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A Carbon Tax — Plus Corporate Welfare



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An ideal cap-and-trade system is one that auctions the emissions permits rather than giving them away. Cap and trade is then equivalent to a carbon tax. A system that does not auction the permits – which is what the bills before Congress propose – is a carbon tax plus welfare for those who get the free permits (e.g., coal-burning power plants and farmers in Midwestern states).

Any policy to reduce emissions — with its handouts to special interests — may be more costly than the emissions themselves.

A carbon tax is superior to cap-and-trade with free permits, both because it avoids handouts to politically favored groups and because it allows lower tax rates on income, thereby reducing the distortions from taxation.

A carbon tax is itself subject to political meddling; indeed, any policy that raises carbon prices creates incentives to evade and manipulate that policy. Thus any policy to reduce emissions may be more costly than the emissions themselves, given the unintended consequences of such policies (e.g., pushing carbon-emitting activity to countries with lower carbon prices).

Those who fear higher carbon prices under CAT can take comfort in the fact that CAT will inevitably contain expansive “offset” provisions. These provide extra carbon permits to emitters who adopt carbon-reducing activities such as planting trees. Offsets are easy to manipulate and hard to monitor, so CAT will limit emissions far less than implied by its notional caps.

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[1](#) .
[arthur lubitz](#)
new york

November 27th, 2009

11:11 am

I think that a carbon tax will inevitably hobble american industry and lead to massive job losses. We should instead come up with positive incentive that help the market reach its goal without letting massive unemployment hit. we will be dependant on coal and nuclear power for the next 40 years for a majority of our power needs please keep ideology from destroying us. arthur lubitz

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[George Abruzzese](#)

Bohemia, NY 11716

November 27th, 2009

11:11 am

All three of these pieces have flaws: They ignore the fact that any cost associated with reducing carbon emissions will be paid by the consumer and the selling of carbon permits is just a con game. It is apparent now that several organizations pretending to be concerned non-profits have been coordinating their efforts to support sellers of carbon permits and at the same time doctoring climate data and suppressing contrary views. The truth is the emission targets at Copenhagen are meaningless because there will be no deal and the Cap N' Trade bill is DOA next year. Finally the majority of our reps (both D's and R's) are wising up to this scam.

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[Peter](#)

San Francisco

November 27th, 2009

11:11 am

Where can I buy some of this greenhouse gas? I keep driving my SUV around to various gas stations but have yet to find anywhere they sell greenhouse gas.

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[Bob Royfills](#)

San Francisco

November 27th, 2009

11:44 am

You'd think the Democrats were in enough trouble, but apparently not. Only 331 days until the next election.

Two things to add to this column: Kate, you're right on target concerning the permit giveaway in the House bill. But isn't this what usually happens in Washington: a noble ideal on the bumper sticker and a pork-filled monstrosity of a bill. And in fact, isn't the pork the real point of it all?

And Nathaniel--you lose credibility when you fail to address the issue of corrupted data. You're really not kidding anybody.

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[Logan](#)

Portland, OR

November 27th, 2009

5:33 pm

The third guy is wrong about C&T with auctions being the same as a carbon tax. With C&T, you guarantee emissions will not exceed a certain level (the cap). With a carbon tax, you set a tax level that you HOPE will achieve the desired level of emissions, but nothing is guaranteed. If the cost of carbon credits is very elastic, a carbon tax could result in almost zero reduction in emissions.

C&T is the way to go. Yes, the cost WILL ultimately trickle down to consumers, but that's part of the point! The