

Adair Turner: Capitalism in the last chance saloon

Believers in a market economy are dismayed by radical voices arguing that capitalism is incompatible with effective climate action. But unless capitalism's defenders start supporting more ambitious targets and policies to achieve net-zero carbon emissions by mid-century, they should not be surprised if an increasing number of people agree



Adair Turner

Compelling global warming evidence

This year, the evidence that global warming is occurring, and that the consequences for humanity could be severe and potentially catastrophic, has become more compelling than ever. Record global temperatures in June and July. Unprecedented heatwaves in Australia and India, with temperatures above 50°C. Huge forest fires across northern Russia. All of these things tell us that we are running out of time to cut greenhouse-gas emissions and contain global warming to at least manageable levels.

The response has been growing demand for radical action. In the United States, proponents of the Green New Deal argue that America should be a zero-carbon economy by 2030. In the United Kingdom, activists of the "Extinction Rebellion" movement demand the same by 2025, and have severely disrupted London transport through very effective forms of civil disobedience. And the

argument that avoiding catastrophic climate change requires rejecting capitalism is gaining ground.

Against this growing tide of radicalism, companies, business groups, and other establishment institutions urge caution and more measured action. Achieving zero emissions as early as 2030, they argue, would be immensely costly and require changes in living standards which most people will not accept. Illegal actions that disrupt others' lives, it is said, will undermine popular support for necessary measures. A more affordable and gradual path of emissions reduction would be better and still prevent catastrophe, and market instruments operating within the capitalist system could be powerful levers of change.

The costs of reaching a zero-carbon economy

These counterarguments are robust. The costs of achieving a zero-carbon economy will increase dramatically if we try to get there in ten years, not 30. Most forms of capital equipment naturally need replacement within 30 years, so switching to new technologies over that timeframe would cost relatively little, whereas switching over ten years would require companies to write off large quantities of existing assets.

Technological progress – whether in solar photovoltaic panels, batteries, biofuels, or aircraft design – will make it much cheaper to cut emissions in 15 years than today. And the profit motive is spurring venture capitalists to make huge investments in the new technologies required to deliver a zero-carbon economy.

There is a real danger that excessively rapid action could alienate popular support

Meanwhile, decentralized market mechanisms such as carbon pricing are essential to drive change in key industrial sectors, given the multiplicity of possible routes to decarbonization. Socialist planning will not be as effective: Venezuela is an environmental as well as a social disaster. And there is a real danger that excessively rapid action could alienate popular support. After all, the gilets jaunes (yellow vest) movement in France was provoked by tax increases designed to make diesel cars uneconomic, but were imposed at a time when electric vehicles are not yet cheap enough and lack the range to be a viable alternative for less well-off people living outside major cities.

We're running out of time

But it is also true that the capitalist system has failed to respond to the challenge of climate change fast enough; and in some ways, capitalism has impeded effective action. Venture capitalists financing brilliant technological breakthroughs have been matched by industry lobby groups successfully arguing against required regulations or carbon taxes. If adequate policies had been adopted 30 years ago, we would be well on the way to achieving a zero-carbon economy at a very low cost. The fact that we did not is, in part, capitalism's fault.

Massively accelerated action is now required

Massively accelerated action is now required. All developed economies should commit to achieving net-zero carbon emissions by 2050. And zero must mean zero, with no pretence that we can continue burning large quantities of fossil fuels in the late twenty-first century, balanced by equally large quantities of carbon capture and storage.

Developing economies should get there by 2060 at the very latest. That would still leave us vulnerable to significant and unavoidable climate change, but climate science suggests that it would be sufficient to avoid catastrophe. And as the Energy Transitions Commission described in its recent Mission Possible report, it is still possible to achieve that objective at relatively low economic cost, provided we adopt without delay the policies required to drive rapid change.

Capitalism's power to solve the problem

Carbon taxes should be introduced at a sufficiently high level, and with future increases declared well in advance, to drive the multi-decade investment plans required to decarbonize heavy industry. Carbon tariffs should be used to protect industry from being undercut by imports from countries that fail to apply adequate carbon prices. Airlines should face either steadily rising carbon prices, or regulations requiring them to use a rising proportion of zero-carbon fuels from clearly sustainable sources, with the percentage reaching 100% before 2050.

Blunt but effective instruments – such as banning new sales of internal combustion engine autos from a specific future date, such as 2030, should also be part of the policy armoury. And regulations should ban putting plastics in landfills and plastic incineration, forcing the development of a complete plastics recycling system.

Market competition and the profit motive will drive innovation

None of these policies is anti-capitalist. Instead they are the policies we need to unleash capitalism's power to solve the problem. Once clear prices and regulations are in place, market competition and the profit motive will drive innovation, and economies of scale and learning-curve effects will force down the costs of zero-carbon technologies. And if we do not unleash that power, we will almost certainly fail to contain climate change.

Believers in a market economy are dismayed by radical voices arguing that capitalism is incompatible with effective climate action. But unless capitalism's defenders support the immediate establishment of far more ambitious targets and policies to achieve net-zero emissions by mid-century, they should not be surprised if an increasing number of people believe that capitalism is the problem and not part of the solution. They will be right to do so.

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