

## **An economic solution to climate change that could save trillions**

LSE research helped governments worldwide put a price on carbon that could curb harmful emissions and save \$1 trillion annually

### **What was the problem?**

Amid rising concern over the impact of climate change, policymakers have been looking at ways to reduce carbon emissions.

For economists the problem is that polluters are not required

They showed that the social cost of carbon that had been used in the Stern Review had a high level of uncertainty. They concluded that the most robust measure of the price of carbon for cost-benefit analysis should be the cost of cutting each extra ton of emissions.

Professor Sam Fankhauser and colleagues also looked at the specific tools being proposed to impose a price on carbon, such as carbon taxes and cap-and-trade. The latter was an approach in which governments set a limit or 'cap' on certain types of emissions and polluting companies could sell or 'trade' the unused portion of their limits to companies that were struggling to comply.

The researchers examined important design elements of cap-and-trade systems. These included: how to bank and borrow emissions permits and how this process interacted with other markets, taxes and subsidies; and ways to keep the permit price from rising too high

# Research Impact: making a difference

*LSE gratefully acknowledges the following for support of this research:*

Grantham Foundation for the Protection of the Environment  
Economic