



The Climate Show

This podcast features leading experts' insights on current climate change research.

[Episode 1. Prof. Dan Esty: carbon pricing and the sustainability imperative](#)

Content of the podcast

--- intro music ---

Linnéa Nordlander 00:00:03

Hi, and welcome to the Climate Show, a podcast that explores the law and politics of climate change. This podcast is brought to you by the University of Copenhagen. Yeah. Mm.

Beatriz Martinez Romera 00:00:18

Hi, we are Beatriz Martinez, Linnéa Nordlander and Alessandro Monti, and we are your hosts at The Climate Show.

Well, today's a great day, isn't it?

Linnéa Nordlander 00:00:28,989

It is! Because we're finally releasing the first episode of our podcast, which we've been looking forward to for such a long time. But what exactly are we going to do with this podcast?

Alessandro Monti 00:00:39

So, what we want to do with this podcast is to bring to you the voice of the leading experts on climate change, law and policy.

Beatriz Martinez Romera 00:00:50

Vamos!

In today's episode, we are talking about the economic aspects of climate change, and we are thrilled to be able to do that with Yale Professor Dan Esty, who is one of the key voices in academia, and has been working extensively on the subject. He has recently been researching the so-called sustainability imperative, and we are going to ask him what that means for climate change.

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Beatriz Martinez Romera 00:01:12

Welcome to The Climate Show. We are here today with Dan Esty, who is a leading expert on environmental law. Professor Esty is the Hillhouse professor at Yale University, with primary appointments at Yale Environment and Law School and a secondary appointment at the Yale School of Management. He serves as director at the Yale Centre of Environmental Law and Policy and co-director of the Yale Initiative on Sustainable Finance.

Welcome to the show, Professor Esty.

Dan Esty 00:01:42

Great pleasure to be with you. Thank you.

Beatriz Martinez Romera 00:01:44

Dan, you've been working both academically and at the government implementation level with environmental externalities, carbon pricing and how to align the market economy with what you call the sustainability imperative.

My first question for you is what the sustainability imperative means. And what is the connection? How can we use it for climate change?

Dan Esty 00:02:05

So, the sustainability imperative is the thought that it is no longer acceptable for businesses to put harms onto others as part of their business model and that they really need to take sustainability seriously. And it's really an idea that in the 21st century going forward, we need to all take sustainability as a top priority for society. And that means in particular that the old idea that it was okay, if you were doing something worthwhile running an important factory, running a business, to send smoke up a smokestack or effluent out of pipeline that somehow that was OK because you're greater value to society justified the harm you're spilling over onto others. And the sustainability imperative says no, not long, any longer. Today we really have to insist that there are no uninternalised externalities, which is to say, you should really minimize your pollution, minimise the harm you're causing. And if there is some small residual amount of harm that can't cost effectively or in any way be reduced, then you should pay for it. You should actually pay a harm charge so that it's not going to end up with no pollution, but close, and that which is still going on will be fully paid for. And I think society will benefit by having that as the new framework for economic activity broadly, and certainly for the business world.

Beatriz Martinez Romera 00:03:28

So how do we end externalities and, specifically, how do we bring this idea that a certain level of pollution, which is, as you say, needed or is considered needed, is no longer acceptable for climate change?

Dan Esty 00:03:38

So, I think this is what is most interesting about our current moment, and that is that the baseline expectations of society are changing quite quickly. So, what used to be thought of as okay and perhaps normal, and maybe even necessary, is increasingly not acceptable when it comes to business causing harm. That is, pollution in any way, including greenhouse gases going into the atmosphere. But it would also include using natural resources, extracting water or minerals at less than full pricing. So, what we now have, I think, is a changed view, including from the business community about what the baseline for activity needs to be. And in the past, you know, sort of much of the last 50-60 years, the dominant theory was shareholder primacy, sometimes called the Friedman Doctrine, after Milton Friedman, who suggested that the goal of business, the mission of business, should be to maximise shareholder returns and that idea that the goal for business should be to make the most money possible so long as it wasn't illegal has now given way to a new view of stakeholder responsibility. Where businesses, yes, should make a profit, but they have to also reflect and understand they have responsibilities to their employees. They have responsibilities to their suppliers, their customers, the communities they operate in and society more broadly. And I think that's where this comes out on the climate change front. What we're seeing going on is a real shift, away from expectations about climate impacts that might have in the past said 'many businesses can go forward but should try to reduce'. We're now

seeing a real insistence that companies move towards a net-zero greenhouse gas emissions and companies are being asked every day, and hundreds, now thousands, are coming forward with pledges in that regard. And I think you're going to start to see governments back those pledges up with legal frameworks. But even just now, while it's voluntary, it's still a significant pressure beyond government, from customers from the public and most importantly from the stock market and shareholders, a growing number of whom are sustainability minded.

Beatriz Martinez Romera 00:05:54

So, in this landscape, what do you think is the role of carbon pricing?

