Citizens' Climate Lobby
Australia

The Australian Climate Dividend

The Australian Climate Dividend (ACD) is a policy framework designed to progressively reduce carbon-dioxide (CO_2) emissions at the lowest economic and political cost. Legislation for a climate dividend is currently being considered by the US Congress as part of the *Energy Innovation and Carbon Dividend Act (2021)*.

How it works

The basic idea is to place a fee on carbon emissions and return its proceeds as a dividend to all Australian households. In technical terms, this approach is a "fee and dividend" model. Its main features are set out below.

A fee on carbon

A fee will be applied to each ton of carbon dioxide emitted in Australia as the result of burning fossil fuels. This would be implemented at the point where carbon enters the economy – such as a mine, a well, or a port. The fee would start from a given value (say A$50 per ton of CO_2), which would be progressively and predictably increased over time.

Dividends

This is the most important feature of the framework. All the proceeds from the carbon-pricing scheme are returned to all Australians of voting age on an equal basis. This would occur via a monthly direct deposit. The Australian Taxation Office would administer the process, and the dividend would go to any eligible Australian with a tax file number.

Border adjustments

Appropriate border adjustments would be implemented to protect the competitiveness of Australian firms. Exports to countries without a comparable scheme would receive rebates for the fee paid. At the same time, imports from countries without a comparable scheme would be charged fees based on the carbon content of their products.

Regulatory rollback

Existing regulations on CO_2 emissions and subsidies for renewables will be removed. In the presence of a carbon pricing regime these would be unnecessary (and potentially counterproductive).

Why we like it

Economically efficient

A policy that places a price on carbon offers the most efficient way to cut CO_2 emissions in the economy. Indeed, any alternative policy (e.g., placing a cap on emissions, subsidising zero-emissions technologies, or paying firms to reduce their pollution) could only achieve the same result at a higher cost for everyone. This fact has been well established in economic theory for almost a century. In technical terms, the carbon fee is a Pigovian tax on a negative externality.

Politically popular

The ACD is a revenue-neutral policy framework. Since it does not increase the overall taxation level, it does not make Australian citizens worse off. Despite this, similar revenue-neutral carbon-pricing schemes (e.g., the Labor Carbon Pricing mechanism of 2012) have been met with scepticism by the public. Its revenue redistribution features were hidden and consequently easily discredited. Crucially, the ACD makes the financial benefit of the scheme explicit via carbon dividends. These will show up as a credit in our bank accounts. In practice, Australians will be paid to have carbon emissions removed from their economy.

Socially fair

The ACD will not affect every Australian citizen in the same way. The net benefit for each household will depend on its reliance on carbon-intensive products. In a 2018 paper, Prof. R. Holden and R. Dixon from UNSW developed a model to simulate the effect of the ACD on Australian society. They found that the average household will gain from the scheme. Moreover, the economic benefits were found to be the highest for households in the lowest income bracket. Only households with above average income would be negatively affected by the scheme.

Further resources

- www.ccl.org.au
- www.climatedividend.org.au
- Read "A Climate Dividend for Australians" (2018) by Prof. R. Holden and Prof. R. Dixon here.