

[What are we to do with our ignorant governors?](#) [1]

Written by [Tim Worstall](#) [2] | Saturday 21 April 2012

We face something of a dilemma here. For it's certainly true that we need government but it's also true that we need those doing the governing to understand the governing they're doing. And we have evidence that those we have at present [do not](#) [3].

This week ministers from across Europe are meeting to tackle a threat to our shared prosperity: [the crashing price of carbon](#) [4]. The EU has the world's largest international emissions trading scheme (ETS). The amount of carbon that companies can emit is capped, and each firm has its own allocation of carbon permits, which they trade freely. Ultimately, cutting carbon can yield financial rewards.

But [the price of carbon has plummeted](#) [5]. In 2006 a tonne would fetch around £28. Now ? thanks to the downturn, and a glut of permits ? it's barely £6. That's bad for the environment: when it's cheap to pump out carbon there's [less incentive for firms to go green](#) [6]. But it's also bad for the economy, because it makes Europe less attractive to low-carbon investment.

This is entirely, gargantuanly, completely, the wrong way around.

Now let's not start with whether climate change is happening or whether we ought to do anything about it. Assume both for the moment. The EU has plumped for cap and trade as the solution: leave aside whether this is better than a carbon tax for the moment (it isn't but leave that aside).

Concentrate instead purely on the role of the price of the permit in a cap and trade system.

A high permit price is a bad thing, a low permit price is a good thing. Because the permit price is not the thing that is limiting emissions: we're already limiting emissions by the cap we have put in place. The permit price is instead the information of how expensive it is to limit those emissions. A high permit price tells us that it's very expensive to limit them, that we've got to give up much more of our wealth in order to save Gaia. A low price tells us that it's actually easier than we thought to lower emissions, that we've got to expend less geld in order to stop the oceans boiling.

So, what do our two rulers do when presented with the evidence that dealing with climate change might be cheaper than we thought? Insist that it must be made more expensive, that if it isn't painful it isn't working.

Err, no lads, sorry, you need to go back to the Janet and John book on cap and trade systems. Let Spot the Dog explain to you that low prices are good. And it'll have to be J&J for obviously Ladybird is too advanced for you.

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