Republicans Offer to Tax Carbon Emissions

But would a price of $40 per ton hold back climate change as much as Obama policies would have?

By Dave Levitan on February 8, 2017

Former Secretary of State and Treasury James A. Baker III. *Credit: Wally McNamee Getty Images*

A group of prominent Republicans released a “conservative” plan to reduce carbon dioxide emissions today, arguing that replacing Obama-era policies with a carbon-tax-and-dividend system would be a politically feasible way to fight off the worst effects of climate change.

The plan, released by the Climate Leadership Council in a report titled “The Conservative Case for Carbon Dividends,” would tax carbon beginning at $40 per ton. The price would then rise each year to help push emissions down. The revenues generated—about $194 billion in the first year, rising up past $250 billion within a decade—would then be redistributed by the Social Security Administration in the form of quarterly checks to every U.S. household. Proponents hope that idea would swing public support toward aggressive climate change mitigation.

"If you look at the priorities of President Trump, our plan ticks every one of his boxes," said Ted Halstead, founder and president of the council, in a press conference in Washington, D.C., this morning. "It is pro-growth. It is pro-jobs. It is pro-competitiveness. It would balance trade. And last but hardly least, it would be good for working-class Americans."

The report was co-authored by prominent Republicans, including James A. Baker III, the former secretary of State under George H. W. Bush and of Treasury in the Reagan administration, along with other former Treasury secretaries and other economic leaders. It has also received support from current party notables including Mitt Romney. The authors were reportedly set to meet with White House officials today to discuss the proposal.

The plan arrives as the Trump administration has promised to roll back Pres. Obama's climate policies, including the Clean Power Plan, which was designed to cut emissions from power plants. According to an analysis done by the council that accompanied the new plan, the carbon tax-and-dividend system would "allow the United States to meet the upper end of its 2025 Paris commitment," meaning it would achieve the goal of a 28 percent emissions reduction that the U.S. promised under the major international Paris climate agreement.

Some experts agree the tax could put the U.S. on the right track. An analysis by the nonprofit Carbon Tax Center found that if the initial carbon price of $40 per ton rises by $5 each year beginning in 2018, it would result in a 40 percent emissions reduction from 2005 levels by 2030. The center's director, Charles Komanoff, noted the plan does not specify the rate of increase, and that the $5-per-ton annual increase is actually "a little slow," in terms of achieving rapid emissions reductions. "But it's more important to get the ball rolling," he said. The plan also includes a border tax adjustment: U.S. companies exporting goods to countries without a similar carbon price would receive a rebate of tax paid, and imports from companies outside the U.S. would face fees based on the carbon content of their products. This is designed to convince other countries to follow suit, hopefully eliminating what economists call the "free rider" problem of climate change mitigation programs.

Noah Kaufman, an economist with the non-profit World Resources Institute, said that if implemented as written, the new plan would achieve the Obama policies' cuts "and much more." Not only does this plan work on all sources of carbon emissions rather than just the power sector, but its starting point for a price on carbon far exceeds the effective price that the Clean Power Plan would have achieved, Kaufman said. A 2016 World Bank report found that of the various carbon pricing systems in use around the world, "about three quarters" of all emissions covered are priced at less than $10 per ton. Higher carbon prices mean a bigger incentive to cut emissions.

Still, some environmental groups and other experts are not huge fans of replacing all the work done over the last eight years. The Natural Resources Defense Council released a statement saying that although a price on carbon “could be an important part” of climate mitigation, “it can’t do the job alone.” A Brookings Institution expert wrote that setting aside some of the carbon tax revenue—$30 billon is the suggested starting point—to be used for clean energy research and development might help the plan achieve its emissions reduction goals.

Kaufman said that the most important point is the “tax” part of tax-and-dividend—what one does with the revenue is a secondary consideration, but offering the money back to the public could be a political winner. “An approach like this, where you sort of give the money back to the people, has real political advantages, especially for those who don’t instinctively trust the government,” he said. At the press conference, Halstead said a Treasury Department analysis showed that Americans in the bottom 70 percent of income—223 million people—would “come out ahead” with this approach; the checks received would outweigh any price increases in goods that are carbon taxed, such as gasoline.

Of course, getting the new administration and prominent congressional Republicans on board with *any* carbon-reduction plan would be something of a coup. The revenue neutrality of this plan, though, where theoretically the government does not grow in size at all, could break through. “It has so few moving parts,” Komanoff said. “It’s quite elegant, and I think it could be politically palatable."