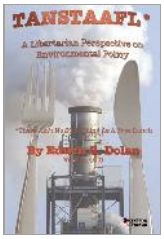

Why Conservatives Should Love a Carbon Tax—and Why Some of Them Do

Author: Ed Dolan (/blog/author/edolan) · July 1st, 2013 · Comments (34) (http://www.economonitor.com/dolanecon/2013/07/01/why-conservatives-should-love-a-carbon-tax-and-why-some-of-them-do/#idc-container)

Last Week the White House released a long-anticipated Climate Action Plan (http://www.whitehouse.gov/sites/default/files/image/president27sclimateactionplan.pdf). Conservatives have been swift to attack it as a "backdoor energy tax (http://www.theconservativeeagle.com/2013/06/25/obamas-climate-plan-criticized-as-backdoor-energy-tax/)." The critics could not be more wrong. A carbon tax, or energy tax of any kind, is the one big piece that is missing from the President's plan.

Despite the criticism, though, some prominent conservatives see a better way of turning the issue of energy taxes to their advantage. Among those who support a carbon tax are Gregory Mankiw (http://www.nytimes.com/2007/09/16/business/16view.html?_r=0), Harvard professor and former Chairman of the President's Council of Economic Advisers under George W. Bush; George P. Schultz (http://online.wsj.com/article/SB10001424127887323611604578396401965799658.html), Treasury Secretary under Richard Nixon and Secretary of State under Ronald Regan; and David Frum (http://www.rstreet.org/op-ed/a-tax-we-could-learn-to-love/), former special assistant to George W. Bush.

Here are some of the reasons why conservatives, even the climate skeptics among them, should love a carbon tax.

A carbon tax would improve tax efficiency

Although conservatives don't like taxes, they reluctantly agree that the government does need revenue. In recent years, their budget plans have called for a reduction in federal spending to a range of 18 to 20 percent of GDP. To fund even that level of spending without large deficits—which they also dislike—would require a lot of tax revenue. Where should it come from?

There is rare unanimity among economists in answering that question: Revenue should come from broad based taxes that have the lowest possible marginal rates and the fewest possible exemptions, deductions, and preferences. The current U.S. tax system is about as far from that ideal as you could get. As a result, it produces maximum distortions of business and consumer decisions while producing a minimum of revenue.

The corporate income tax is Exhibit A for these defects. Since Japan cut its rate last year, the United

***TANSTAAFL: A Libertarian Perspective on Environmental Policy*from Searching Finance** (http://tiny.cc/u2pb6)

States has the world's highest marginal tax rate on corporate income. However, the U.S. corporate tax has so many exemptions and deductions that many of the largest companies pay no tax at all, and the tax as a whole produces only a trickle of revenue. The corporate income tax today brings in revenue equal to just 2.7 percent of GDP, down from 6 percent in the 1950s. Because other countries have fewer loopholes, they get more revenue from their corporate taxes even though their rates are lower. Yet despite raising so little revenue, the corporate income tax distorts business decisions in major ways. To name just a few, it encourages financing with debt rather than equity, encourages moving operations offshore, and discourages repatriation of profits. Even companies that pay no tax to the government suffer, since tax avoidance requires them to use business practices that they would not otherwise choose. In many cases, the corporate tax subjects income to double taxation, once when it is earned by a company and again when distributed as dividends.

A carbon tax, by contrast, is much more broadly based, since economic activity of every sort depends to some degree on carbon-based energy. Even a low rate of tax would raise a large amount of revenue. Introducing a carbon tax and using the proceeds to reduce rates on other taxes would maintain revenue neutrality while reducing tax distortions to business decisions.

A recent study (http://globalchange.mit.edu/files/document/MITJPSPGC_Rpt228.pdf) from MIT gives some estimates, using a large-scale model of the economy. The study explores the effects of a tax of $20 per ton of CO_2, beginning in 2013 and rising at a rate of 4 percent per year. (As a rough rule of thumb, each $1 per ton of CO_2 is equivalent to about one cent per gallon of gasoline.) Such a tax would generate enough revenue to cut the corporate tax rate by 2.23 percentage points by 2015. The result would be net gains to the economy of $2.7 billion, when the economic burden of the carbon tax is balanced against the reduced burden of the corporate tax. The efficiency gains would be nearly as large if the carbon tax revenue were used instead to reduce personal income or payroll tax rates.

