

# Carbon tax: the reasonable solution

## In Pursuit of Social Justice

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Growing unrest in the Middle East has resulted in a more than 60 cent jump in U.S. fuel prices in a two month time period. Rising fuel prices are threatening recovery from the recession just as job numbers and economic indicators are showing real signs of improvement. Why does the United States continue to tolerate economic reliance on foreign oil from volatile Middle Eastern countries? The answer is fear among legislators that any policy solution responsible for a short-term increase in energy prices will destroy a political career. This political cowardice is already resulting in drastic increases in energy prices by making the well-being of U.S. citizens and the health of the economy liable to foreign governments. Political inaction is resulting in the worst-case scenario. Costs are increasing for non-renewable energy sources while the US is falling behind the rest of the world in developing renewable technology.

A carbon tax is the most transparent, feasible and efficient strategy to make the United States a leader in the international green economy, reduce dependence on foreign oil and address the crisis of global warming. Even the most ardent free-market proponent would be challenged to argue that the problem of global warming will be solved without some government intervention. Pollution is an economic externality, meaning the entity profiting from the polluting activity is not fully absorbing the external costs of pollution on society in the price of the good or service. Therefore, the key is this: a policy solution to force energy suppliers to internalize pollution costs that have the smallest possible negative impact, while creating the most effective incentive for innovation or behavior change to reduce pollution.

Republicans and conservative business advocates have consistently called for more certainty and simplicity in the U.S. tax code. A carbon tax prices carbon in an exact manner, by levying a fee on carbon emissions per metric ton. In contrast to the open-ended pricing mechanism of a cap-and-trade system, the proposal that failed to pass Congress last year, a carbon tax will provide certainty in the market that will best allow all stakeholders to prepare for additional costs

Concomitantly, the IRS is equipped to implement the tax, significantly reducing the need for additional bureaucracy to manage a more convoluted federal solution.

The implementation of a carbon tax would ignite a wave of innovation by making renewable technology and energy efficient decisions cheaper, or price competitive, to their environmentally unfriendly alternatives. Yet, for the tax to be successful in promoting innovation without inducing economic contraction, a carbon tax must include a variety of stipulations to minimize negative impact on U.S. businesses and low income families. Implementation must occur on a lengthy timeline that includes a two year grace period for companies and families to increase energy efficiency or transition to renewable power sources in advance of increased costs. Also, the tax should be set to increase at defined intervals over a long period of time to account for increasing feasibility of improving energy efficiency as technology develops.

To make the carbon tax politically feasible the implementation should specify unequivocally that all revenues will go towards reducing the U.S. corporate income tax and providing a payroll tax rebate and equivalent social security rebate to help offset the increasing energy costs that will be faced by businesses, low income families and seniors. According to the Cato Institute, the U.S. has the highest corporate income tax in the world at 40 percent. The high tax rate is pushing away investment from the U.S. and is an unreasonable burden on U.S. companies trying to compete in the global economy. A carbon tax, coupled with a significant decrease in the corporate tax rate, would not only lead to the expansion of the green economy, but drastically stimulate business growth across every sector. If the tax is implemented, inevitably technology will improve, making renewable energy options increasingly affordable. With lower energy costs, payroll tax and social security rebates will become long-term tax relief for low income families and seniors, without affecting the reduction in the corporate income tax.

Current legislative proposals for a carbon tax that vary in the size of the carbon tax, project between \$69 billion and \$126 billion in tax revenues in 2015, and between \$263 billion and \$361 billion revenues in 2030, in 2005 dollars. To put that in perspective, the federal government in 2005 earned \$771 billion in tax revenue from payroll taxes and \$307 billion from corporate income taxes.

A carbon tax, if proposed correctly, can unite interest groups across the political spectrum in support of a major step forward in environmental policy and ending dependence on foreign oil. What are we waiting for?

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