

GREEN CAPITALISM

A
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RESEARCH PAPER

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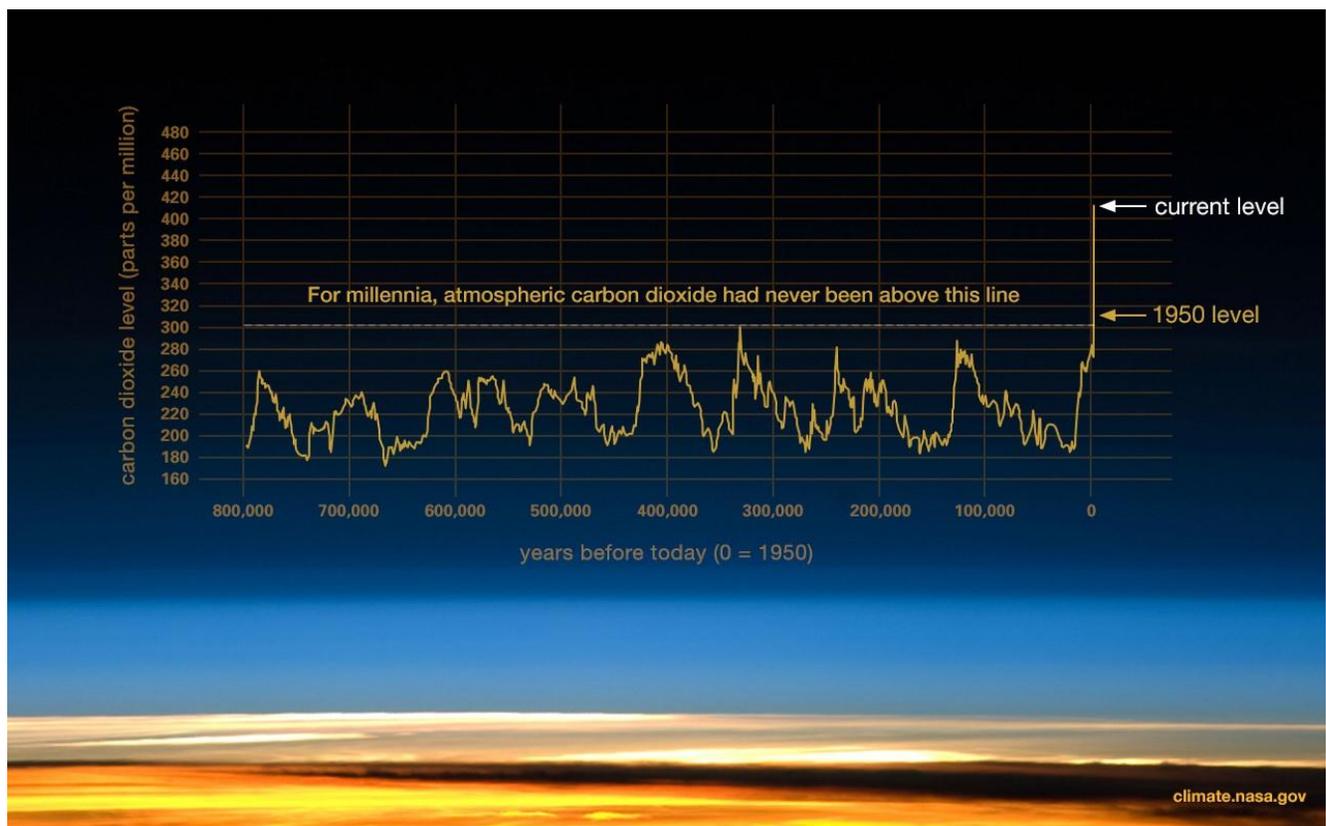
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Background – The Policy Problem

Air pollution and climate change are increasingly viewed as key public policy issues. Increasing levels of atmospheric carbon dioxide (see Graph 1 below) and other climate-changing gasses (such as methane and nitrous dioxide) are causing the earth's temperature to increase. Other issues include warming oceans, shrinking ice sheets, glacial retreat, decreased snow cover, sea level rise, declining arctic sea ice, extreme weather events and ocean acidification (NASA, 2019). Together these present an existential risk to humanity.

Graph 1: Comparison of atmospheric samples contained in ice cores and more recent direct measurements, provides evidence that atmospheric CO₂ has increased since the Industrial Revolution.