A carbon tax would make the economy more resilient

Although some on the political right continue to maintain that the whole idea of climate change is a hoax, many mainstream conservatives take a more considered view. For example, in a recent *Washington Post* op-ed (http://articles.washingtonpost.com/2013-05-19/opinions/39376700_1_emissions-carbon-dioxide-climate-change), Rep. Lamar Smith (R-Texas), Chairman of the House Committee on Science, Space and Technology, writes that "climate change is an issue that needs to be discussed thoughtfully and objectively."

As climate scientist Judith Curry points out in recent Congressional testimony (http://curryja.files.wordpress.com/2013/04/curry-testimony-2013-il.pdf), any thoughtful and objective discussion must acknowledge that many uncertainties remain in climate science. Not on basic points like the heat-trapping properties of CO_2, where there is broad scientific consensus, but rather, on the times, places, and forms in which climate risks are likely to manifest themselves—whether as droughts, floods, coastal storms or something completely unanticipated. Those "deep uncertainties" make it impossible to calculate a single, optimal response to climate change.

As a result, climate scientists and economists, along with Curry, increasingly recognize that the proper response to climate risks is to promote *resilience* through policies that enable our economic and social system to cope with shocks and adapt to unexpected changes.

A carbon tax is an ideal way to encourage such resilience because it capitalizes on the inherent flexibility of the market. Even if we cannot calculate the optimal value of the tax—estimates range from a few dollars per ton to as high as three-hundred dollars—even a small tax will begin to exert steady pressure for change across a broad front. A carbon tax would give equal

encouragement to development of low-carbon alternative energy sources and to energy conservation. It would not only spur the search for winners, it would winnow out losers before they become politically entrenched. (Corn-based ethanol is a case in point.) The result would be a more diverse and efficient energy mix.

Beyond environmental considerations, using a carbon tax to foster a more resilient energy economy would have other benefits.

For one thing, a carbon tax would make the U.S. economy more resilient to geopolitical shocks. Greater energy efficiency and a more diverse domestic energy base would make the country less vulnerable than it now is to political events in the often unstable and unfriendly countries that supply much of our imported energy.

At the same time, a carbon tax would make the economy more competitive in international trade. That proposition might draw raised eyebrows from the "affordable energy" crowd, but it is a fact. There is little evidence that low domestic energy prices are either a necessary or a sufficient condition for strong export performance. Consider that export superstar Germany has among the highest energy prices in the world, while the list of countries with the lowest energy prices is littered with import-dependent basket-cases like Egypt and Pakistan. To be competitive, a country has to be ready to react to changes in the global economy—booms or busts in trading partners, changes in global commodity prices, and technological changes. An efficient tax system with low marginal rates plus a diverse energy mix would enhance the flexibility needed to meet trade challenges.

A carbon tax is better than the regulatory alternative

In contrast to the flexibility and resilience of market-based environmental policies like a carbon tax, command-and-control regulations are inherently rigid and brittle. Fuel economy standards for motor vehicles are a case in point. As I explained in an earlier post (http://www.economonitor.com/dolanecon/2011/07/15/is-a-56-2-mpg-fuel-economy-standard-really-a-good-idea/), regulatory standards lock in government-favored technologies while discouraging the exploration of innovative ways of achieving fuel efficiency. Worse, they actually provide perverse incentives to waste energy. Existing fuel economy standards encourage production of fuel-efficient cars, but once you own one, its low operating costs give you an incentive to drive more miles. The standards also encourage people to delay junking old cars since the new, regulation-compliant models cost more. In contrast, a carbon tax provides an incentive both to buy new, fuel-efficient cars and to drive existing cars fewer miles.

