



How the Dividend Really Works

The economics of a brilliant idea

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We know most politicians don't understand

- 1 They are beginning to realize that climate change is very serious.
- 2 They are beginning to realize they need really dramatic action
- 3 They think it is hard and complicated
- 4 I think some of them are panicking.



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 - Minimum of \$150/ tonne
 - Roughly 33 cents a litre



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Minimum of \$150/ tonne
Roughly 33 cents a litre
- 2 That is not politically acceptable
- 3 **Unless** you have a carbon dividend



The dividend is simple

- 1 but its effect is different for different people.



The dividend is simple

- 1 but its effect is different for different people.
- 2 so lets get the economics clear



The Two Ideas

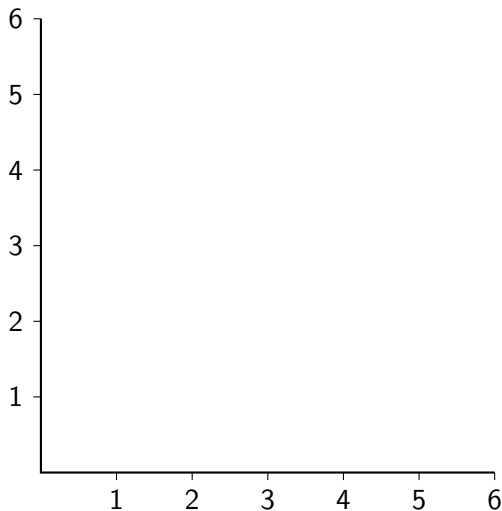
We need two ideas

- 1 One graphic idea: **A triangle**
- 2 One bit of economic jargon:
Compensating Variation