Luthi, D. et al. 2008; Etheridge, D.M. et al. 2010; Vostok ice core data/J.R. Petit et al. NOAA Mauna Loa CO₂ record cited by NASA (2019)

In 2016, the United Kingdom's Royal College of Physicians released a report entitled '*Every breath we take: the lifelong impact of air pollution*'. The findings of this paper were damning:

- The annual mortality burden in the UK from exposure to outdoor air pollution is equivalent to 40,000 deaths;
- The cost to society, business, health services and individuals who suffer from illness and premature death caused by air pollution is more than £20 billion every year;
- Air pollution plays a key role in climate change;
- Air pollution is linked to respiratory disease, cardiovascular disease, diabetes, obesity, central nervous disease, cancer, and health problems during pregnancy such as miscarriage, stillbirth, premature delivery and low birth weight (RCP, 2016).

Air pollution and climate change go hand-in-hand being caused primarily by the burning of fossil fuels to power our industry, homes and transport. If we wish to continue to live on this planet, and safeguard it for our children, action must be taken.

Traditional Policy Responses

Environmental policy in the UK has tended to act on the 'polluter pays' principle. This is "is the commonly accepted practice that those who produce pollution should bear the costs of managing it to prevent damage to human health or the environment" (LSE, 2018). For example, car owners pay varying levels of car tax depending on the amount of carbon dioxide (measured in g/km) their vehicle produces. Other examples include Fuel Duty of 57.95 pence per litre which is also levied on petrol, diesel, biodiesel and bioethanol (Gov.UK, 2019), and London's Ultra Low Emissions Zone which charges £12.50 for most vehicles which drive within central London (TfL, 2019).

A limited number of environmentally-focused incentives do exist such as the Plug-in Car Grant (PiCG) of £3,500 for new electric vehicles (EVs) and up to £8,000 for electric vans. Incentives for domestic solar panel installations have now ended.

Therefore, overwhelmingly policy in this areas has focused on using a stick to punish people for making the ‘wrong choices’ rather than a carrot to incentivise and encourage the ‘right choices’. Inevitably these punitive taxes disproportionately affect poorer households. This is leading to policy-makers losing the battle for hearts-and-minds which is necessary in the fight against air pollution and climate change. This paper argues a new strategy is needed. We propose the adoption of what we call ‘Green Capitalism’.

Green Capitalism

Green Capitalism is about using behavioral economics (popularised by Richard Thaler and Cass Sunstein of the University of Chicago) to inform and deliver environmental policy.

Green Capitalism, therefore, adopts a range of key principles:

- Environmental policy should, whenever possible, use incentives to encourage positive behaviours, e.g. reward schemes for recycling, using canvass bags for shopping, buying an EV, etc.
- Environmental policy should avoiding punishing negative behaviors, unless absolutely necessary, i.e. punishing those who bought Diesel cars when they were encouraged by the Government to do so. In this example, a scrappage scheme funded by car manufacturers and Government should instead be adopted.

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- Markets should be encouraged and supported to transition to sustainable forms of energy, e.g. generous tax breaks for companies investing in electric vehicles to overcome the high initial capital cost.

By remaining positive, by winning hearts-and-minds, the shift away from fossil fuels will continue. Consumers, through their own changes in spending habits have already made the Tesla Model 3 (a luxury electric car) one of the best-selling vehicles in the US (Business Insider, 2019). In this case the initial cost of purchase is higher than a standard internal-combustion engine (ICE) vehicle, but significant savings are realised due to significantly lower running costs.

New technology driven by R&D and innovation also means that green energy is now far cheaper than fossil fuels. Vestas Offshore (2019), for example, now produce a turbine capable of producing 10 Megawatts of electricity and a useful life of 25 years. The lifecycle cost of wind turbines is now many times lower than coal or gas powers stations, and infinitely times lower than nuclear power (the unsolved problem of nuclear waste presenting an unknown unending cost to society).

In conclusion, policy makers need to take the people with them. By adopting green capitalism, by using the carrot and not the stick, we believe they can achieve this.

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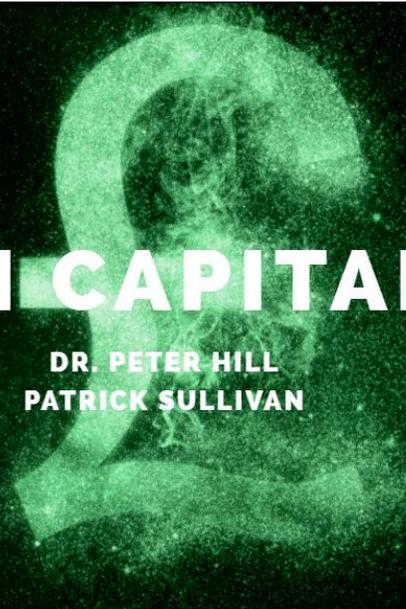
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