Unfortunately, conservative resistance to carbon taxes has the unintended consequence of encouraging greater reliance on regulation. That is very much evident in the new climate action plan. The plan contains not a word about a carbon tax, presumably because introducing one would require Congressional action. Instead, the plan consists entirely of measures that the administration can implement on its own authority. Most of the items proposed are subsidies for selected technologies (for example, solar panels for federally supported housing) and command-and-control efficiency standards (for power plants and heavy trucks). Yes, some of the ideas in the plan are good ones, but those would rise to the top under the market-based incentives provided by a carbon tax. The bad ideas in the plan would never see the light of day.

The bottom line

Putting all of this together, a carbon tax is a natural for conservatives. Conservatives know the tax system is broken; a carbon tax could be a key element in comprehensive tax reform that aims to broaden the base and lower marginal rates without increasing the deficit. A carbon tax would enhance the resilience that the economy needs to respond not just to environmental risks, but also to geopolitical and trade shocks. Finally, support for a carbon tax would help counter the impression that conservatives don't care about the environment, a key turnoff for younger and more educated voters.

Prominent conservatives like Gregory Mankiw, George Schultz, and David Frum know this. Why aren't more jumping on the bandwagon?

This is the first in a three-part series. Here are links to Part 2 (progressives) (http://www.economonitor.com/dolanecon/2013/07/08/why-progressives-should-love-a-carbon-tax-although-not-all-of-them-do/) and Part 3 (libertarians). (http://www.economonitor.com/dolanecon/2013/07/15/why-libertarians-should-support-a-carbon-tax-even-if-they-cant-love-it/)

***Addendum:** Just after this post was published, the Energy and Enterprise Initiative (http://energyandenterprise.com/about/)at George Mason University awarded second place in a "Young Conservative Thought Leaders" contest to an essay entitled "How the GOP Could Win the Climate Debate." The essay, which you can read here (http://www.realclearscience.com/articles/2013/07/10/a_sensible_gop_solution_to_climate_change_106589.html), endorses a revenue-neutral carbon tax. The essay is signed "Eric Bradenson." The contest organizers go on to explain that "Bradenson" is a pen name. The writer chose to use a pen name because he currently works as a Republican staffer for a Republican House Member and "opted to remain anonymous for job security reasons"*

Filed under: Energy and environment (http://www.economonitor.com/dolanecon/category/energy-and-environment/), Fiscal policy (http://www.economonitor.com/dolanecon/category/fiscal-policy/), Tax reform (http://www.economonitor.com/dolanecon/category/tax-reform/)

Comments (34)

 (http://intensedebate.com/people/ThomasGrennes) ThomasGrennes (http://intensedebate.com/people/ThomasGrennes) ·+2

57p *15 weeks ago (#IDComment671653614)*

Current taxes on gasoline in the U.S. are not zero. Is it possible that if the optimal tax on carbon is low enough, current taxes on gasoline are too high? Don't the global benefits from a carbon tax depend on how many countries impose a tax and at what level? China is now the largest carbon emitter, and the government shows little interest in limiting emissions. India and Russia are other major emitters with little expressed interest in imposing limits. If Americans ship coal to China for use in new power plants, doesn't this reduce the gain from a tax? On competitiveness, doesn't a tax change the comparative advantage for carbon intensive goods?

4 replies (javascript: collapseThread(671653614);) · *active 15 weeks ago*

 Bryan Willman · *15 weeks ago (#IDComment671662214)* 0

I. I've seen at least one argument that a carbon tax wouldn't reduce net CO2 very much, because for so many things there are no actual alternatives. One imagines that would change over time, but perhaps too slowly to matter.

II. If you think mere rational tax policy is going to correct the corn ethanol rules, I suggest you review carefully how the electoral system works, and note the date of the Iowa caucus.

III. The "So What" view of climate change (implications below):
a. Managing a world wide hazard such as CO2 requires world wide discipline
b. Forever
c. a. and certainly b will not happen.

Implication: There's no point engaging painful excercises to control CO2 emissions - they won't be sustained by enough of the world's population for long enough.