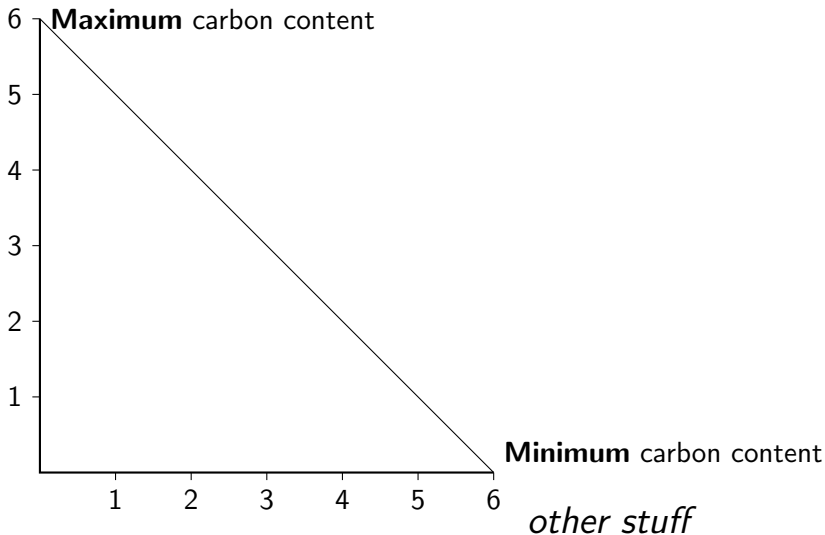
Prices determine what people can buy

carbon stuff

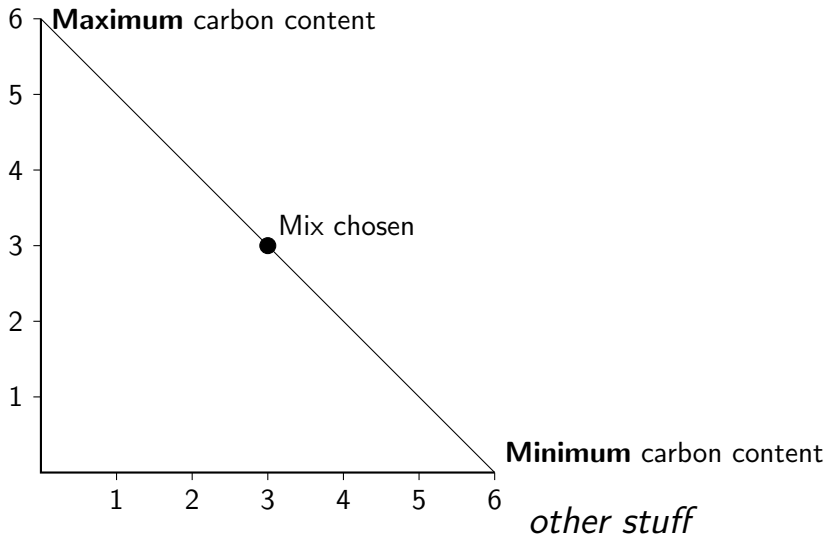


other stuff

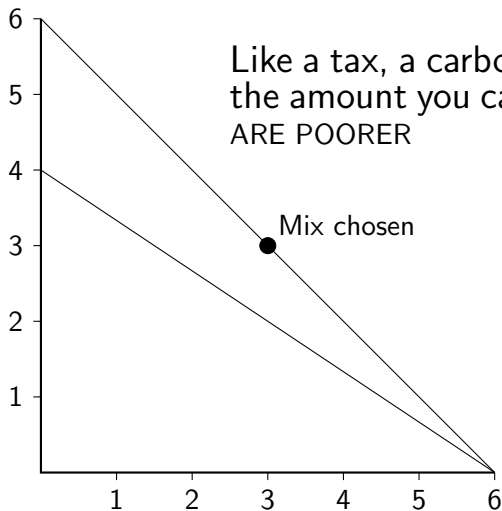
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The Carbon price changes what you can buy

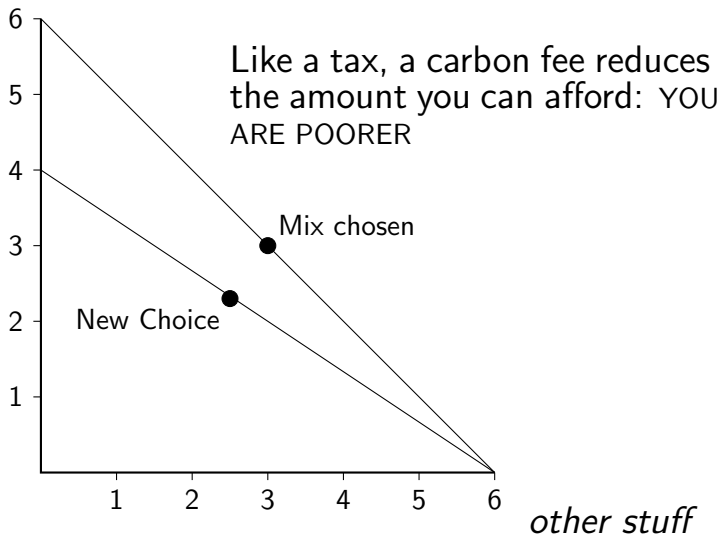
carbon stuff

Like a tax, a carbon fee reduces the amount you can afford: YOU ARE POORER

Mix chosen

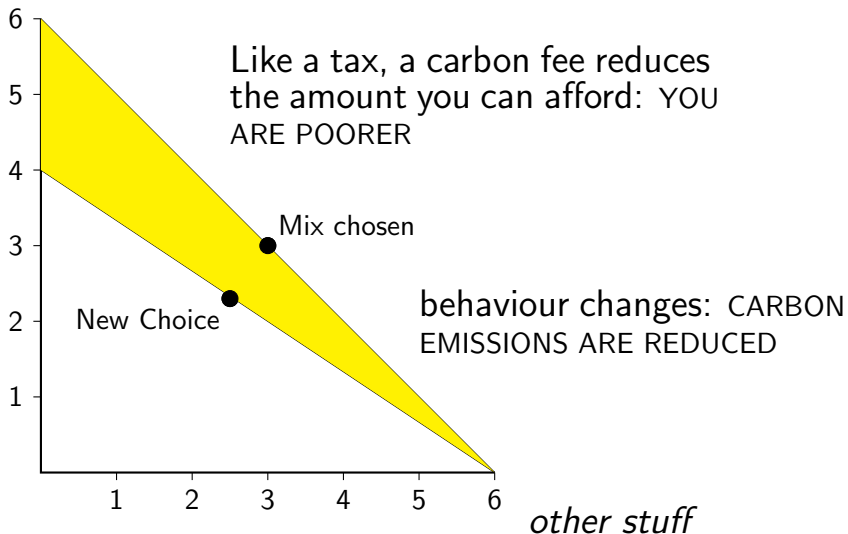
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One good, One bad

