

Climate Change, Markets, and Marxism

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LONDON – Brazil’s new foreign minister, Ernesto Araújo, is on record as believing that climate change is a [plot launched by “cultural Marxists”](#) to stifle Western economies. These nefarious forces’ environmentalist “dogma has been used to justify increasing the regulatory power of states over the economy.”

Given the key role that Brazil has played in past climate-change debates, including in forging the 2015 Paris climate agreement, President-elect Jair Bolsonaro’s choice of Araújo must disturb anyone who believes that climate change threatens severe harm to human welfare. Coming on top of US President Donald Trump’s withdrawal from the Paris agreement, his appointment threatens progress toward a low-carbon economy.

Part of the response to such conspiracy theorists must be to keep making the scientific case that climate change is occurring and will cause major harm to middle-income countries such as Brazil (even more than to developed economies). But it is also important to convince people that combating climate change threatens neither prosperity nor private enterprise.

True, the need to tackle climate change does pose a challenge to simplistic and extreme free-market ideology. Free markets alone cannot cope with the “externalities” that arise when economic activities produce harmful consequences that impose no direct cost on individual producers and consumers. And climate change is the biggest externality of all, with the harmful consequences likely to be suffered by future generations worldwide, rather than primarily by those currently producing and consuming fossil fuels.

As a result, significant public policy interventions are required. These should include carbon prices, which create incentives for reducing emissions; regulations mandating more energy-efficient buildings, consumer appliances, and vehicles; and subsidies to nascent technologies that have not yet achieved the economies of scale required for low-cost production.

Given the need for such interventions, the belief that climate change is a hoax is comforting to anyone who thinks that government must play no role in the economy. Ayn Rand’s novel *Atlas Shrugged*, a paean to entrepreneurship unfettered by environmental or social constraints, is a favorite of climate-change deniers.

But the public-policy interventions needed to fight climate change pose no threat to responsible private business or to the aspirations of developing economies. A [report](#) just published by the Energy Transitions Commission (ETC) – which includes many major businesses and no obvious “cultural Marxists” – describes how to build a zero-carbon global economy at only minimal economic cost by 2060. In fact, such an economy would deliver as many job and business opportunities as those created by today’s fossil-fuel-dependent economy.

This is true for developing countries in particular. For example, India will need to triple its annual *per capita* energy consumption – currently about 30 gigajoules – to achieve the standard of living of today’s developed world. But it can do so while cutting

greenhouse-gas emissions and dramatically cutting the terrible air pollution that [blights its major cities](#). Nobody should be trying to keep any economy down, and nobody needs to.

The ETC's analysis shows that India could increase its total electricity supply from today's 1,100 TW hours to 2,500 by the 2030s, with continued rapid growth thereafter, while never building any more coal-fired power stations beyond those already under construction, and without suffering a growth penalty. More broadly, a zero-carbon global economy in 2060 would probably consume 4-5 times as much electricity as today's 20,000 TW hours, delivering improved transport services, air conditioning, and cleaner heating to billions of people.

This will create huge opportunities for investment, job creation, and income growth. Initial subsidies were required to drive the dramatic cost reductions now benefiting wind and solar power. But it is mainly private companies that are now producing wind turbines and solar panels, and it is private investors, submitting competitive bids in power auctions, who are financing renewable power and earning good returns, despite ever-falling prices. Venture capitalists – a group not known for its Marxist leanings – are playing a major role in the development of new battery technologies and electric vehicles.

Market competition is not only compatible with a zero-carbon economy. It is essential. Carbon prices and appropriate regulation can provide the required incentives, but competition among profit-motivated firms is crucial to ensuring that decarbonization is achieved at the lowest possible cost. The market's capacity for "price discovery," lauded by free-market thinker Friedrich Hayek and largely ignored by Karl Marx, will be crucial.

Vibrant capitalist economies have always depended on a carefully calibrated balance between government policy and private competition. Franklin Delano Roosevelt's New Deal of the 1930s significantly extended the previously minimal role of the US federal government. But, rather than holding back growth and destroying private enterprise, it was followed by 30 years of spectacular capitalist development, spreading prosperity as never before and dramatically expanding the ranks of the American middle class.

Ayn Rand's free-market utopia, so beloved by climate-change deniers, is as detached from real-world complexities, and as likely to produce social and environmental disaster, as simplistic Marxist faith in the inevitable efficiency and incorruptibility of the state.

On the far right, free-market ideologues deny climate change because it threatens their facile economic ideology. And there probably are some on the far left who, as Araújo fears, would like to turn the fight against climate change into a new justification for eliminating private enterprise. Both sides deny reality, and for that reason are certain to be severely disappointed.