Think • Vol 24 • No 70 • Summer 2025, 71–76

DOI: https://doi.org/10.1017/S1477175625000247

Why We Should Support Carbon Prices

*Kian Mintz-Woo**

Department of Philosophy, University College Cork, Ireland
*Corresponding author. Email: kian.mintz-woo@ucc.ie

Keywords: carbon prices; carbon taxes; climate justice; market ethics

Abstract

One set of policies that have been suggested to address climate change are carbon prices. Pricing carbon makes it more expensive to make polluting or unsustainable choices and less expensive to make cleaner or sustainable choices. This article explains why, if well designed, carbon prices can provide systematic signals to the market and make societies fairer. The article also defends carbon prices from several objections.

Introduction

Climate change may be the defining challenge of our time. When we buy or sell things, we increase the amount of burned fossil fuels and emitted carbon dioxide, increasing climate change. But some choices are less polluting and more sustainable than others – how can we make the right choices when we are too busy to understand their climate change impacts?

One set of policies that governments can (and do) implement may help with this problem. Those policies are *carbon pricing* policies. They come in two main types: *carbon taxes* (which increase the cost of choices depending on how much carbon dioxide they emit) and *cap-and-trade* (which sets some total amount of carbon allowed for a year (a 'cap') and then allows businesses to buy and sell ('trade') parts of that amount from each other depending on how much they are willing to pay to increase their emissions).

Imagine you and your sister are getting candy at Halloween. A carbon tax is like your father saying 'For each three candies you eat, you have to give me one or do a chore.' A cap-and-trade system is like your father saying 'You cannot eat more than twenty candies in total. However, you can decide who eats what as long as you stick to the maximum twenty.'

That is how carbon pricing policies work. For a carbon tax, a government sets a fixed price on how much each additional carbon emission will add to the costs of various choices. However, the government does not know for sure how much that extra cost will change the behaviour of citizens or how much the total amount of emissions will go down. For a cap-and-trade policy, a government sets a fixed number of emissions permits (often by selling those permits to businesses at the beginning of the process) and subsequently lets the businesses buy and sell these permits with each other. However, the government does not know for sure how much the businesses will end up charging each other for those emissions permits.

Economists and political scientists argue about the relative merits of these different types of carbon pricing policies, but most agree that it is more important whether you have a carbon price than which specific type you go for.

But the question remains: are carbon pricing policies *good* policies? By this I mean: are they morally and practically justifiable? I will argue that they are. First, I will discuss why these policies are valuable. Second, I will respond to a variety of objections. Finally, I will finish with a short conclusion.

Why Have Carbon Prices?

Carbon prices have one major goal: to make it (comparatively) more expensive to make polluting or unsustainable choices and to make it (comparatively) cheaper to make cleaner or sustainable choices. Carbon prices can influence the choices of governments, businesses and consumers. They can, for instance, simultaneously encourage governments to buy more electric school buses, businesses to reduce packaging, and consumers to turn the thermostat down or instal solar panels. The cleaner choices become comparatively cheaper and easier to justify as the polluting choices get more expensive.

However, there is something philosophically interesting in the background: carbon prices are providing *information* to consumers. Climate change imposes costs on society (e.g. heat stress and disease, swamping low-lying seaside towns). For someone choosing what to buy, however, these effects are distant and difficult to consider. The average person cannot be expected to research or understand how her purchases might contribute to these diverse and complicated risks (this would be challenging even for the exceptional person!). A carbon price provides information to her by making some things more expensive relative to others. So, if she is roughly equally happy with two choices, a carbon price could reveal to her why one should be chosen (with a carbon price, it is less expensive and therefore cleaner or more sustainable).

In fact, this carbon price could guide her choice *whether or not* she cares specifically about climate change. So we do not need to rely on her being someone who actively cares about climate change (although I hope

https://doi.org/10.1017/S1477175625000247 Published online by Cambridge University Press

and believe most people do) for her to be choosing effectively *in response to* climate change.

'But the question remains: are carbon pricing policies *good* policies? By this I mean: are they morally and practically justifiable? I will argue that they are.'

It is also worth pointing out that the government also does not need to know a lot for a carbon price to work. If the government institutes a carbon price, that just tells the market to find less polluting ways of doing business. That means that the government does not need to know what those more or less polluting ways *are*; it can just set a price and tell the market to figure out what they are. Furthermore, carbon prices do not require that either a consumer or the government knows what the other is doing or why: the information in the price of carbon just spreads throughout the system without anyone coordinating.