- 1 There is a **price effect**: shift away from carbon
GOOD
- 2 there is an **income effect**: people are poorer
BAD

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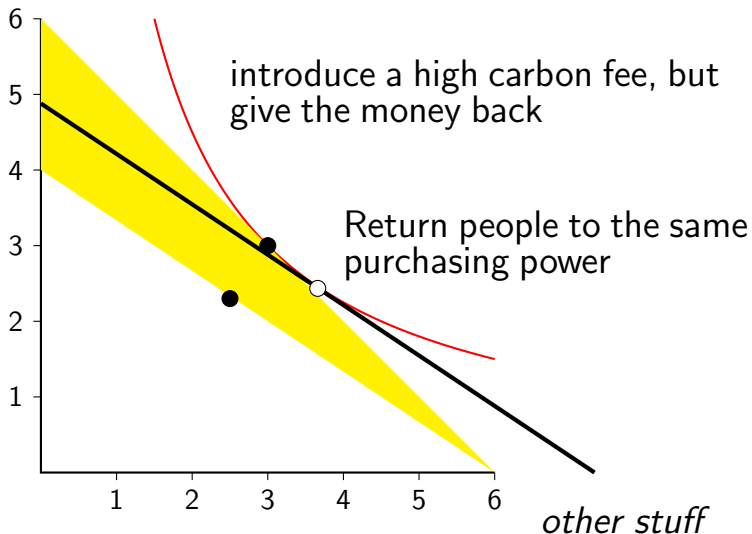
→ POLITICAL PROBLEM

Political Solution: THE DIVIDEND

introduce a high carbon fee, but
give the money back

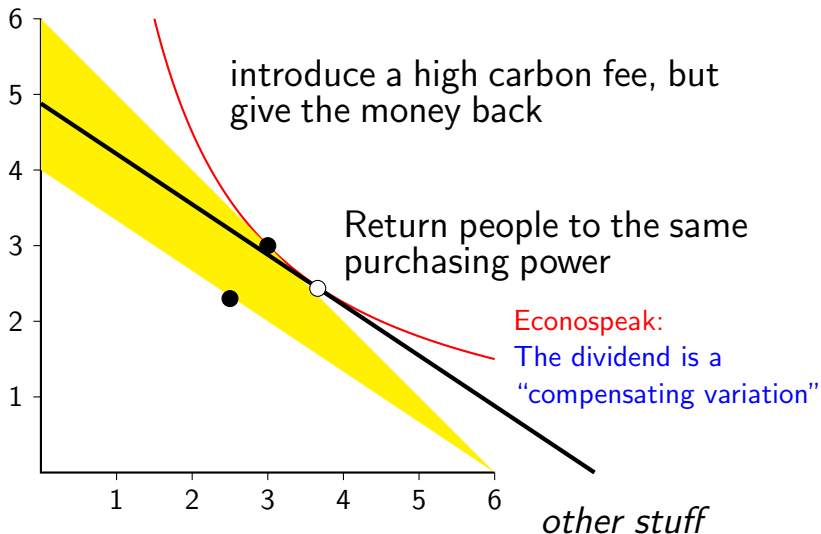
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Summary

- ① Fee and Dividend is Purchasing Power Neutral for most people
- ② There are virtually no Macro-economic effects
- ③ Fee and Dividend is Revenue Neutral for government
- ④ The fee is not part of government revenue

More Detailed Analysis

Everyone gets the same dividend, but ...

- 1 low carbon buyers will pay less in carbon fees
- 2 poorer consumers will pay less in carbon fees
- 3 high carbon buyers will pay more in carbon fees
- 4 richer consumers will pay more in carbon fees.
- 5 the carbon fee is like a progressive tax.

More Detailed Analysis

- 1 the rich adapt easily
- 2 the poor will need other programs to help them adapt
- 3 government can bankroll home retrofitting by lending against carbon dividends
- 4 assisting with financing is “expenditure neutral” but powerful

The Roadmap

For a more detailed written analysis email

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