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Carbon Tax is not a Win-Win

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A new study from the Cato Institute, titled *The Case Against a U.S. Carbon Tax*, argues the "popular narrative" suggesting carbon-dioxide tax swaps are a win-win is "dubious" and that the economic analysis of a U.S. carbon-dioxide tax "in theory and in practice … [is] weaker than its most vocal supporters have led the public to believe."

The study examines the carbon-dioxide taxes in effect in Australia and British Columbia, and the authors conclude, "[T]he real-world experiences of carbon taxes in Australia and British Columbia, Canada, cast serious doubt on the promises of a market-friendly carbon tax in the United States."

The purpose of the carbon tax is to decrease carbon-dioxide emissions by levying a tax based on the amount of emissions produced. Australia's carbon-dioxide tax was passed in July 2012. It mandated the creation of a charge of $24.15 per ton of carbon dioxide emitted. The tax proved so unpopular it contributed to significant election losses for the country's Labor Party in 2013. A full repeal of the tax occurred in July 2014.

The authors point to Australian research that found the carbon-dioxide tax led to the highest quarterly increase in electricity prices in the country's history and an increase in unemployment. The negative effects of the tax were so numerous giveaways used to mitigate from the negative effect of the taxes led to marginal income tax increases on 2.2 million taxpayers.

British Columbia established its carbon tax in 2008. British Columbia's law isfrequently cited as a model law for the United States. It peaked at $30 per ton in 2012, where it remains today. The carbon-dioxide tax "applies to virtually all emissions from burning fuels, which accounts for an estimated 70 per cent of total emissions in British Columbia."

Although the carbon tax led to a decrease in the sale of gasoline through 2012, sales in 2013 and 2014 increased to the point where they were down only 2 percent compared to 2007 sales figures, the final pre-carbon-dioxide-tax year in British Columbia, and only a single percentage point lower than the rest of Canada. This lead the authors to conclude it "seems" the carbon-dioxide tax "had a very weak long-term effect on gasoline consumption." The authors also note, "[T]he labor market advantage of British Columbia versus Canada was cut in half if we look at the five-year periods before and after the introduction of the [British Columbia] carbon tax."

Carbon-dioxide taxes are inherently regressive and disproportionally harm low-income families. The Congressional Budget Office (CBO) found a $28 per ton carbon tax would result in energy costs being 250 percent higher for the poorest one-fifth of households than the richest one-fifth of households. CBO reports the reason for cost discrepancy is "a carbon tax would increase the prices of fossil fuels in direct proportion to their carbon content. Higher fuel prices, in turn, would raise production costs and ultimately drive up prices for goods and services throughout the economy … Low-income households spend a larger share of their income on goods and services whose prices would increase the most, such as electricity and transportation."

Another problem with a carbon-dioxide tax bill, whether state-issued or federal, is any environmental benefits that it might produce would be effectively meaningless without concomitant legislation enacted throughout the rest of the globe.

Oren Cass, senior fellow at the Manhattan Institute, says the environmental benefits that might come from passage of a carbon-dioxide tax would be minimal. "The effectiveness of a carbon tax as a matter of environmental policy [depends] not only on how it would directly alter the trajectory of [local] emissions but also on its ability to affect global emissions by driving globally applicable technological innovation or by influencing the behavior of foreign governments," wrote Cass. "On each of these dimensions, the carbon tax fails."

A carbon-dioxide tax would make everything more expensive for working Americans, leaving them less to spend and save without any guaranteed environmental benefits. Lawmakers would be doing their constituents a favor by not pursuing such destructive proposals.

The following documents provide more information on carbon-dioxide taxes.

The Case Against a U.S. Carbon Tax
https://www.heartland.org/publications-resources/publications/the-case-against-a-us-carbon-tax
In this paper from the Cato Institute, Robert P. Murphy, Patrick J. Michaels, and Paul C. Kanppenberger examine carbon-dioxide tax programs in place in Australia and British Columbia and whether similar programs would be successful in the United States. They conclude, "In theory and in practice, economic analysis shows that the case for a U.S. carbon tax is weaker than its most vocal supporters have led the public to believe."

Dissecting the Carbon Tax
http://www.american.com/archive/2012/july/dissecting-the-carbon-tax
American Enterprise Institute Resident Scholar Kenneth Greene tells how he was first deceived by the supposed economic benefits of carbon taxes and how his views have evolved in light of the dubious track record of other eco-taxes being raided for general spending.

Ten State Solutions to Emerging Issues
https://www.heartland.org/policy-documents/ten-state-solutions-emerging-issues
This Heartland Institute booklet explores solutions to the top public policy issues facing the states in 2016 and beyond in the areas of budget and taxes, education, energy and environment, health care, and constitutional reform. The solutions identified are proven reform ideas that have garnered significant support among the states and with legislators.

The Carbon Tax Shell Game
https://www.heartland.org/policy-documents/carbon-tax-shell-game

Oren Cass of the Manhattan Institute says the carbon tax is a shell game. The range of designs, prices, rationales, and claimed benefits varies so widely that assessing the actual validity of most proposals is nearly impossible to accomplish. In this article for *National Affairs*, Cass says the effect of carbon-dioxide taxes on emissions has proven to be insubstantial, a fact he says is ignored by the tax's proponents when promoting its purported benefits. Cass also says carbon-dioxide taxes' negative fiscal effects are claimed to be offset by efficiency improvements and by promising the revenues will be spent to offset the costs, but he says the same revenues are often promised to different constituencies to accomplish completely different and largely incompatible goals.

Assessing the Social Costs and Benefits of Regulating Carbon Emissions
https://www.heartland.org/policy-documents/assessing-social-costs-and-benefits-regulating-carbon-emissions
The government is required to quantify the costs and benefits of regulations they propose. In the context of regulations pertaining to carbon-dioxide emissions, various agencies have been using differing estimates of the net social cost related to carbon dioxide. In response, an interagency working group (IWG) was created in order to establish a consistent and objective "social cost of carbon." The range of estimates of the social cost of carbon produced by the IWG is too narrow and almost certainly biased upwards. Using better models and the most recently available evidence on climate sensitivity, this study from the Reason Foundation finds the range of the social cost of carbon should be revised downwards. The study states carbon-dioxide emissions may actually have a net beneficial effect on the environment.

Less Carbon, Higher Prices: How California's Climate Policies Affect Lower-Income Residents
https://www.heartland.org/policy-documents/less-carbon-higher-prices-how-californias-climate-policies-affect-lower-income-resi
This study from Jonathan Lesser of the Manhattan Institute argues California's clean power regulations, including the state's renewable power mandate, is a regressive tax that harms impoverished Californians more than any other group.

Three Steps to Reducing Carbon Emissions Effectively
https://www.heartland.org/policy-documents/three-steps-reducing-carbon-emissions-effectively
Todd Myers of the Washington Policy Center says Washington State's climate policies are the result of a destructive cycle: Exaggerated promises are adopted, and then when they fail, politicians blame opponents. This cycle creates more partisanship and encourages even larger, less workable promises. Instead of trying to force lifestyle changes, as many environmental activists have proposed, Myers says Washington State should utilize technological advancements that have the potential to improve energy efficiency.