

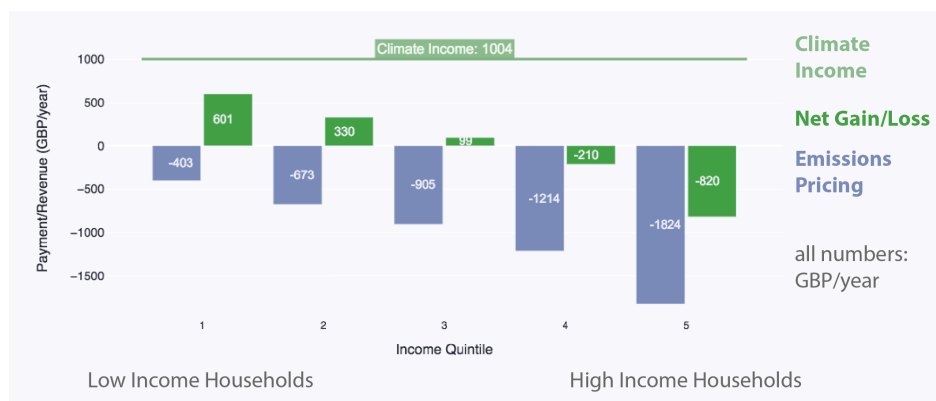
## Benefits of Climate Income

[Around 40 % of the EU's emissions are subject to EU emission pricing](#),<sup>1</sup> potentially rising to 63 % following new reforms. Not surprisingly, a debate has emerged on using the revenues from future emission pricing<sup>2</sup>, which are currently earmarked for modernization, innovation, and a new Social Climate Fund for the most economically vulnerable. An alternative use, “**Climate Income**,” would return the majority of proceeds to each citizen and resident in member states following the concept of *shared ownership of the atmosphere*. It treats the limited capacity of the atmosphere to absorb emission as a universal property, whereby all citizens own a piece of the sky and should be compensated by those who pollute it.

In addition to this philosophical reasoning, real-life and practical arguments also show the virtue of this policy, also known as carbon dividend.

- Climate Income makes emission pricing fair and equitable.** A cash transfer of emission pricing revenues to consumers and households will prevent social hardship that could arise from increasing prices for carbon-intensive goods and services. Because households with lower incomes tend to have smaller carbon footprints, a cash transfer of revenues means low- and middle-income households would receive a net benefit.

**Illustrative emissions fee payments and revenues (£) by income quintile.** Adapted from: Burke, J., Byrnes, R., & Fankhauser, S. (2019). Policy brief: Global lessons for the UK in carbon taxes.



The figure below shows how much households in different income groups would pay in emissions fees, how much they would earn in Climate Income, and the corresponding net gain or loss. **A £40/tCO<sub>2</sub> emissions fee raises enough revenue to give each household an equal ‘dividend’ of about £1,000 per year, leaving the lowest three income quintiles (i.e., roughly half of all households) better off.**

<sup>1</sup> Bua, G., Kapp, D., Kuik, F., and Lis, E. (2021) EU emissions allowance prices in the context of the ECB’s climate change action plan. ECB Economic Bulletin, Issue 6/2021 [https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202106\\_05~ef8ce0bc70.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202106_05~ef8ce0bc70.en.html)

<sup>2</sup> Although a majority of current pricing schemes focus on carbon dioxide, we need to tackle emissions from all greenhouse gases, including methane which has a warming potential 86 times that of carbon dioxide, and nitrous oxide, which has dire long-term health consequences, hence our choice for the term emission pricing.

- **Climate Income makes ambitious emission price levels politically feasible.** The fear of social disruptions due to increasing prices for carbon-intensive goods and services is one of the most common counter arguments against ambitious emission pricing schemes with steep price increases over time.

Climate Income invalidates this argument because it allows prices to rise to the level necessary to achieve the Paris Goals without risking social disruptions. It gives the European Union and its Member States the chance to make emission pricing the centre piece of a broadly supported and effective climate policy.

Moreover, since the measure can be implemented with low administrative costs, it can be considered as revenue-neutral and will thus not compete for resources with other climate policies already in place. In fact, the effectiveness of the measure will allow policy makers to install even more ambitious accompanying programs.

- **Climate Income rewards people who live low-emission lives.** Households who already live low-emission lives, by choice or circumstance, and those who are working to reduce emissions are rewarded. While the amount of Climate Income is fixed, the increased cost depends on one's personal footprint. Climate Income thus strengthens the financial incentive to take part in the environmental transition.

In combination with emission pricing, Climate Income is a compelling economic driver of climate innovation. Instead of speculatively subsidising favoured technologies or fuel types, Climate Income allows recipients throughout the entire economy to spend the money where it makes the most sense: where emission-intensive goods and services can be replaced with more sustainable and - thanks to Climate Income - more affordable alternatives.

- **Climate Income provides people with the funds to choose low-carbon products and services.** It creates consumer interest for companies that either have reduced their emissions or see the market impact of such decisions. Climate Income creates consumer interest for well-managed companies working to reduce their emissions and prices. Beyond the direct competitive advantages for companies, such as reduced costs, there is also an incentive to offer consumers financial support or loans for significant investments like zero-emission heating systems.
- **Climate Income makes climate policy visible and authentic.** Emission pricing is an abstract concept for many. Climate Income makes the policy tangible, reminding people of the bold and joint effort to reduce emissions. The practical transparency is key to the public understanding necessary to achieve the end goal.
- **Climate Income creates political support for ambitious climate policy.** Various climate policies, including emissions pricing, have been associated with sacrifice and hardship, making it difficult for any political party to gain and maintain the public support needed. Climate Income can help reverse this narrative by focusing on fairness, delivering a net benefit for many, enabling the purchase of greener products, and helping to create a sense of joint effort. Climate Income turns emission pricing into a popular, socially just, and broadly supported climate policy. This perspective allows policymakers to take the necessary, long-term, non-partisan actions.
- **Climate Income has existed in Canada since 2008.** Since its introduction in British Columbia in 2008, where it is known as *Carbon Fee & Dividend*, Climate Income's ambition has been continually raised and was eventually adopted at the federal level. The 2019 election showed overwhelming public support for the policy, with 67 % of votes going to politicians endorsing the measure.

Over 3,000 economists, including 26 Nobel Laureates, 15 former Chairs of the Council of Economic Advisors, and 4 former US Federal Reserve Chairs have supported the policy, stating that an emissions fee is the “most cost-effective lever to reduce carbon emissions at the scale and speed that is necessary” and that **“the majority of [...] families, including the most vulnerable, will benefit financially by receiving more in [Climate Income] than they pay in increased [...] prices.”**

**Climate Income Calculator.** To easily estimate the impact of this measure on the yearly budget of European citizens, we designed the [Climate Income Calculator](#).<sup>3</sup> It takes less than a minute to find out the effect on different specific household situations assuming a steadily rising price on emissions.

---

<sup>3</sup> Citizens' Climate Europe. (2021) Climate Income Calculator [Online tool] <https://citizensclimateeurope.org/climate-income-calculator/>