Not only does carbon pricing encourage people to make cleaner and more sustainable choices, it also works to institute fairness in addressing climate impacts. Note that if a person in the market does *not* pay for the climate impacts of her choices, that does not imply that *no one* does. In fact, what happens is that, in the fullness of time, various climate risks will be slightly increased and can be expected to generate more losses and damages. Those losses and damages will be borne by society (and taxpayers) as a whole. For example, these costs are borne by all taxpayers when people go to the hospital from heat stress or public funds go to the reconstruction of climate-damaged infrastructure – regardless of how much those taxpayers made clean or polluting choices. It is unfair that everyone pays for addressing these climate impacts when some have made more polluting choices than others. If there is a carbon price, that price can generate revenue to the government and the government can use some of that revenue to address climate problems, which effectively makes those who are heavier polluters pay more for cleaning up their mess.

In short, carbon prices do two morally important things: they change the incentives to encourage people to make cleaner choices today and they allow the eventual climate impacts to be addressed by those who contributed more to the problem.

Objections to Carbon Prices

While carbon prices have important moral justifications, they are also subject to many objections that are worth considering.

Unfairness or Unjustness

Perhaps the most morally important objection is that carbon taxes are unfair or unjust. Those who are poorer tend to spend disproportionately on carbon-intensive things (heating, driving) whereas those who are wealthier may spend more on less carbon-intensive things (theatre, fine dining), so it might seem unfair that those who are poorer bear more of the effect of a carbon price (economists say that the price has 'regressive' instead of 'progressive' effects).

A first response is that both of these factual assumptions are not in general or necessarily true. First, in some developing countries, carbon prices have very little effect on poorer people. For instance, it might be that only wealthy people can afford cars (so poorer people walk or cycle); in these circumstances, raising the cost of fuel affects wealthy people but not poorer people. Second, even in countries where poorer people do spend a lot of their resources on carbon-intensive activities, wealthy people may *also* spend a lot on carbon-intensive activities (e.g. foreign vacations, gas-guzzling SUVs).

https://doi.org/10.1017/S1477175625000247 Published online by Cambridge University Press

Putting aside the factual assumptions and assuming that the costs of a carbon price hit those who are poorer harder than those who are wealthier, this objection still makes a key mistake. The objection only considers the costs of a carbon price – while forgetting about the revenue! When a carbon price is paid, that money does not disappear. It goes to the government, which can use it to limit – or even reverse – these distributional effects. Sometimes, the two sides of the carbon pricing policies are emphasized with terms like 'fee-and-dividend' or 'fee-and-rebate'.

A small numerical example can help here. Suppose you are much wealthier than I am: you make £10,000/month but I make only £1,000/month. Suppose a carbon price is introduced and we grant that it hits me harder: the effective tax to you is 5% (£500/month) whereas I am effectively taxed 10% (£100/month) (the effective tax might differ because my spending is more carbon-intensive and harder to change, e.g. as a homeowner, you can buy energy-efficient appliances but, as a renter, these options aren't available to me). Now suppose that the government says let's ignore how much wealthier you are and let's just take all that revenue and distribute it all back to everyone equally regardless of how much they put in or how much they spend. Since there are only two of us, we each are given half of the total revenue (£500/month + £100/month = £600/month). In short, you spend £500/month on the carbon price and get back £300/month, meaning you spend more than you get back; I spend £100/month on the carbon price but get back £300/month, meaning I get back more than I spent.

In other words, even if we assume that a carbon price hits the poorer harder *and* we assume that the government is insensitive to how much we make or contribute – and just equally divides up the revenue – this could make a result that is more equal (more progressive) than we started with! (Of course, if the government policy decided to be sensitive to our income, it could redistribute those revenues in ways which would produce even *more* equality.) So if you think fairness or justice is about whether the tax system makes more equal outcomes, then a carbon tax policy could *increase* fairness or justice, not decrease them.

Political Feasibility

A second objection is a practical and political objection: people don't like taxes so it's simply not politically realistic for carbon prices to be introduced. One example to support this objection is France, where a recent attempt to increase taxes on fuel contributed to a major protest in 2018. Are there carbon pricing policies that citizens could support?