Dan Esty 00:05:59

I think carbon pricing is an essential element of getting first to a net-zero world, which is what we need to take seriously, the response to climate change. But I think it also is very consistent with the idea of a sustainability, of the idea that we should all be paying attention because there is no better way to make people pay attention, not just in the business world, but all of us in our roles as consumers, because if we're buying a product that's got a big price attached to it, because there's a lot of greenhouse gas emissions associated with that product, we're all going to say 'can't we find an alternative that has got a lower price, because it's got a lower impact?' And I think what it does in terms of putting a carbon price in place is that it aligns people's interest in cutting costs, innovating to improve products or services and to make sure that all of us are headed to reinforce that by the way we purchase and the questions we ask about the products we are buying.

Beatriz Martinez Romera 00:06:57

And in that connection, what key elements does a well-designed carbon pricing measure have? What evolution have we seen with carbon pricing and how can it achieve the environmental objective?

Dan Esty 00:07:09,620 --> 00:07:16,819

I think that what we're starting to see is that the key to success with carbon pricing is to get the system through the difficult political hurdles it faces in each different jurisdiction, so the exact pricing model may vary from one country to another. The European Union, of course, has some experience with an emissions trading scheme, and it's worked pretty well, despite some challenges in the early years. But what it does now is to provide a consistent cross-economy signal about the need to move away from high greenhouse gas emissions products. And again, it drives innovation in a very important way. I think in other places we may see price signals in different forms, perhaps carbon charges, which I tend to prefer, because I think they are more transparent and frankly easier to understand. But in some political systems, maybe even in the United States, that very transparency is considered a problem because the political class does not want the citizens and the voters to see new charges coming in. But I think over time that attitude is changing and I think we're starting to recognise the value of that clear price and the reminder to people that their own choices, their own lifestyle, has an impact that we all want to work to, move toward a cleaner, more sustainable future

Beatriz Martinez Romera 00:08:34

At the international level. If you could design a perfect international carbon market mechanism, what will it look like? What should be avoided?

Dan Esty 00:08:41

So, I think there will be a lot of interest in trying to have markets aligned, although I don't know whether we really can imagine a fully, integrated carbon market that's global. But my own goal would be to have a common carbon price that people are moving toward. So, we could imagine, for example, something like €100 a tonne price in the year 2040. And what we would try to do from now until then is to move incrementally towards that common price, with some countries and some economic regions like the European Union already moving quite far down that track, so they start with a higher price and perhaps move more quickly to the agreed-upon global price. Some developing countries probably start more slowly, but for every country that does not presently have a carbon price, my belief is that the right way to go is an incremental move from low price or no price today towards that fully agreed upon global price 20 years out. So, it might mean, for example, that countries that have no price now start with \$5 or €5 per tonne of greenhouse gases and then incrementally go up by €5 per year out over 20 years to get to that end point, at common endpoint. And the advantage of that slowly escalating charge is that it means you don't punish people for past decisions. Somebody who bought a car based on different energy price assumptions doesn't feel jarred by it. And I think the slowly escalating charges away to build a comfortable transition that reduces political harm, reduces the anger, that not only businesses might feel, but everyday people might feel if they're suddenly hit with expensive new carbon charges. So, I do think getting people moving, getting a system in place. The advantage, of course, is by the way of locking in your system. And this is another sort of best practice for the global movement towards carbon pricing. The advantage of a 20-year framework is that anyone who's making an investment on a long-term element like a factory or a power plant looks not at that initial price of 5 and then €10, but looks at the end price of €100 and makes choices now with that price in mind. So you get the full benefit of the high price for decisions going forward, but you don't jar people and penalise them for past decisions. And I do think paying attention to transitions is one of the most important things we've learned in our climate change kind of analytics over recent years. In the past, we paid far too little attention to who is going to have their lives disrupted, and the end result was political blowback as people tried to move towards carbon pricing or any serious climate change policy. Today, I think the focus that's emerged on a what a just transition looks like is really helping to change the political thinking and, frankly, making it easier to build the coalitions for action that are needed all across the world.

Beatriz Martinez Romera 00:11:41

Finally, we'd like to ask if there's anything else you would like to raise before we wrap up.

Dan Esty 00:11:46

I just want to say what a great pleasure it is to be part of this conversation. And Bea, I congratulate you on getting this series launched. The other thing we absolutely know is that having this kind of a dialogue, getting people engaged in understanding the issues of climate change, how we're going to get to a net-zero greenhouse gas society, never mind the different companies that are making pledges in that regard, is going to take a much broader reach than climate change discussions might have had in the past. So, anything that can be done to bring more people into the discussion is a good thing. And it's my great pleasure to be part of the discussion with you here today.

Beatriz Martinez Romera 00:12:26

Thank you so much! On that very positive note, I want to thank you for the interview. We're looking forward to hosting you in the spring in Copenhagen.

And to our audience: we hope you enjoy this terrific episode with Professor Dan Esty, and see you soon in our next one!

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Beatriz Martinez Romera 00:12:42

If you want to know more about Professor Esty's work, check out the links in the show notes. Stay tuned for the next episode!

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