

Shifting the Tax Burden to Cut Carbon

By N. Gregory Mankiw

This summer, a friend sent me a remarkable headline from The Seattle Times: “ ‘Green’ Alliance Opposes Petition to Tax Carbon.”

My initial thought was that this doesn’t make sense. It is like reading “Democrats Rally to Cut the Minimum Wage” or “Republicans Unite to Hike Income Taxes.”

But the political debate in Washington State is a case study about why smart environmental policy is so hard to enact.

First, some background.

Scientists have been telling us for years that the earth is warming and that one of the culprits is human emissions of greenhouse gases like carbon dioxide. Some believe that global warming has contributed to the current severe drought in California.

Sure, there are skeptics about the climate science behind these claims. But science is always a matter of probabilities, not certainties. Even a reasonable skeptic should be willing to embrace modest steps to curb carbon emissions.

Policy wonks like me have long argued that the best way to curb carbon emissions is to put a price on carbon. The cap-and-trade system President Obama advocates is one way to do that. A more direct and less bureaucratic way is to tax carbon. When polled, economists overwhelmingly support the idea.

One reason is that putting a price on carbon alters incentives in many ways. It encourages utilities to switch to cleaner forms of generating electricity, like wind and solar instead of coal. It encourages people to buy more fuel-efficient cars, form car pools with their neighbors, use more public transportation, live closer to work and turn down their thermostats. A regulatory system that tried to achieve all this would be heavy-handed and less effective.

Motivated by this thinking, Washington Carbon, an advocacy group in the state, is now trying to put a carbon tax on the 2016 ballot. Initiative Measure 732

would institute a tax on fossil fuels of \$25 a metric ton of carbon dioxide (which translates to about 25 cents a gallon of gasoline).

Most of the revenue from the measure would be used to reduce the state sales tax by one percentage point. A smaller amount would be used to reduce taxes on manufacturing companies and to fund a tax rebate of up to \$1,500 for low-income working families. The overall plan is progressive and revenue-neutral. If passed, the initiative would yield a tax shift, not a tax increase.

That is why some environmentalists are opposed. Rather than rebating the money the carbon tax would raise, they want to spend it on environmental and other government programs.

To be sure, a person can favor both a more environmentally friendly tax policy and greater government spending. But there is no good reason to marry these policies. If the goal is to build a political consensus to tackle climate change, there is good reason not to.

The size of government is an issue that divides the political right and the political left, and it will most likely always do so. The same need not be true of climate change.

Bob Inglis, the former Republican congressman from South Carolina, heads the Energy and Enterprise Initiative at George Mason University. A recent winner of the John F. Kennedy Profile in Courage Award, which is given to public officials, he has been pushing for climate change solutions that are consistent with free enterprise and limited government.

Environmentalists in the United States would do well to look north at the successes achieved in a Canadian province. In 2008, British Columbia introduced a revenue-neutral carbon tax similar to that being proposed for Washington.

The results of the policy have been what advocates promised. The use of fossil fuels in British Columbia has fallen compared with the rest of Canada. But economic growth has not suffered.

What is most noteworthy, however, is that the policy was championed by a right-of-center government that did not previously have close ties to the environmental movement.

It was a Nixon-goes-to-China moment: Gordon Campbell, British Columbia's premier, had more credibility by acting against type. Because of the government's conservative credentials and its commitment to make the policy revenue-neutral, it brought along the crucial support of the business community.

Could such a situation happen in the United States? Right now, it is hard to imagine, as many of the Republicans vying for the presidential nomination pander to the deniers of climate change. But the experience of British Columbia suggests that this attitude could change.

This brings me back to my friend, Yoram Bauman, who sent me that headline. He is an environmental economist and stand-up comedian (yes, an unusual combo). He is also one of the leaders of the effort in Washington State to pass a carbon tax. He has been working tirelessly to build support.

Based on his experiences, he has a message for environmental activists: "I am increasingly convinced that the path to climate action is through the Republican Party. Yes, there are challenges on the right — skepticism about climate science and about tax reform — but those are surmountable with time and effort. The same cannot be said of the challenges on the left: an unyielding desire to tie everything to bigger government, and a willingness to use race and class as political weapons in order to pursue that desire."

Yoram Bauman is a funny guy, but this time he is not joking.