The Daily Dish

Crony Capitalism and Protectionism in Climate Policy Clothing

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Back to basics. The research literature shows that the most effective policy to reduce emissions of greenhouse gases (GHGs) is an economy-wide, revenue-neutral, upstream carbon tax. Economy-wide means that all carbon consumption is taxed and done so at the same rate – no demonizing coal, lambasting petroleum, or other uneven policies. Revenue-neutral means that the proceeds of the carbon tax are used to reduce or eliminate other taxes on capital and labor that would be a detriment to growth. A carbon tax is not a way to grow a larger government. It is a way to reduce the corporation income tax, payroll tax, and so forth. Finally, upstream means that carbon is taxed at the first point it enters the economy – at the wellhead or mine and so forth.

Producers subject to the tax would be forced to pass the tax along in their prices. That is, of course, the point. GHG-intensive products would become less attractive, forcing their manufacturers to reduce the GHG content through efficiencies, substitution, and innovation. The carbon is the price signal the guides production, innovation, employment, and consumption in a cleaner direction. Eakinomics has zero doubts that a well-designed carbon tax would simultaneously support vigorous economic growth and reduced GHG emissions.

There are two additional important footnotes to "well-designed." First, the carbon tax is sufficient as a mitigation strategy and everything else should go away, including the vast, burdensome regulatory morass under the Clean Air Act, Clean Water Act, Endangered Species Act, and dozens of other pieces of legislation. Keeping those regulations wouldn't help with emissions and will burden growth.

Second, some imports are not subject to GHG restrictions and are perceived to put domestic producers at a competitive disadvantage, which proponents say could cause carbon leakage (carbon-intensive production moved overseas to avoid the tax). To prevent this, the carbon tax should be imposed on imports. It is this notion of a carbon border adjustment mechanism (CBAM) that is the subject of Tori Smith's U.S. Carbon Border Adjustment Proposals and World Trade Organization Compliance. She notes that the European Union has announced a transition to implementing a CBAM in 2023, and by 2026 "importers will need to purchase CBAM certificates, the price of which will be determined by the Emissions Trading System (ETS). The EU's approach is not a traditional border adjustment, however, because it does not include rebates for exporters."