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## A review of “Pricing Carbon Emissions. Economic Reality and Utopia” by Aviel Verbruggen

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### ABSTRACT

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According to Verbruggen the main obstacle to a decarbonized future of the European Union and partly also the World is the notion that the buying and selling of permits to emit CO<sub>2</sub> is a panacea. On all possible accounts it has, however, proven to be a dead end. So rather than repeatedly remedying the system all attempts to implement such a general solution should be abandoned entirely. This could then pave the way for a more targeted ‘Act Now’ policy aiming at reducing the level of CO<sub>2</sub> emissions to zero as quickly as possible. If you wish to know more about why ‘pricing carbon emissions’ as a general policy is the wrong way to go, the book by Verbruggen is required and indispensable reading.

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### 1. Intro

The book “*Pricing Carbon Emissions. Economic Reality and Utopia*” by Aviel Verbruggen [1] is an important and timely book. But it is not an easy read despite the fact that the target group is meant to be a ‘*broad audience interested in climate policy eager to understand why decarbonization progress is [so] slow as it is*’ (p. i). In this light, it is paradoxical that the detailed explanations are much more understandable than the introductory and concluding parts presenting the overview.

The widespread use of acronyms, as so often seen within energy planning, does also contribute to making the reading much harder than necessary. My personal favorite is the less than obvious ‘OCF-SD’ (Our Common Future-Sustainable Development). But to be fair, the book contains a list of acronyms covering as much as 2 1/2 pages (p. xxv-xxvii) which the present reader had to consult countless tiresome times.

The strength of the book is in the criticism of arguments uncritically favoring the so-called market for buying and selling of permits to emit carbon dioxide as *the* solution to avoid climate change, while its constructive

contribution in how to move the world towards sustainability is more modest than hoped for by the present reviewer.

It adds to the complexity of the book that carbon pricing is discussed from two different perspectives and that the author effortlessly shifts between these two and presupposes that the reader do follow the author all the way. The title of the book does also indicate the two perspectives: how the market for permits to pollute works (reality) and how economists assume it ought to work according to mainstream economic theory (utopia).

The emphasis in the book is about stating and explaining the obvious to all but neoliberal economists and politicians following their advice: essentially, that pricing carbon emissions does not solve the problem of global warming and even more importantly, focusing so much on this policy tool has already resulted in 20 years wasted on decarbonizing next to nothing in Europe.

The critique is based on often highly technical arguments but pedagogically placed in the appendices a-e at the end of the book. Regrettably, the critique seems to tell us more about how most economists think than

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about the alternatives. The largest part of the book is, hence, mostly devoted to proving that the author is right in his criticism of carbon pricing which might give most readers an unfair impression of a man with a cause. But a very important cause that is.

## 2. Why is the process of decarbonization going so slow in EU?

But returning to the opening sentence: What are then the main reasons why the decarbonization process is so slow according to the author? It is acknowledged that political scientists might have some plausible answers to this question, but the focus is on what I would very broadly call 'economic' reasons - of course acknowledging that politics and economics are intimately linked.

It is convincingly demonstrated that the pricing of carbon emissions is a policy tool that is impotent on all accounts (p. 141). Most importantly, it has neither led to a reduction of emissions nor, as intended, spurred the development of innovations tailor-made to reduce emission. But even worse because the EU ETS – '*Emissions Trading System/Scheme of permits to emit greenhouse gasses*' (p. xxvii) – has been regarded to be all what it takes, it has turned into becoming *the* climate policy in the EU. This has led to a long-term stalemate starting in 1998-2000 and does also threaten to endure to at least 2030. And this vision has also had a heavy impact on a global level and has been recommended and promoted by the UN.

Part of the tragedy is that in a European setting it has been acknowledged repeatedly that this system has not yet delivered but the paradigm and the powerful actors favoring the system have been so strong and convincing that reality has been blamed for the malaise rather than the idea of carbon pricing. The system has, hence, been modified several times because it seems to be so intuitively obvious that we should make the polluters pay for their pollution – or internalizing externalities as economists would formulate it.

The core of the book is several arguments substantiating why carbon pricing has not worked and would not ever work as a general policy. According to the author it might, however, make sense as a policy in smaller local settings addressing specific areas producing too much CO<sub>2</sub>. Trying to turn carbon pricing into a universal policy is blocking alternative policies which in contrast are guaranteed to work here and now like targeted taxation of commodities or services such as air transport

involving a high level of CO<sub>2</sub> emission. In other words, by understanding the wrongdoings of carbon pricing one is also able to understand why the process of decarbonization has been so slow.

## 3. How to accelerate the process of decarbonization?

Essentially, Verbruggen suggest four steps to speed up the process of decarbonization.

The first is to abolish the system of carbon pricing as a general solution all together everywhere. No less, no more.

The second step would be to subsidize areas having zero emissions and heavily tax areas being part of the climate burden.

