



## Why Now is the Right Time for a U.S. Carbon Tax

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Carbon taxes have been debated for some time. Proponents have argued that they would help to mitigate climate change and accelerate the development of new, cleaner energy sources and technologies, while opponents have pushed back by pointing to the higher prices a carbon tax would bring to consumers. The recent steep fall in oil prices and associated declines in energy prices shifts the balance in this raging debate – and makes the case in favor of carbon taxes overwhelming. There is room for discussion about the size of a new tax and about how the proceeds should be deployed. But there should be no doubt that – starting from the current zero tax rate on carbon – new U.S. levies on carbon-based sources of energy would be desirable.

### The Core Case for Carbon Taxation

The core of the case for taxation is the recognition that, when industries and people burn carbon-based fuels or products such as oil and coal to power businesses, homes, and cars and trucks, they do not bear all the costs of their actions. That is true for several reasons:

- Burning carbon-based fuels spews out greenhouse gas emissions that contribute to rapid warming and exacerbate the global climate change problem.
- In many cases these fuels also contribute to local pollution that directly and immediately harms human health. Lives are blighted or cut short, and the costs of health care rise.
- Removing fossil fuels from the ground causes environmental harms – like earthquakes in fracking zones or floods in coal excavations from mountaintops. Fuel removal also leads to serious accidents like the coal-mining disasters in West Virginia.
- Even though U.S. oil production has recently gone up, our nation remains a net importer – and heavy consumption increases our dependence on the Middle East.

When we drive our cars, heat our homes or use fossil fuels in more indirect ways, all of us in the United States (and beyond) spur such costs without paying for them. We overuse dirty fuels – spending more on them than we would if their full cost was reflected in prices. This is not some kind of government planning argument – it is the straightforward logic of the market: that which is not paid for is overused. The bottom line is that a new carbon tax – with the revenues returned to society – would make the U.S. economy work better. Costs and prices would come into better alignment, freeing families and businesses alike to make wiser decisions.

### Why Lower Energy Prices Strengthen the Case

Understandably, many people see the recent sharp decline in energy prices as a good thing. With people

paying less to heat homes or drive cars, the incomes of many Americans have gone up. They can spend the savings on other things. But here is the problem: lower prices for energy make the problem of overuse of carbon fuels even worse. That means that the benefits of starting a carbon tax now are greater than they would have been even a few months ago – and the arguments usually rolled out in opposition are weaker.

Some critics, for example, have maintained that carbon taxes place an unfair burden on some middle-income and low-income consumers – people who have to drive long distances to work, say, or people who live in places with severe winters and have homes that are expensive to heat. True, such people would be hit harder than others by carbon taxes. But right now, these groups have also received a windfall from the drop in energy prices, so it would be possible to impose substantial taxes without making them worse off than they were when paying higher energy prices six months ago. As an example, the price of gasoline has fallen by over \$1 per gallon. A \$25 a ton tax on carbon that would raise over \$1 trillion during the next decade would lift gas prices by only about 25 cents. Drivers would still be well ahead of where they recently were by 75 cents a gallon.

Another worry of critics is that taxing fossil fuels might hurt the competitiveness of U.S. industry and encourage offshoring. But in fact a well-designed tax would be levied on the carbon content of all imports coming from countries that did not impose their own carbon levies. U.S. authorities could insist that such a tax is compatible with the rules of the World Trade Organization. That kind of measure would have the virtue of encouraging countries that wished to avoid the American tax to impose carbon taxes of their own, speeding along the international response to climate change.

Now is the right time internationally as well as domestically. Leading into the global climate summit scheduled to be held in Paris later this year, a U.S. carbon tax would be a hugely important symbolic step. It would shift the international debate towards ideas for harmonizing the various measures countries can use to raise the price of carbon – and push discussion away from complex cap-and-trade systems. Those systems were in vogue a decade ago, but in Europe and beyond they have proved much more difficult to operate than their proponents expected.

## **How a U.S. Carbon Tax Could Work**

In setting the level of any carbon levy, there is more danger of doing too little than too much. Once the principle is established, the level can be adjusted. A reasonable starting point would be a tax of \$25 a ton that would generate well over \$100 billion in revenue each year.

How should the new government proceeds be spent? My preference would be to split them between tax benefits for working Americans and investments in upgrading and repairing U.S. infrastructure, our roads and bridges, airports, communication systems, and electric transmission lines. An additional \$50 billion a year would contribute significantly to reversing current infrastructure decay, and the same amount could greatly boost the earned income tax credit for low-wage workers or reduce overall payroll taxes (or or some combination of both).

A carbon tax has potential broad appeal. Progressives should rally to this policy as a good way to address climate change and help workers; and conservatives should favor carbon taxes on market principles – because they get prices right and are less intrusive than regulations. Most Americans should applaud this policy as a way to move our country into the vanguard on the energy and climate issues crucial for this century. With

energy prices going down, now is the time to act.