2 replies (javascript: collapseThread(671662214);) · *active 13 weeks ago*

 warnerta@gmail.com · *15 weeks ago (#IDComment671715084)* 0

Grennes makes fair points, and though Mankiw is Republican and works for conservatives I wouldn't call him a conservative, but I'm very much on your side, Ed. The arguments against seem to be mostly like Bryan's: we're doomed anyway so why bother. Indeed, why have laws, why have civilization, why educate our children.

 (http://www2.ca.uky.edu/agcollege/plantpathology/people/vincelli.htm) · *15 weeks ago (#IDComment671723178)* 0

Paul Vincelli (http://www2.ca.uky.edu/agcollege/plantpathology/people/vincelli.htm)

Several months ago, the University of Kentucky hosted of forum on climate change with three excellent speakers who were all self-described conservatives. One of the speakers (Bob Inglis) is a very articulate proponent of a revenue-neutral carbon tax. The other speakers were fabulous also. Liberals reported how they better understand that there are thoughtful conservative perspectives on, and solutions to, climate change, thus allowing for a broadened public discussion. In turn, conservatives in attendance learned the same thing. You can watch the recording of this event at http://bit.ly/135gvNa (http://bit.ly/135gvNa). The starting time for each speaker is noted at this page, so you can listen to the speakers of greatest interest to you.

1 reply (javascript: collapseThread(671723178);) · *active 15 weeks ago*

 Jardinero1 · *15 weeks ago (#IDComment671810770)* 0

A national sales tax and property tax would have have the broadest base and the lowest marginal rates. The apparatus to assess and collect property and sales tax already exists in all fifty states. The federal government could piggyback on the existing state apparatus.

CO2 is not a bad. It is vital trace element, without which, all life on earth would be impossible. It has been in decline for eons. It reached a nadir only in the last one hundred fifty years. We have bought times for life on earth by putting some of it back. It would be foolish to stop putting CO2 back into the atmosphere.

 William T · *15 weeks ago (#IDComment672041742)* 0

One major problem with using a carbon tax to fill the government coffers is that it conflicts with the primary goal of taxing carbon which is to reduce and eventually eliminate human caused CO2 pollution. If the government becomes dependent on carbon taxes for its funding, then their interest tends towards the maintenance of this cash income rather than the eventual elimination of carbon emissions. Hansen's proposal tries to avoid that trap.

 joseph glynn · *15 weeks ago (#IDComment672176131)* -2

It is great to see the case being made for carbon taxation. I believe some Scandinavian countries applied carbon taxes in the 90's and it worked well. It offers an effective, efficient and equitable way to address the greenhouse gas emissions which are causing climate change and which is already making homes and businesses un-insurable in parts of the UK and US. Taxpayers will have to rehouse flooded families and firms.
We ought to care about our legacy to the next generations; will it be life or death?

Europe's ETS emissions trading has not worked well. Let's revive the UN as a democratic global authority and impose the carbon tax universally via trade sanctions if necessary.

 david j michel · *15 weeks ago (#IDComment672247874)* -1

why don't we all live off of green energy,most Obama supporters live in the dark anyway!

 jack straw · *15 weeks ago (#IDComment672278673)* 0

another wonderful article. home runs galore and again thank you. you remind us that though we live in a very unelightened age we need not be this way. i look forward to following the progress of this story and hope the plan comes to fruition. coal has an massive untapped market to provide heat to homes. regulations creating boiler systems that are highly efficient for rural and suburban homes strike me a technological possibility. this has added effect of free up oil reserves to "lower the boom" on all those anti-competitive situations the USA finds itself in. (creating cartels here in North America...if i may be blunt.) who knows...maybe it will even do something about that YAWNING trade gap. (gab? how do you spell that?) the German "Oest Plan" even today strikes me as highly inefficient. in New York we call it a "pass through provision." now...back to the cold hard business of building my tomb. It's much large than the Pyramids of course.

