



Issue Brief 2017 - 01

Is a carbon tax the best way to address climate change?

What alternative can conservatives offer?

When conservatives talk about change these days, we're not just referring to the new administration. Several of our country's most prominent Republicans have been urging a new approach to climate change: a carbon tax.

The idea of a carbon tax is to make the emission of carbon more costly, thereby deterring activities that consume fossil fuels. Under a carbon-tax scheme, every product and service associated with carbon emissions would be made more costly, with the proceeds of the taxes going to the federal government. Carbon-tax advocates estimate that they could raise

\$220 billion a year with this "tax on everything." But this proposal engenders many questions, among them:

What will the federal government do with the \$220 billion?

Should the federal government levy a regressive consumption tax?

Will a new "tax on everything" chill economic growth?

Is a carbon tax the optimal way to mitigate emissions?

The Hoover Institution hosts "Is There Deal Space For Carbon Pricing In 2017?" on Wednesday, March 29, 2017 from 2:00pm - 6:00pm EST.

George P. Shultz, James A. Baker III, and Henry Paulson are names that command respect. So on February 4, when they and five others unveiled a detailed carbon tax proposal, there was plenty of buzz. "Perhaps this collection of eminences can open the Republican mind," Bloomberg editorialized. "As they point out, even if you don't believe that humans are fully to blame for climate change, a carbon tax is the just the kind of insurance policy everyone needs."

This half day conference explores what would persuade a strongly tax-averse Congress to enact a carbon fee and whether a push for tax reform provides an opportunity to address carbon pricing.

2:00 pm
Welcome
Michael Franz, DC Director of Programs, Hoover Institution
George T. Frampton, Jr., Co-Founder, Partnership for Responsible Growth

2:10 pm Introductory Message
George P. Shultz, Thomas A. Sison Ford Distinguished Fellow, Hoover Institution

2:20 pm Panel: Possible Bipartisan Uses of New Carbon Revenue
Moderator:
Alex Hill, Research Fellow, Hoover Institution
Panelists:
Joseph Aldy, Professor, Kennedy School of Government, Harvard University
Thomas Stephenson, Venture Capitalist, Sequoia Capital (invited)
Bob Perkowski, President, ecoAmerica
Donald Marros, Director, Economic Policy Initiatives, Urban Institute

3:25 pm - Break

3:45 pm Panel: The Politics: Can a Deal Be Forged Now?
Moderator:
Jessica T. Mathews, Distinguished Fellow, Carnegie Endowment
Discussants:
Walt Mischel, Co-Founder, Partnership for Responsible Growth
Bob Inglis, Executive Director, republicEN (invited)
Maya McCannery, President, Committee for a Responsible Federal Budget
Jerry T. Nylos, President, Niskanen Center
Phil Sharp, former CEO, Resources for the Future (invited)
Ardie Munn, Senior Fellow & Policy Director, Climate & Energy Economics Project, Brookings Institution

5:30 pm - 6:30 pm Rooftop Reception

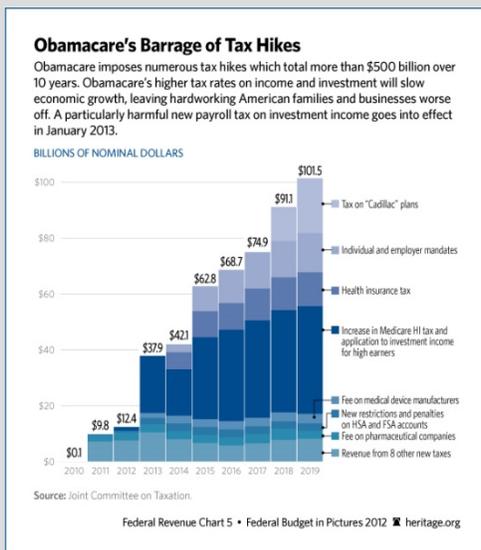
Is a carbon tax the price of progress?

Or could it become a \$220-billion combination albatross and boondoggle?

By now just about everybody's heard of the "all-of-the-above" approach to our country's energy portfolio, combining fossil fuels, nuclear, and renewables like hydroelectric, wind, solar, biodiesel, and geothermal. The problem, for those of us who hold that climate change must be urgently and aggressively addressed, is that fossil fuels are still less expensive than carbon-free alternatives, though, without question that gap is closing. [See Appendix 1]

Proponents of a carbon tax argue that it's a potent means of leveling the playing field for zero-emissions energy, raising the cost of fossil fuel consumption and making the use of green energy sources, as well as the development of conservation measures, more financially compelling.

The price of progress via a carbon tax would be steep indeed: at a projected \$220 billion per year, it would be the largest tax increase in U.S. history, nearly twice that imposed by Obamacare.¹



If, somehow, Congress does pass the Mother of All Taxes, it begs the question:

What will happen to all that money?

In the image on the first page, you see some of the leading supporters of Carbon Taxes have set aside an hour and 15 minutes of their day to look for a "bipartisan" way to spend all that money.

It's all too easy to imagine federal bureaucrats rubbing their hands together in glee thinking about all the ways

they might spend \$220 billion a year.

That may be why carbon-tax proponents have offered the presumably more reassuring idea that the proceeds of the tax will be returned to Americans in the form of a dividend or rebate. So, everything you buy will cost more; but every few months, the government will send you a check.

¹ <http://www.factcheck.org/2012/07/biggest-tax-increase-in-history/>

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But, ultimately, Congress gets to decide (or change its mind) as to how carbon tax revenues will be spent. That might be a rebate to you, or a tax break to a favored industry, or to fund some other new government program.

We have too many costly boondoggles already, but that's not the only adverse consequence of a carbon tax:

What will happen to all that money?

