

Redacted - First Amendment

The case for a carbon price

Joe Biden marks 100 days in the White House this week. Despite his focus on revamping US climate policy, one phrase that has not passed his lips in that period (at least as far as ES can tell) is “carbon price”.

As I wrote yesterday, the president has been silent on the prospects of adopting such a market-based tool to drive a shift away from polluting fuels. Instead he favours using blunter, sector-specific emissions mandates to force companies to clamp down.

That is despite a growing cacophony of support for carbon pricing coming from industry, which sees it as the lesser evil when set against the emissions standards.

So what’s the case for pricing carbon? There are three main arguments for it.

1. Efficiency

A carbon price — whether in the form of a tax or cap-and-trade mechanism — is an economy-wide solution to the emissions problem. By putting a price on carbon in the US, polluters across the country would be spurred to reduce their emissions.

It does not involve meddling in individual sectors — meaning no one industry can claim it is unfairly targeted over another. No surprise then that it is a favourite of economists.

“The risks of climate change are large and relatively diffuse and by putting a price on those risks within the economy, all these economic actors are going to be incentivised to reduce greenhouse gas emissions when and where it’s profitable to do so,” Joseph Majkut, director of climate policy at the Niskanen Center, a Washington think-tank, told ES.

“You’re allowing market actors to respond to incentives — and the idea is that they will do that very efficiently.”

2. Revenue

A carbon price also has the advantage of raising funds.

“People call it a double dividend because on the one hand, you reduce carbon . . . on the other hand, you also get economic growth from it,” said Brandon Pizzola, senior manager at EY’s Quantitative Economics and Statistics team.

EY reckons a (relatively modest) \$25/tonne carbon tax could raise \$1.1tn over a 10-year period — which could help the Biden administration pay for its planned green infrastructure spending without ramping up corporate taxation.

“One of the big pieces of the Americans Jobs Plan clearly is climate. Another big piece is funding it in some way . . . So just as an alternative revenue raiser, it could work in the current context,” said Pizzola.

3. Certainty

Proponents also argue that a carbon tax would provide long-term durability in climate policy — which has a tendency to be changed with each new administration.

That would allow companies to plan for the future with greater certainty.

“Our modelling shows that in an uncertain world with a reasonable expectation that there’s going to be a [different] policy in the future, people might wait to make investment decisions,” said Karen Palmer, a climate policy expert at the Resources for the Future think-tank.

A carbon tax would overcome this problem, according to RFF. As companies would be able to assess spending plans based on a more complete picture of the future policy landscape.

Conversely, regulatory standards — especially if they are based on existing laws — will be vulnerable to legal attacks, obstruction and delays.

“Any meaningful climate policy will face concerted opposition,” argues Jonathan Adler, professor at the Case Western Reserve University School of Law. “If climate policy is to be effective, the fact of such opposition, and its potential to delay and derail implementation, must be taken into account.”

The problem

Voters are less keen on the idea of a price on carbon. And as a result, there is little appetite in Congress for bringing forward legislation.

So for now, Biden’s silence on the matter is likely to continue. The stick he has chosen to prompt industry to cut down on emissions is a so-called “clean energy standard”, which would push power producers to decarbonise by 2035.

“The votes are just not there for a price on carbon,” said Frank Pallone, chair of the House Energy and Commerce Committee as he voiced support for a CES last month. “I think it’s time to try something new.”

(Myles McCormick)