A first response is that it is hard to generalize about how politically feasible carbon prices are. In some countries, it may be easy to introduce carbon prices; in other countries, it may be harder; in yet other countries, there may already *be* carbon prices. Citizens in countries like the United States are very resistant to new taxes, even when there might be reasonable justifications for those taxes. But not all countries are like the United States. In Canada, for instance, the province of British Columbia has had a carbon tax for many years. The Canadian Prime Minister Justin Trudeau is even taking a political position that the whole country should have carbon prices (even if he believes different provinces should be free to choose their own methods of introducing them). China is beginning a massive national cap-and-trade system. Indeed, the World Bank's Carbon Pricing Dashboard (https://carbonpricingdashboard.worldbank.org/) shows rapid growth in areas covered by carbon prices over recent years. The point is we can look at successful policies and try to learn what political contexts made them possible.

A second response is that we have model policies that can be copied or adjusted to account for different regions. France's tax increases were *not* well designed; in particular, they did not indicate how the revenue would be used (e.g. they did not include the kind of simple, transparent redistribution mentioned in the numerical example above). In contrast, research suggests that British Columbia's carbon tax was

https://doi.org/10.1017/S1477175625000247 Published online by Cambridge University Press

very well designed: it reduced emissions relative to the expected trend (emissions grew, but they grew more slowly than was expected) and it did not undermine the economy. In fact, British Columbia actually outperformed other Canadian provinces after the carbon tax was introduced. This was assisted by the ways in which the carbon tax revenues were 'recycled' (or used by the government to benefit the public) to reduce other kinds of taxes. The result was that British Columbia became a relatively low-taxed province for personal income. British Columbians were even sent special 'climate action tax credit' cheques which showed citizens that this policy was benefitting them. If citizens in other places were made aware that there were such successful carbon pricing policies, then they might support calls for more.

'In short, carbon prices do two morally important things: they change the incentives to encourage people to make cleaner choices today and they allow the eventual climate impacts to be addressed by those who contributed more to the problem.'

Size of Government

A final objection is that carbon prices would just be a way of increasing the size and cost of government. A liberal objector might admit that, yes, it is possible that governments would share the revenues back with citizens or spend the revenues on measures to address climate change – but why believe they would do so? Wouldn't they just get used to the new revenue stream and increase the size and cost of the government?

This concern can be addressed by making the carbon pricing policy *revenue-neutral*, whereby any money coming into the government (revenue) will be spent in ways that return the resources to the taxpayers. In this way, whether or not the policy is accepted, the net 'size' or cost of government doesn't change.

But would this work? Again, it is worth considering real-world examples. The carbon tax in British Columbia is explicitly revenue-neutral. (In recent years, it has even been revenue-*negative*, meaning that the government has spent more money on the government services guaranteed by this policy to British Columbians than it got in carbon tax revenue.) Despite changing political parties, this revenue-neutral goal has not been dropped, and this goal was an important factor for the private sector, which helped get the policy adopted.

But there is a more subtle point to note: it would be very hard for a government to get used to a carbon price as a source of revenue, because the point of the carbon price is that it (eventually) makes it so you *don't need* a carbon price! The goal is to shift businesses and consumers to making sustainable choices. If the carbon price is working, then this leads to less carbon being emitted and ultimately less revenue coming into the government. Even if a policy is not revenue-neutral, the carbon price would be a very *in*effective policy for permanently increasing the size of government. So there is little reason for liberals or those objecting to a large size of government to be concerned about this kind of policy.

Conclusion

The classic justification of the market is that, overall, good outcomes can come from everyone buying and selling in ways that match their preferences. But this does not work if the true social costs of the objects are not reflected in the prices that the buyers pay or the sellers

https://doi.org/10.1017/S1477175625000247 Published online by Cambridge University Press

receive. It isn't fair for the costs of climate change to be imposed on society as a whole – they should be paid by those who make polluting choices. Carbon prices are a way of making sure that markets don't fail, and that people make choices in ways that reflect their actual cost to society. Furthermore, they do so while giving a consistent signal and without requiring a lot of information from the government.

The broader point is that it often makes sense to support policies that make it harder to do things that are harmful to society and easier to do things that improve society. What could a citizen do about this? Some groups, like Citizens' Climate Lobby in North America, are trying to support revenue-neutral carbon pricing policies. It may also be worth supporting politicians who maintain or introduce carbon pricing policies. That way, we can have policies which encourage every person to make choices that contribute in a little way to a better world.

Kian Mintz-Woo

Kian Mintz-Woo is a Senior Lecturer at University College Cork (Ireland) and a Guest Research Scholar at the International Institute for Applied Systems Analysis (Austria).

Cite this article: Mintz-Woo K (2025) Why We Should Support Carbon Prices. *Think* **24**, 71–76. https://doi.org/10.1017/S1477175625000247