

CARBON TAX

PURPOSE OF CARBON TAX

Carbon dioxide (CO₂) is a naturally occurring gas in Earth's atmosphere. Because CO₂ is a so-called "greenhouse gas" (GHG), The Green lobby, politicians, and even some economists have proposed taxing carbon to reduce emissions. In February 2013, Senators Bernie Sanders and Barbara Boxer introduced a bill that would impose a \$20 tax for every ton of carbon dioxide emitted over a certain threshold (3).

CARBON-BASED ECONOMY

All economic activity requires energy. Energy use, particularly for electricity, is so ubiquitously and fundamentally embedded in American life that it is easy to forget how essential it really is. From manufacturing processes, to commercial transportation, to utilities in an office building, energy makes every productive action possible. In 2015 81% of American energy came from fossil fuels (4). Even in areas of the country where taxpayer subsidized wind farms or solar panels provide some normal amount energy, fossil fuels are used to power homes and businesses when the wind is not blowing and the sun is not shining. The United State is, and will remain for the foreseeable future, a fossil fuel-based economy. This leads to the inexorable conclusion that economic growth is tightly tied to carbon emissions. Understanding this relationship clarifies how a tax on carbon emissions will damage the economy, but a closer look at the empirical reveals alarming details.

COSTS OF A CARBON TAX

The National Association of Manufacturers (NAM) researched how a Sanders-Boxer style \$20 per ton tax would affect businesses, workers, and families and published their findings in a 2013 report. Within the first year of the tax, gasoline prices would increase 5.98%, natural gas prices would increase 43.6%, and coal prices would increase 110%. As result of higher production costs, agriculture, commercial services, transportation services, and manufacturing industries would all experience immediate and sustained reductions in output. When firms decrease their output, prices rise and employment falls. Under a carbon tax, the price of all goods and services would rise. The price of home utilities, perhaps the most substantial variable cost to American households, would increase 11.6% as well. As basic necessities become more expensive, families will be able to afford fewer goods and they experience lower standards of living.

Businesses, faced with higher costs of production, would produce less and charge higher prices. Consumers, already experiencing reduced purchasing power, will of course purchase fewer things in response to higher prices. NAM predicts that this sluggish business activity will also account for a 1% decrease in labor income and 1.5 million lay-offs with the first year of implementation. In a vicious cycle, decreased production from a carbon tax weakens consumption and employment, which in turn will lead to further cuts in production. All told, a carbon tax would cut an average of \$133 billion out of U.S. GDP each year over a 40-year period (5).

QUICK FACTS

- A study by the National Association of Manufacturers calculated that a \$20 tax per ton of carbon would kill 1.5 million jobs in the first year of implementation alone (1).
- Within six months of an Australian \$23AUD per ton carbon tax, electricity rates increased 10% for households, up to 30% for businesses, and 10,632 businesses closed (2).

MINIMAL ENVIRONMENTAL BENEFIT

A domestic carbon tax would do little to address global warming. Carbon and other GHG emissions are globally mixed. The emissions from a particular spot in the world are not localized to that area, but will contribute to atmospheric levels over the whole world. In other words, GHG levels in the atmosphere are collectively influenced by all emissions. The emissions from every other country around the world are just as relevant to the atmospheric conditions for the United States as emissions coming directly from the U.S. There is no “national” GHG level, only a global aggregate. As China, India, and the rest of developing world continue to grow economically and demographically, U.S. emissions will become increasingly marginal to the global atmosphere.

A 2014 assessment by the Wall Street Journal put it this way: “The irony is that all the damage will do nothing for climate change. Based on the EPA’s own carbon accounting, shutting down every coal- red power plant tomorrow and replacing them with zero-carbon sources would reduce the Earth’s temperature by about one- twentieth of a degree Fahrenheit in a hundred years.”

CONCLUSION

Taxing energy is poisonous to an economy. Carbon tax proponents are hopeful that making fossil fuels more expensive will encourage consumers and businesses to switch to renewable fuels instead. Imposing a carbon tax to make carbon-based fuel more expensive will not change the fact that renewable sources still lack the technological capabilities to provide energy efficiently; it will just hurt struggling families and businesses. Furthermore, curbing emissions from the United States would result in only negligible reductions in global aggregate carbon dioxide levels but come at an enormous cost to the U.S. economy.

Endnotes:

1. National Association of Manufacturers, Economic Outcomes of a U.S. Carbon Tax, available online: <http://www.nam.org/-/media/ECF11DF347094E0DA8AF7BD9A696ABDB.ashx>.
2. Michael Bastrach, Report: Australian carbon tax contributes to record number of businesses insolvencies Caller, Mar. 3, 2013, available online: <http://dailycaller.com/2013/03/19/report-australian-carbon-tax-contributes-to-record-number-of-businesses-insolvencies/>.
3. Valerie Volcovici, Senators propose long-shot carbon tax bill for big polluters, Reuters, Feb. 14, 2013, available online: <http://www.reuters.com/article/2013/02/14/us-usa-climate-legislation-idUSBRE91D1BX20130214>.
4. http://www.eia.gov/totalenergy/data/monthly/pdf/sec1_3.pdf -- See 2015 totals; percentage calculated via those numbers.
5. Supra note 2 .
6. <http://online.wsj.com/articles/carbon-income-inequality-1401752504>

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