These policies would, however, only work if they are developed locally as the world is diverse rather than homogenous. Verbruggen does convincingly argue against one-size-suits-all policies on a European or global level. In addition, the federal level (like the EU) should focus on immediately giving up the direct and indirect support for nuclear power and oil and gas.

Thirdly, Verbruggen emphasizes that economic incentives could and should be *the* main drivers in developing renewable energy technology as proven possible by the case of e.g., wind power in Denmark.

Finally, industrial activity must be decarbonized directly sector by sector at a detailed level as much and as fast as possible. We are in a hurry.

Consequently, I would also have expected the last chapter (8) to be the most important: "*From evaluation to a well thought-out 'Act Now'*". In this chapter the author insists on the necessity for a '*drastic and urgent change*' (p. 145). But what does the author tell us about *how to bring about this change?* Not much as criticism also takes up (too?) much space in this chapter. But what is written is very important so in the following the substance is analyzed meticulously.

We are told that it is already now technologically feasible to move very quickly towards a sustainable feature but getting there would be a process constrained by ideas, institutions, interests, and infrastructure (according to the important figure 1.1. (p.4)); or in shorthand: '*numerous inertias*' (p. 155).

This of course raises this pertinent question: what could be done to overcome all these inertias? Basically, we should '*Act Now*'. This is not all that operational but as this point is so important, I have analyzed what

Verbruggen writes more specifically about ‘Acting Now’. There is a need for a ‘*strategic public policy*’ supported by ‘*economically effective and efficient financial instruments*’ (pp. 151-52). The focus should of course be on electricity as Verbruggen, as other authors within the area, underlines the importance of electrifying whatever could be electrified by renewable energy. In producing the much-needed electricity, it is, however, of vital importance to hit a balance between ‘*bottom-up, distributed, consumer-owned*’ electricity and ‘*top-down centralized, company-owned*’ (p. 152). In contrast to the criticized and dominant neoliberal paradigm this would require the existence of a ‘*strong independent public interest regulation for setting and enforcing the effective and just rules for dispatching and pricing, rewarding the investment and delivery of power by both sides*’ (p. 152).

But how to get there is not at all clear. Verbruggen becomes close to deterministic when he forwards the view that: ‘*A new epoch irrevocably is arraying*’ (p. 155). But on the other hand, the author is far more open when stating that: ‘*It all starts with ideas*’ (p. 155). So basically, the idea (!) is that if we change our perceptions of the world, we will also change our actions.

Verbruggen is, hence, in this respect a kindred spirit with the famous macro economists John Maynard Keynes who stated that “*The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else*” [p. 383, 2]. This does also explain why Verbruggen spends so much time and space criticizing not mainstream economic theory as such but how it is being (mis) used.

The alternative to the present policy would be to agree on a new paradigm. We need to create new images and institutions which are up for the challenge. The book does not get much more specific than this. Policies should be ‘*effective, efficient, fair and transparent [... and] diverse and locally anchored*’ (p.157). The ‘*numerous bottom-up initiatives should be based on principles of coordination*’ (p. 157) but financial incentives are also important when practicing self-governance (with a reference to the only female winner of the Nobel Prize for economists Elinor Ostrom). We should govern ‘the commons’ with rationality and establish a self-governance framework for global climate policy. The hope is that in this process we would both identify forces and

devices to overcome the before mentioned inertias. We would need to construct, operate, and protect the commons.

Verbruggen ends his book with a metaphor. We need to make a rebellion like the slaves did in relation to the Roman empire. But restricting the analysis to demonstrate that the current thinking is unsustainable does not do away this policy when there are strong political and industrial interests – as also argued by Verbruggen - in preserving status quo. Arguing against power is an important step in changing things but it is not enough. Being persuasive does not necessarily lead to persuasion and consecutive corrective action. We need to be clearer about who the carriers of change could be and how we can empower them with more than an in-depth and relevant criticism of the existing system.

#### 4. Outro

When the author is presented on the first page it is mentioned that he has experience and knowledge about politics. A bit odd this is only reflected in the book very superficially and the conscious choice of focusing on the economic dimension is not even discussed but taken for granted. The book is more interdisciplinary than most economists would master but it would have gained from giving more emphasis to the political process retarding or promoting sustainability. But Verbruggen is still a young Emeritus Professor so maybe we can hope for a part two or a revised and extended and maybe more reader friendly edition of the present book. Anyhow, the book is highly recommended by the present reviewer. I learned a lot and I guess you would do the same.

#### About the reviewer

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#### References

- [1] Verbruggen A “*Pricing Carbon Emissions. Economic Reality and Utopia*”, ISBN 978-1-032-00362-7, Routledge, June 2021
- [2] Keynes, J M. “*The General Theory of Employment, Interest, and Money*”, ISBN 978-3-319-70343-5, Springer, 2018 [1936]

