



By Robert N. Stavins

## Why the Grass Is Always Greener

The demise of serious political consideration of an economy-wide CO<sub>2</sub> cap-and-trade system for the United States and the resurgence in interest among policy wonks in a carbon tax prompts reflection on where we have been, where we are, and where we may be going.

Almost fifteen years ago, in an article that appeared in 1998 in the *Journal of Economic Perspectives*, “What Can We Learn from the Grand Policy Experiment? Lessons from SO<sub>2</sub> Allowance Trading,” I examined the implications of what was then the very new emissions trading program set up by the Clean Air Act Amendments of 1990 to cut acid rain by half over the succeeding decade. In that article, I concluded that developing a cap-and-trade system for climate change would bring forth an entirely new set of economic, political, and institutional challenges.

Nearly a decade later, in a paper I wrote for the Hamilton Project, “A U.S. Cap-and-Trade System to Address Global Climate Change,” I argued that whereas the proponents of carbon taxes seemed to worry about the propensity of political processes under a cap-and-trade system to compensate sectors through free allowance allocations, a carbon tax would be sensitive to the same political pressures, and should be

expected to succumb in ways that are ultimately more harmful: reducing environmental achievement and driving up costs.

Of course, such political arguments look less compelling in the wake of the defeat of cap-and-trade legislation in Congress and its successful demonization by conservatives as “cap-and-tax.” Is there a new opening for serious consideration of a carbon-tax approach to meaningful CO<sub>2</sub> emissions reductions?

There surely is such an opening in the policy wonk world. Economists and others in universities and think tanks are quite enthusiastic about a national carbon tax. A much-publicized meeting in July 2012 at the American Enterprise Institute in Washington brought together a broad spectrum of Washington groups to talk about alternative paths forward for national climate policy, with much of the discussion focusing on carbon taxes.

What about in the real political world? Well, a carbon tax is not “cap-and-trade.” That presumably helps with the political messaging. But if conservatives were able to tarnish cap-and-trade as “cap-and-tax,” it surely would be considerably easier to label a tax — as a tax!

A more promising possibility — though still unlikely — is that if congressional Republicans and Democrats work together with the White House to address not only short-term but also long-term U.S. budgetary deficits, and if as part of this they decide to include not only cuts in government expenditures, but also “revenue enhancements” (the t-word is not allowed), and if it turns out to be easier politically to eschew increases in taxes on labor and investment for taxes on consumption, then there could be a political opening for new energy taxes, in particular, (drum roll . . .) a carbon tax.

Such a carbon tax — if intended to help alleviate budget deficits — could not be the economist’s favorite, a revenue-neutral tax swap of cutting distortionary taxes in exchange for implementing a carbon tax. Rather, as a revenue-raising mechanism — like the Obama administration’s February 2009 budget for a 100 percent auction of allowances in a cap-and-trade scheme — it would be a new tax, pure and simple. Those who recall the 1993 failure of the Clinton administration’s BTU-tax proposal — with a less polarized and more cooperative Congress than today’s — will not be optimistic.

Nor is it clear that a carbon tax would enjoy more support in budget talks than a value added tax or a federal sales tax. The key question is whether phrases such as “climate policy” and “carbon tax” are likely to expand or narrow the coalition of support for an already tough budgetary reconciliation measure. The key group to bring on board

will presumably be conservatives, and it is difficult to picture them being more willing to break their Grover Norquist pledges because it is for a carbon tax.

*Is there a new opening for consideration of a carbon tax?*

That said, I would be delighted if a carbon tax were to become politically feasible in the United States, but I am left to conclude that much of the current enthusiasm about carbon taxes in the academic and broader policy-wonk community in the wake of the defeat of cap-and-trade may be — for the time being, at least — largely a manifestation of the grass looking greener across the street.

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