If a carbon tax were to be imposed, be prepared for Congress to have the latitude to determine whether or not the proceeds will be returned to you, and in what form, with all the complexities that entails: Just one example – Should the driver of a gas-guzzler, for example, receive a larger rebate, having paid more in carbon taxes, or should the driver of an electric car receive a larger rebate for having been more carbon-conscious?

And what kind of data will be added to what the government already collects about us in order to make these determinations?

Alternatively, Congress could go in an entirely different direction, using the monies to pay for tax breaks for favored entities, either related to emissions mitigation or something entirely different, or to fund other government programs, with no assurance they'll be relevant to energy or emissions.

What about the fact that a carbon tax would be regressive, burdening most heavily those who can least afford it? Can the poor afford it?

The federal poverty threshold is \$24,339 a year in income for a family of four.²

A broadly applied carbon tax on everything would hit the lowest-income fifth of U.S. households 3.25 times harder than the richest one fifth.³

² <https://www.census.gov/topics/income-poverty/poverty.html>

³ <http://www.nber.org/digest/jan10/w15239.html>

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This was one of the major concerns raised by the world's most aggressive environmentalist group, the Sierra Club, when it shocked people by opposing the carbon tax in the state of Washington last fall.⁴

Are we really comfortable with passing the largest tax hike in history – and doing it with a plan that would hit the poor 3.25 times harder than the wealthy?

At a time when all too many American families have been hit hard by years of recession, raising the cost of living for those who are already struggling would be distinctly harsh—and sure to be met with strong political opposition, not only from those with limited incomes, because:

Can any American afford this tax?

Since 2013, the Federal Reserve Board has surveyed Americans regarding their financial and economic status. The news is grim: 47 percent of Americans say they would have to borrow money or sell something if they were hit with an unexpected expense of just \$400, roughly the cost of a new refrigerator.⁵

At the suggested rate of \$40 per ton of carbon on 5.5 billion tons of carbon emissions per year, a carbon tax “on everything” would cost Americans \$220 billion annually.⁶ Divided among 115 million households⁷, that equals \$1,913 per household, at a time when nearly half of us say we can't afford a fraction of that amount.

A carbon tax would be a very costly albatross around the necks of consumers, who would be further deprived of resources to purchase goods and services—and their reduced economic activity would in turn hurt growth and hiring right when we need to put millions of Americans back to work.

The “green economy” is creating new jobs, but almost assuredly not enough to compensate for what would be lost. Which leads to our final question:

⁴ <https://medium.com/@SierraClubSEA/the-washington-state-chapter-of-the-sierra-club-has-adopted-a-do-not-support-position-on-fa7cd2af0b#.p82wz7cy0>

⁵ <https://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/>

⁶ <http://www.npr.org/2017/02/28/517536333/a-carbon-tax-gains-traction-among-some-conservatives>

⁷ <http://www.statisticbrain.com/u-s-household-statistics/>

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Is a carbon tax the optimal way to address our fossil-fuel consumption?

ConservAmerica does not support a massive new carbon tax as our nation's first approach to climate change, for the reasons we've just discussed. From both the economic and political standpoints, such a tax would be exceedingly difficult to put into law, to administer, and to sustain.

Instead, we support an alternative, tax-reducing, positive incentive to incent reductions in fossil-fuel

emissions *and* increase use of zero emissions energy sources *and* conservation measures: a Zero Regrets Energy Policy.

We'll talk more about that in our next issue brief.

About ConservAmerica: ConservAmerica is a 501(c)4 organization whose mission is public outreach and education on land, energy, and water issues. Formerly known as Republicans for Environmental Protection, ConservAmerica has been active on these issues for over 21 years. Its work is focused on Congressional outreach, public education, and active engagement with state public utility commissions.

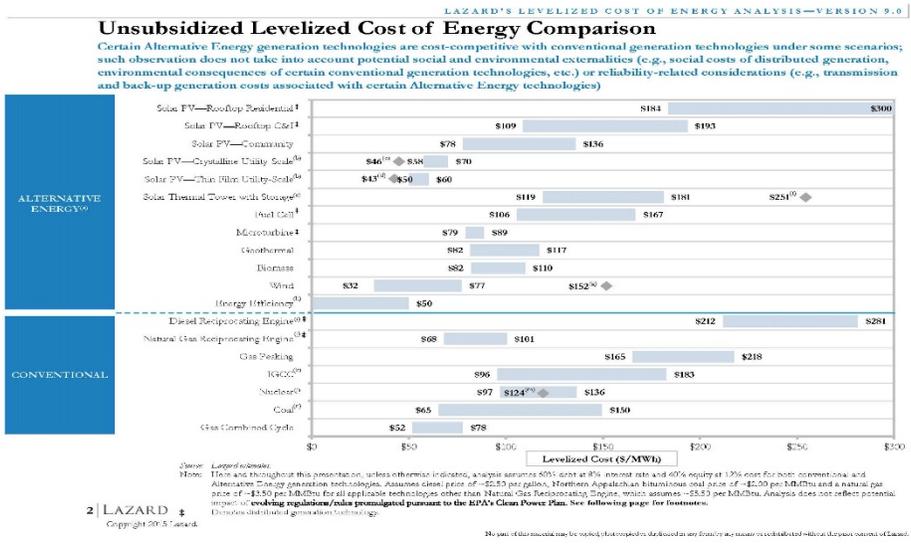
www.conservamerica.org

Arizona Office: 209 East Baseline Road, E-102, Office 4, Tempe, Arizona 85283
Michigan Office: 971 South Centerville Road PMB 139, Sturgis, Michigan 49091

APPENDIX 1

The Changing Costs of Power

LAZARD, LEVELIZED COST OF POWER, 2016



LAZARD, LEVELIZED COST OF POWER, 2009

