

Time for a carbon tax?

by Nick Schulz

F. Scott Fitzgerald said that "The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function." Congress is challenging this standard as it addresses the nation's energy future. Senate Majority Leader Harry Reid, D-Nevada, and House Speaker Nancy Pelosi, D-Calif., want Congress to complete comprehensive energy legislation soon. But Capitol Hill is increasingly paralyzed by the opposing ideas it holds.

To understand the problem, consider the first idea Congress has in mind - lowering energy prices. Many members of Congress are rightly concerned about rising gas prices and want to reduce energy costs. In recent remarks, Reid said, "The gas prices that we see across the country today are, for lack of a better description, awful."

What's more, fuel prices could rise in the future as global demand from China and India continues to spike. A new report from the National Petroleum Council, a federal advisory group reflecting oil and gas industry views, makes this point plain. Secretary of Energy Samuel Bodman asked the Council in 2005 to examine if oil and natural gas supplies could match future global energy demand. In July the Council reported its findings, saying that global energy demand is expected to rise 50 percent over the next two decades. Such a demand spike will likely increase prices.

At the same time, Congress has another idea in mind - reducing greenhouse gas emissions from energy use. Indeed, Pelosi recently created a special congressional committee to push for reductions in carbon emissions.

Economists will tell you that if you want less of something undesirable you should tax it. And as new research from my colleagues Kevin Hassett, Steve Hayward and Ken Green at the American Enterprise Institute points out, the best way to reduce greenhouse gas emissions is to tax the carbon content of fuel to build in the cost of the environmental impact. Such a tax will, of course, raise the cost.

And this is where the two opposing ideas come into stark relief.

Congress wants to cut both fuel prices and emissions. Yet it's difficult to do both simultaneously. Many members of Congress hope to get around this contradiction by instituting so-called "cap-and-trade" programs. The programs would set a limit on the amount of greenhouse gas emissions permitted by economic activity. A federal agency would issue credits to firms, thereby permitting emissions up to that cap. If a company needed to emit more than it was allowed under the cap, it could buy credits from companies that were able to reduce their emissions and thus held excess credits. For such a program to cut emissions, it will have to raise the price of energy. In other words, a cap-and-trade program is a tax by another name.

And therein lies much of its appeal. Because it is called a "program" and not a "tax," members of Congress have some political cover to say that they didn't vote to increase the dreaded "T" word. The semantic difference is important. It helps to explain why as many as a dozen cap-and-trade programs have been proposed on Capitol Hill, while the calls for carbon taxes remain muted.

But some members of Congress are beginning to balk at this seeming sleight-of-hand. Rep. John Dingell, D-Mich., recently tried to focus on what's at issue by proposing a carbon tax to tackle climate change. "I sincerely doubt that the American people are willing to pay what this is really going to cost them," Dingell said at the time. And so he called for the tax "just to sort of see how people really feel about this."

We know how Congress feels about it at the moment. There is little enthusiasm for an explicit carbon tax, even though this is the simplest and most transparent way to begin reducing greenhouse emissions. It's this simplicity and transparency that makes it less palatable in Washington than the cap-and-trade alternative. But if there are environmental costs to energy use, Americans should be told what those costs are. And a tax will do just that.

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