 Guest · *15 weeks ago (#IDComment672310813)* +1

Taxes distort markets. Energy is already a heavily taxed market. The theory of the decade is CO2 is dangerous and needs to be eliminated. Most seem to ignore the consequences of their tax. One: a carbon tax will result in an environmental disaster. A carbon tax would increase wind, solar and nuclear. Wind and solar depend on the destruction of natural habitats because the energy conversion equation is Force = Mass times Acceleration. To get more mass to make electricity, one must take more of the surface of the Earth. What happens when humans destroy their natural habitats? An example from England illustrates. A very rare and very endangered bird was last seen in England in 1991. The bird recently reappeared, only to be killed by a wind turbine. (http://now.msn.com/bird-hits-wind-turbine-rare-wh... (http://now.msn.com/bird-hits-wind-turbine-rare-white-throated-needletail-killed-instantly)) . Carbon taxes will make these type of unpreventable events more common as society is forced to move away from carbon fuels. Two: a carbon tax is regressive. The upper half of society can absorb the rising cost of energy. The bottom half of society can not. Energy is a very large portion of the poor's budget, and a carbon tax will squeeze a small budget further. Three: a carbon tax is based on unproven science. There are 22 climate models which have been developed by the brightest minds of the world. Not one model shows the correlation between CO2 build up and increased planet temperatures. How could this be since the table top experiment shows the temperature should be rising? This simple engineer has worked with complex systems over a 40 year career. I have never seen a complex system which can be controlled using one variable. The core assumption of the CO2 zealots is climate can be controlled by controlling CO2 build up. Common sense says they are wrong now and will forever be wrong, even if the world stopped using carbon. The climate is a multi-variable complex system which will never be controlled by a single variable. If the policy goal is to improve the atmosphere without destroying habitats, then society has to get comfortable with nuclear's challenge, used radioactive fuel. The technology exist to solve used nuclear fuel issues while the leadership, investment, and desire for change does not.

 Jose O · *15 weeks ago (#IDComment672359377)* 0

When listening to opinions about the reality / falsity of climate change, global warming, and the CO2-driven greenhouse effect

increase, remember one very important point.

If you weight people's opinions by their previous rate of success at prediction, you get the opinion of science as the only probably-accurate prediction for the climate.

Thus when trying to assess whether carbon dioxide will or will not be taxed, remember that because science has no choice but to predict that increasing temperatures accompany carbon-dioxide increases, due to infrared scattering by 3+ atom molecules like carbon dioxide combined with basic thermodynamics like the black-body spectrum and the claussius-clyperon relation for water vapor, there is no debate that global warming won't stop magically.

Factoring that into the likely-hood of a carbon-tax, you get that a carbon tax of some sort is simply a matter of time, and that your investment ideas in the long term need to adjust for this basic fact of nature and economics.

Signed, a physicist, engineer, and young entrepreneur.

7 replies (javascript: collapseThread(672359377);) · *active 15 weeks ago*

 (http://www.actual-articles.com) actual articles (http://www.actual-articles.com) · *15 weeks ago (#IDComment673448220)* 0

Hello, would you please allow me to put this on my website? If there is no any problem with this, please let me know via my e-mail…

 Shelley Buonaiuto · *15 weeks ago (#IDComment673990563)* 0

I was just in DC attending the Citizen's Climate Lobby conference and speaking to mostly conservative members of congress to promote a carbon tax. I appreciate your well researched article. I have one question I'd like to clarify. You write:

Such a tax would generate enough revenue to cut the corporate tax rate by 2.23 percentage points by 2015. The result would be net gains to the economy of $2.7 billion, when the economic burden of the carbon tax is balanced against the reduced burden of the corporate tax. The efficiency gains would be nearly as large if the carbon tax revenue were used instead to reduce personal income or payroll tax rates.

