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Why the GOP Will not Support Carbon Taxes (if it wants to survive)

by MARLO LEWIS on NOVEMBER 26, 2012

Last week on *National Journal's* Energy Experts Blog, 16 wonks addressed the question: "Is Washington Ready for a Carbon Tax?" Your humble servant argued that Washington is not ready — *unless Republicans are willing to commit political suicide*. That's no reason for complacency, because spendaholics have on occasion gulled the Dumb Party into providing bi-partisan cover for unpopular tax hikes. President G.H.W. Bush's disastrous repudiation of his 'read-my-lips, no-new-taxes' campaign pledge is the best known example.

To help avoid such debacles in the future, I will recap the main points of my *National Journal* blog commentary. Later this week, I'll excerpt insightful comments by other contributors.

Nearly all Republicans in Congress have signed the Taxpayer Protection Pledge, a promise not to increase the net tax burden on their constituents. Although a "revenue neutral" carbon tax is theoretically possible, the sudden interest in carbon taxes is due to their obvious potential to feed Washington's spending addiction. If even one dollar of the revenues from a carbon tax is used for anything except cutting other taxes, the scheme is a net tax increase and a Pledge violation. Wholesale promise-breaking by GOP leaders would outrage party's activist base.

Even if the Taxpayer Protection Pledge did not exist, the GOP is currently the anti-tax, pro-energy alternative to a Democratic leadership that is aggressively anti-energy and pro-tax. Endorsing a massive new energy tax would damage the product differentiation that gives people a reason to vote Republican. Recognizing these realities, House GOP leaders recently signed a 'no climate tax' pledge.

That's good news. But this is a season of fiscal panic and I was there (in 1990) when the strength of Republicans failed. Perhaps the best time to kick carbon taxes is when they are down. So let's review additional reasons to oppose a carbon tax.

Carbon taxes are regressive, imposing a larger percentage burden on low-income households. If Republicans support a carbon tax in return for cuts in corporate or capital gains taxes (a popular idea in some circles), they will be pilloried — this time fairly — for seeking to benefit the rich at the expense of the poor.

If, on the other hand, the tax provides “carbon dividends” to offset the impact of higher energy prices on poor households, it will create a new class of welfare dependents. Guess which party is better at organizing people on welfare?

Carbon taxes pose an existential threat to the development of North America's vast coal, oil, and natural gas deposits — one of the few bright spots in the economy. The core purpose of a carbon tax is to reduce and, ultimately, eliminate carbon dioxide-emitting activities. The tax ‘works’ by shrinking the economic base on which it is levied. To keep revenues up, carbon tax rates must continually increase as emissions decline. Likely result: an exodus of carbon-related capital, jobs, and emissions (“carbon leakage”). Problem: Nobody knows how to run a modern economy on cellulose, wind turbines, and solar panels. Bipartisanship on carbon taxes means co-ownership of U.S. economic decline.

In umpteen hearings on the Solyndra debacle, Republicans excoriated the Obama administration for trying to pick energy market winners and losers. A carbon tax is an even more ambitious green industrial policy than the \$34.5 billion in loan guarantees lavished by the Department of Energy (DOE) on a few dozen renewable energy projects. Carbon taxes attempt to pick and losers *across the entire economy*, handicapping all firms that produce or rely on carbon-based energy. Indeed, central to Solyndra's business plan and DOE Secy. Chu's green tech strategy was the bet that Congress would enact cap-and-trade, the regulatory surrogate for a carbon tax.

Some economists say government should tax ‘bads’ like emissions rather than ‘goods’ like labor and capital. This is sloppy thinking. In technical economic terms, only finished products and services are ‘goods.’ Labor and capital are inputs, production factors, or costs. Energy too is a key input. Without energy, most labor and capital would be idle or not even exist. About 83% of U.S. energy comes from carbon-based fuels. So a carbon tax also taxes what these economists

loosely call 'goods.' Pretending that carbon taxes only tax emissions and nothing of value is free-lunch economics — a recipe for failure and worse. Some speculate about a grand bargain in which carbon taxes replace carbon regulations — everything from the EPA's greenhouse gas emission standards to California's cap-and-trade program to State-level renewable electricity mandates. The EPA, the California Air Resources Board, the major environmental organizations, and the renewable energy lobbies have spent decades building the regulatory programs they administer or influence. They want to add carbon taxes to carbon regulation, not substitute one for the other. Talk a grand bargain is a ploy designed to lure gullible Republicans to the negotiating table. Few if any of the Left's regulatory sacred cows would be traded away. In the meantime, carbon tax negotiations would divide GOP leaders from their rank and file and demoralize the party's activist base.

The backlash against GOP leaders' complicity would be swift and severe. Yet for all the economic pain inflicted and political damage incurred, they would accomplish no discernible environmental gain. As hurricane expert Roger Pielke Jr. points out, even under IPCC assumptions, changes in energy policy "wouldn't have a discernible impact on future disasters for the better part of a century or more." Similarly, also using IPCC assumptions, Chip Knappenberger of the Cato Institute Center for the Study of Science calculates that even if the U.S. eliminated all CO₂ emissions tomorrow, the impact on global temperatures would be a reduction "of approximately 0.08°C by the year 2050 and 0.17°C by the year 2100 — amounts that are, for all intents and purposes, negligible." Under a carbon tax, the U.S. would keep emitting billions of tons of carbon dioxide annually for a long time — otherwise the tax wouldn't raise much revenue. So the notion that carbon taxes can measurably reduce extreme weather risk or climate change impacts within any policy-relevant timeframe is ludicrous.