

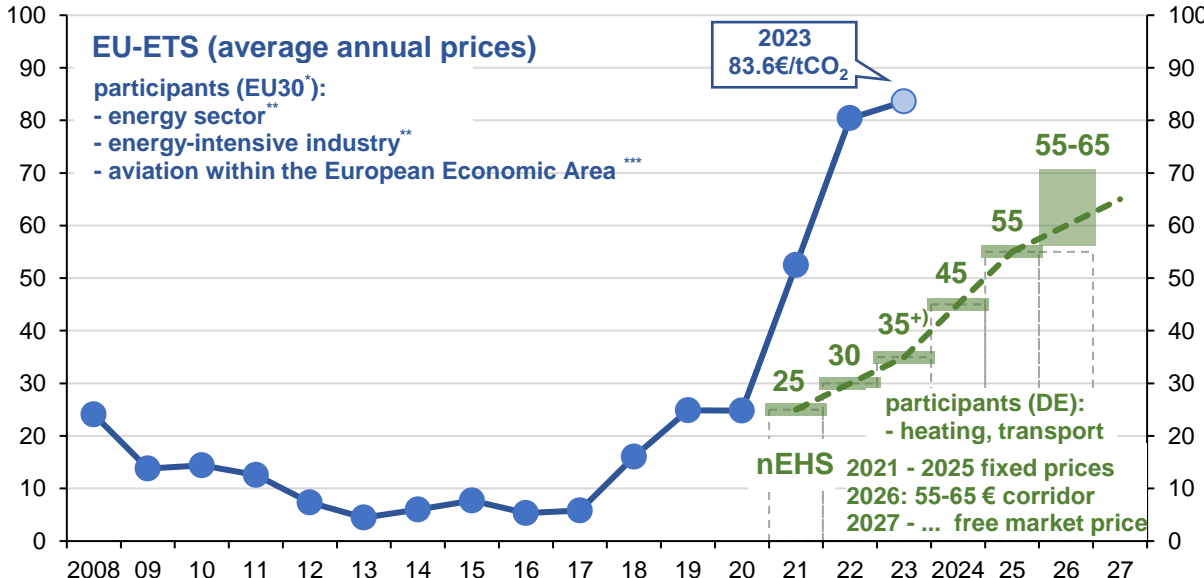
Climate dividend is a key component of environmental policies

Mainz, January 18, 2024 | Dieter Wermuth

The German government plans to raise the price of CO₂ emissions year after year, as an incentive for consumers and business to reduce their consumption of fossil fuels. The fees have the sole purpose to reduce the burning of coal, oil and gas and to improve the climate. Other than the value added or income tax they should not end up in the big government revenue pot and should be fully returned to citizens – this had been agreed in the December 2021 coalition contract between Social Democrats, Greens and Liberals, the so-called traffic light coalition.

Since the absolute and relative increase of the price for energy – which is an important product that has no alternative – hurts poorer households more than the better-off, there would soon be social problems, unless there is a financial compensation. Most economists argue that a climate dividend or bonus is the best instrument to achieve this. Every citizen, infant or grandmother, would be eligible for such a bonus, no matter whether they own a car or actually pay for their heating. A four-person household would get four times more than a one-person household. In this way the income distribution, distorted by rising CO₂ fees, would become more equal again. In this sense the climate bonus would contribute to social peace.

European and national CO₂ pricing
€/tCO₂



notes: EU-ETS = EU Emissions Trading System; nEHS = national emissions trading system (Germany); CO₂-price = price of a certificate that entitles the holder to emit one ton of carbon dioxide.

* EU30 = EU27 plus Norway, Iceland and Liechtenstein. UK was a participant of the EU-ETS until Dec 31, 2020. – ** since 2005 – *** since 2012 – +) The increase to 35 €/tCO₂ on Januar 1st, 2023 was suspended..

sources: Ember, EEX, DEHSt; own calculations; design & desearch: Uwe Richter

This is the theory. In actual politics, government's CO₂ revenues have already been spent for subsidies for such nice and popular projects as electric cars, the insulation of houses, heat pumps and charging stations – politicians love micromanaging the economy. They don't like to admit that the market can do these jobs just as well, if not better. In other words, the pot that could be used for the payment of climate dividends is already empty, and the German minister of finance has a point when he says that the money cannot be distributed twice. In the meantime, it is not clear whether the climate dividend will come at all.

As a result, citizens only see the higher prices for fossil fuels but not the positive effects of the subsidies. For the majority of the population real disposable incomes will decline in the wake of rising CO₂ prices – they feel that their standard of living has fallen and may vote for the fascist AfD, the Alternative for Germany, which may gain more than 20% of the popular vote in the next national elections (in the fall of 2025). I wonder why politicians – who want to be reelected – have not done things differently: pay out the climate bonus first, make people happy, and raise CO₂ prices and thus the prices for gasoline and heating afterwards. The financial situation of the federal government would certainly have allowed such a sequence (notwithstanding the infamous debt brake). I would guess that the Minister of Finance – whose political base are the upper strata of the income distribution – was aware that the climate dividend would be at the expense of high-income households.

According to the Federal Bureau for the Environment (Umweltbundesamt), last year's government revenues from CO₂ fees were 18.4 bn euros, or about 215 euros per capita. This is the amount of money which would be transferred to each citizen. An unmarried student would thus get 215 euros per year from the tax authority while a four-person household could expect 860 euros.

From an environmental point of view, the optimal CO₂ fees are a lot higher than those used in the above calculation. If the goal is to get a full compensation for the damage, today and in the future, caused by CO₂ gas emissions from the burning of coal, gas and oil to the national and global environment, the fees for emitting one ton of CO₂ would have to be four times or ten times higher than their present levels – or more. Science has not yet reached a consensus: it depends on the assumptions used. In any case, the positive impact on the environment, as well as the incentive to burn fewer fossil fuels, would be stronger if emissions rights were more expensive. But this is coming.

As soon as possible, the government should announce its plans for the future of CO₂ prices. This creates the necessary basis for the spending plans of households and businesses and accelerates the inevitable restructuring of the economy's productive potential toward climate neutrality. On balance, high energy prices are something financially positive – and also a means against extremist movements.

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