

Point-Counterpoint

Is it Time for a Carbon Tax?

40

YES

It's the Least Costly and Most Efficient Climate Insurance

By Charles Komanoff

There is no way to tackle climate change without taxing carbon pollution. No other policies – not cap-and-trade, not Clean Air Act regulations, not subsidizing “clean energy” – can do the job as effectively and broadly. Hoping climate change will go away by itself isn't tenable, not with the news that atmospheric concentrations of CO₂ have passed 400 parts per million, a level not reached in at least three million years.

Only a carbon tax can influence the billions of decisions here and across the globe that determine how much energy is used and whether low or high-carbon sources provide it. Those decisions range from the immediate and mundane – drive or ride transit, take the high-mileage car or the guzzler – to corporate and far-reaching: aluminum or composites for next-generation airframes, build in town or on the outskirts, sign a power contract with a coal generator or a wind farm.

continued on page 42

NO

Any Policy That Fails to Include China and India Will Not Produce Real Reductions

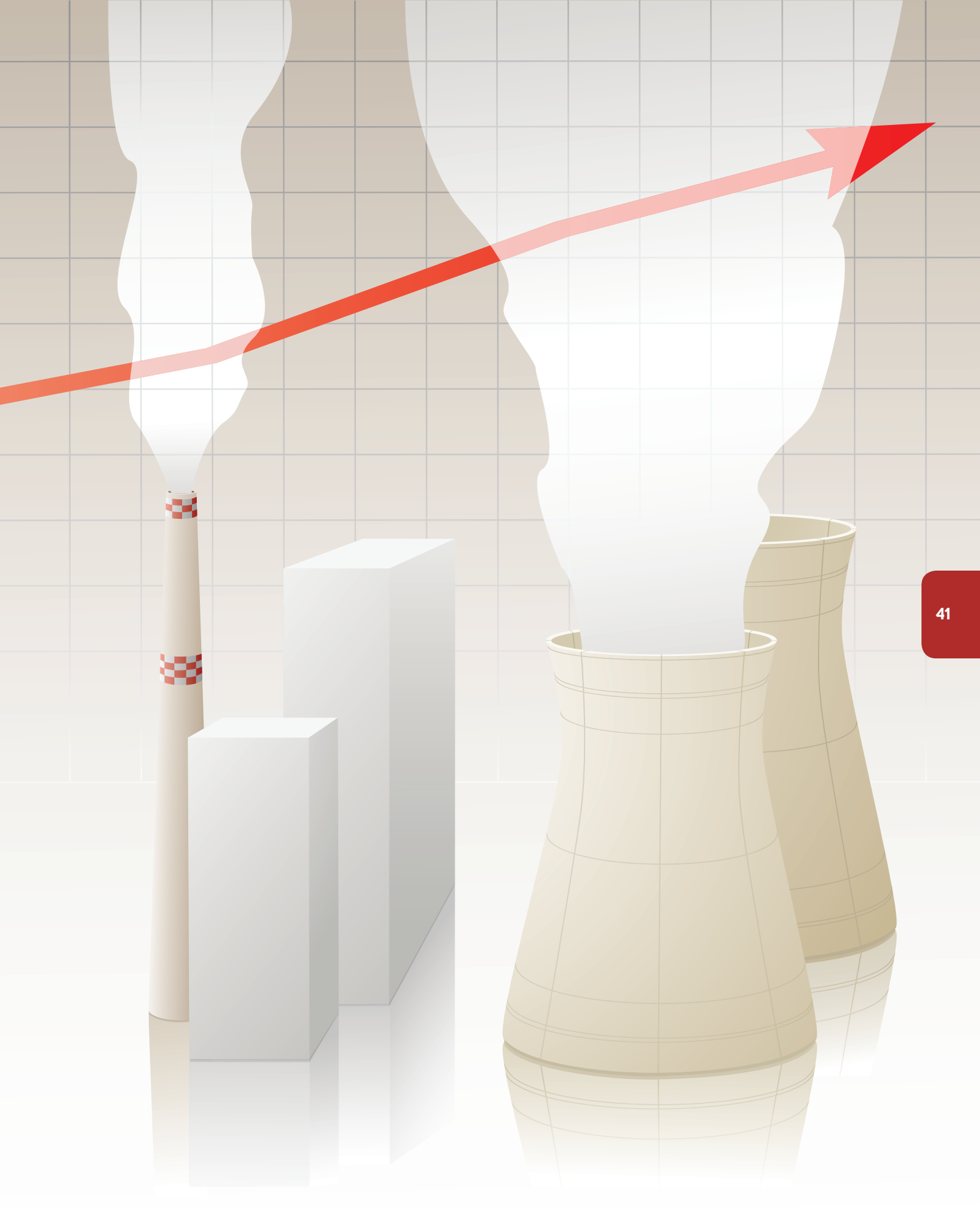
By Scott Segal

When Apple CEO Tim Cook took the stand recently before the Senate Subcommittee on Investigations, he was clear and unapologetic about the use of foreign subsidiaries and other tactics to minimize the corporation's tax obligations. His solution for simplification of the tax code was just as clear: a corporate income tax rate of about 20 percent, as opposed to the current 35 percent, with fewer deductions. For repatriation of funds back to the United States, he called for an even lower rate of 5 percent to 10 percent.

There is little doubt that proposals like Cook's make sense and are straightforward justifications for tax reform, the whiff of which in Washington may be stronger than any time since 1986.

Tax reform is easy. All it requires are sources of revenue to replace unfavorable current ones, and the political will to collect them. One of the many

continued on page 43



Time for a Carbon Tax? (Yes)*continued from page 40*

Climate damage won't figure in those decisions until the price of fossil fuels reflects the damage carbon does.

Fortunately, the remedy is simple. Wherever a fuel is extracted and put into a pipeline or rail car, or imported to a domestic dock, its receiver would be charged for the fuel's carbon content, which represents its eventual contribution to atmospheric carbon pollution. Since the entire United States has only a few thousand such