My question: If the carbon tax is used to reduce corporate, or personal income taxes, wouldn't this affect the amount of revenue being generated as the amount of carbon decreases? If the tax is revenue neutral, with most or all of the dividend returned to the consumer, then as the amount of revenue decreases with the decrease in carbon emissions, would the price of energy also decrease, as we transition to free sources of energy with the infrastructure in place? Of course, we may still be dependent on a baseload energy, which may be a hugely expensive nuclear. There should also be a benefit to the economy from the incentivizing of green technology and the resultant jobs. Would this likely be sufficient to counter the loss of tax revenue from decreasing carbon?

1 reply (javascript: collapseThread(673990563);) · *active 15 weeks ago*

 Arno Arrak · *13 weeks ago (#IDComment680690890)* 0

Ed Dolan: you wrote three articles on carbon tax. They each deserve a comment.
Why are you pushing this insane tax on "carbon?" Carbon dioxide is not causing any warming today nor has it done so for the last 15 years as even Pachauri of the IPCC has admitted. In case you haven't noticed, there is more carbon dioxide in the air now than ever before and yet there is no sign of that alleged greenhouse warming it is supposed to produce. We are looking at a natural experiment set up by forces of nature that demonstrates its inability to warm the world. And I guarantee that it did not suddenly lose its ability 15 years ago but never actually caused any warming. The absence of greenhouse warming also follows from Ferenc Miskolczi's theory of saturated greenhouse warming. But you don't need his theory to come to the same conclusion by using simple physics. Laws of physics require that in order to start a greenhouse warming you must put carbon dioxide into the atmosphere at the exact same time. That is because the absorptivity of carbon dioxide in the infrared is a property of the gas and cannot be changed. If

you want more absorption to increase warming you must put more absorbing molecules into the atmosphere. There were three occasions within the last 100 years when warming suddenly started. The first one was the early century warming which started in 1910 and stopped with WWII cooling. It raised global temperature by half a degree Celsius. The second one was in 1976 and was called the Great Pacific Climate Shift. It raised global temperature by 0.2 degrees and was finished by 1980. The third one was a step warming that accompanied the super El Nino of 1998. It raised global temperature by a third of a degree Celsius and then stopped. And this is it for the whole century. The only thing you need now is the Keeling curve and its extensions to determine what kind of warming it was. It turns out that none of these three episodes are greenhouse warming episodes because there was no increase of atmospheric carbon dioxide when they started. The Keeling curve and its extension are just featureless at these three critical temperature values. It is really hard for me to understand why any rational person can fall for the mindless destruction of civilized life in the name of saving the world from a non-existent danger. If Climategate did not teach you anything, here is one way you never heard of that was used to cheat us into believing in the global warming scam. In the eighties and nineties all ground-based temperature curves were showing a "late twentieth century warming." I compared it to satellite temperature curves and found that it simply did not exist. I complained about it in my book and demanded an investigation when the book came out in 2010. Nothing happened until last fall when GISTEMP, HadCRUT and NCDC suddenly decided to
give up that phony warming and align their data for the eighties and nineties with satellites. I consider this concerted action tantamount to an admission that they knew the warming was fake. In the meantime, while it was official, it was referred to by people writing articles as proof of the existence of man-made warming because no one could find a natural cause for it. Man-made all right, cooked up in the back rooms of guardians of temperature. It is a scientific fraud and it is not sufficient to simply change the record without telling anyone about it and expecting to get away with it. But such is the character of people involved with the global warming enterprise that you are supporting.

2 replies (javascript: collapseThread(680690890);) · *active 13 weeks ago*

 David Onkels · *13 weeks ago (#IDComment680721003)* 0

To see how a carbon tax works in the real world, read this: http://wattsupwiththat.com/2013/07/14/australias-... (http://wattsupwiththat.com/2013/07/14/australias-carbon-tax-an-expensive-sop-to-the-greens/)

 historicus · *13 weeks ago (#IDComment680976967)* 0

None of this addresses the real solution which is abolishing the IRS and progressive taxation.

Period.

 (http://www.geoffgilletteandco.com.au/) Gold Coast Taxation (http://www.geoffgilletteandco.com.au/) · *12 weeks ago (#IDComment687425380)* 0

and then what?give more budget to the military?if youre gonna get more taxes at least put them into something useful