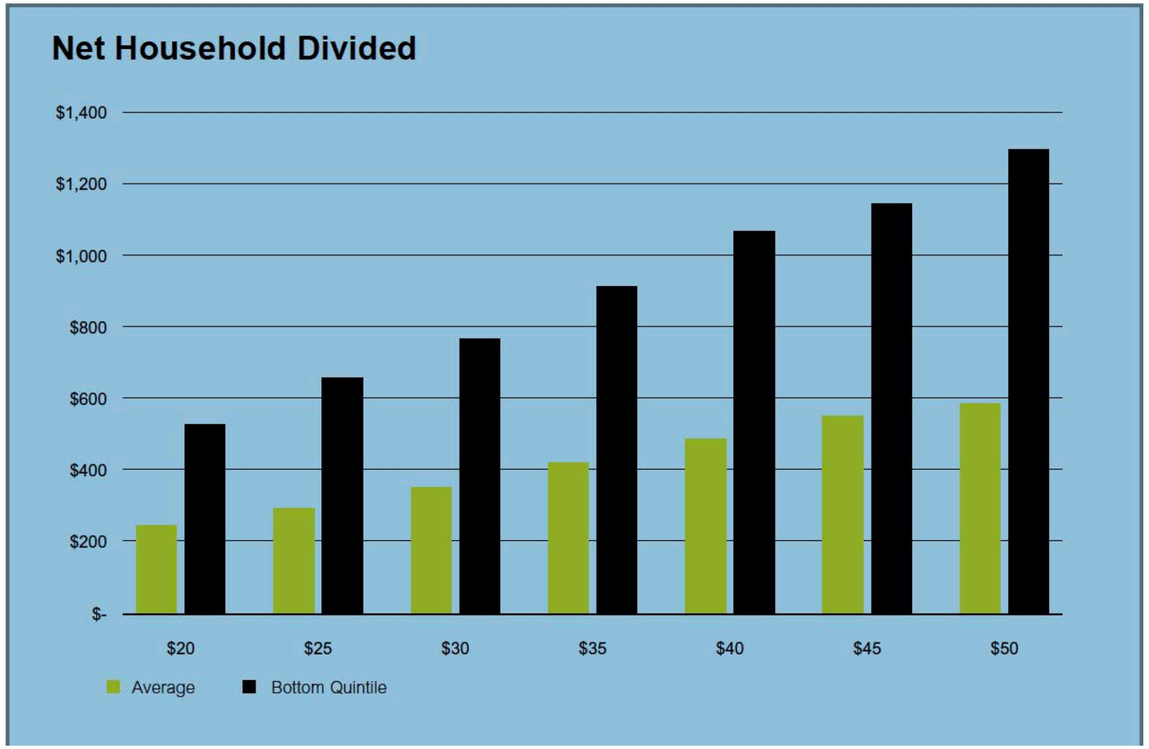
Variants

Phased adoption:

- Could begin with A$20 p.a. tax going to A$50 over time.

Subsidy phase-out

- Renewables subsidies could be gradually removed
- Level playing field
- Budget benefit



Precedents & Fellow Travellers

- Climate Leadership Council (CLC)
  - Summers-Baker-Schultz; Ted Halstead
  - 27 Nobel Laureates in Economics (WSJ piece)
- Citizens' Climate Lobby
- Canada
  - British Columbia scheme
- Alaska

Comparison with Alernatives

- National Energy Guarantee
  - Not market-based; The Rabbit Hole problem; costly
- Renewables Targets and Subsidies
  - No balancing; not technology neutral; government winner picking
- Price-cap Regulation
  - What is reasonable; quality distortions (Laffont-Tirole)
- Carbon Tax with Targeted Compensation
  - Free carbon units for coal-fired generators; cash for steel producers; Jobs and Competitiveness Program
  - The Rabbit Hole problem
- Direction Action
  - Gov. winner picking, costly, no balancing of cost and benefits

Who could be against it?

- Climate skeptics
- @AOC left—want a Green New Deal
- Those who don’t believe in markets
- People with materially different view about size of externality

Takeaways

1. **A market-based approach**
2. **Universal & Progressive**
3. **Maintains international competitiveness**
4. **Sustainability, affordability, reliability**