What about China, whose emissions have rocketed past ours?

WTO regulations empower carbon-taxing countries to neutralize unfair trading disadvantages by levying "border tax adjustments" on imports. (Nations may similarly exempt exporters so their carbon content isn't taxed twice.) Then watch our trading partners follow our lead. After all, if they won't tax their carbon pollution, we'll do it for them and pocket the revenue.

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points and the carbon content is known in each case, any new paperwork will be minimal.

The fuel seller is free to pass the cost down the chain, subject only to market competition. That is why the tax works. To retain market share, electricity distribution companies will lean away from high-carbon coal and toward zero-carbon renewables or nuclear.

To maximize returns, real estate developers will lean toward erecting "green buildings" in transit-served areas. Likewise, quicker paybacks will steer consumers toward L.E.D. lamps and high-efficiency appliances and autos, and will induce entrepreneurs to provide them. This multitude of carbon-informed choices will shrink U.S. carbon emissions.

The steeper and longer the tax on carbon pollution ramps up, the deeper the shrinkage. My modeling for the Carbon Tax Center suggests that a carbon tax starting in 2014 at a modest \$15 per ton of carbon dioxide but rising briskly by \$12.50 each year – similar to a bill proposed by Representative John B. Larson (D-CT) several years ago – would, in its tenth year (2023), reduce U.S. CO₂ emissions from 2005 levels by one third. The deepest cuts would come initially in power generation, where clean-energy technology has advanced the furthest, but emissions from passenger travel and freight movement also would fall. Our petroleum requirements would drop by one fifth.

Speaking of revenue, opponents often ignore it, either to cast carbon taxing in a poor light or out of disdain for bigger government. But the tax could be made revenue-neutral as well as income-progressive, either by distributing each month's or year's revenues to all U.S. households as pro rata electronic payments ("dividends"), or by slashing payroll and corporate income taxes that discourage hiring and investment ("tax shifting or swapping"). British Columbia's carbon tax owes its popularity to a combination of these approaches.

A carbon tax could be part of a bipartisan deal to eliminate costly energy subsidies and tax preferences for both clean and dirty energy, as noted in major reports on energy tax policy options prepared recently for the House Ways & Means Committee and the Senate Finance Committee. It could also render superfluous proposed Clean Air Act regulation of carbon emissions. The Act continues to do wonders for air quality, but it lacks the breadth, flexibility and transparency of a price mechanism for driving low-carbon investment and innovation.

Risk management is central to modern life, and the consequences of climate instability are too dire to forswear insurance. No climate insurance is less costly or more efficient than a carbon tax.

Fossil fuels provide nearly boundless energy, but their unfettered use is in the process of making the planet uninhabitable by many species, possibly including humans. A carbon tax can lead us back from the brink. ■

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Time for a Carbon Tax? (No)

continued from page 40

sources of revenue currently under discussion is the carbon tax, a tax on emissions of greenhouse gases (GHGs) with particular emphasis on carbon dioxide.

It is easy to see how a carbon tax could fit into the tax reform mosaic. Say, in exchange for lower corporate rates, progressives demand a carbon tax that its proponents proclaim is “politically advantageous,” because as analysts such as Ike Brannon of the R Street Institute

Such a policy is highly regressive, imposing a larger burden on low-income households compared to those with higher incomes. The reason for this is simple: lower income households spend a disproportionate amount of their income on energy and energy-intensive necessities, and the amount they spend is a larger percentage of their total income. One report estimates that under a carbon tax, households in the lowest quintile of income distribution would have

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point out, it is a tax that is relatively hidden, particularly if phased in with sufficient time to mask its impact on electric rates, manufacturing and gasoline prices.

The case for a carbon tax seems more to do with hidden sources of revenue needed as chips for some grand bargain in tax reform than it does with any meaningful commitment to reducing GHGs. While Chief Justice John Marshall’s famous dictum that “the power to tax is the power to destroy” is as true today as it was in 1819, GHGs prove difficult to destroy when the tax is imposed on a unilateral basis, and the manufacturing industries and the power upon which they depend can and do cross international borders.

Global climate change is just that, global. No unilateral policy that fails to include conforming behavior by China and India will produce real reductions. Indeed, by incentivizing the flow of manufacturing industry from relatively energy-efficient economies like the United States to China and India, a carbon tax may have the perverse effect of making climate change worse (see James V. DeLong, “A Skeptical Look at the Carbon Tax,” George Marshall Institute publication, April 2013).

A carbon tax is designed to increase the price of goods and services in proportion to the amount of CO₂ emissions that result from the production and use of that product. By its very nature, it will therefore raise prices for consumers.

a relative burden 1.4 to 4 times higher than the top quintile of households.

In addition to imposing the direct costs of higher energy prices, a carbon tax would hit individuals a second time, indirectly, through higher priced goods and services. This indirect effect is difficult to quantify but easy to understand. Companies would have to choose between reducing carbon emissions, finding ways to use less energy, or cutting expenses elsewhere – all costly alternatives. The end result is those costs would likely get passed onto consumers, workers or shareholders, through changes in consumer prices, stock returns, wages or by other means.

So, if carbon taxes make for dubious environmental and tax policy, what can be done to address the issue of carbon taxes on behalf of corporations and allied interests?

First, keep in mind that adopting a carbon tax remains a difficult political endeavor in light of the limited popularity of both new taxes and aggressive climate policy. Second, as with many concepts with surface appeal, corporations are well advised to join the policy discussions on carbon taxes with the same directness they bring to more familiar energy-tax topics like depreciation, interest deductions, and partnership status. Contrary to popular belief, the most important currency on tax reform (and other policy issues) in Washington comes in the form of research, message development and message discipline. ■



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