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Scrap the income tax - and start taxing SUVs

Ecology and You

Erik Curren

erik@planetdharma.com



Taxes can be a powerful incentive to make people change their behavior. For example, high taxes on cigarettes in certain areas have helped smokers cut back, while mortgage-tax breaks have helped generations of middle-income families afford their first house.

So you have to wonder why America still taxes so many things that are good for us while giving us a duty-free pass to inflict long-term damage on the economy and the environment.

In this, we might take a lesson from the Brits.

"London Mayor Ken Livingstone," reports *Grist* magazine, "has announced plans to make the city's weekday congestion tax much steeper for drivers of polluting vehicles. Under the proposal, owners of SUVs and other gas-guzzlers would shell out the equivalent of about \$47 a day to motor into London between 6:30 a.m. and 7 p.m. (the current tax is \$15)."

When the auto industry balked, Livingstone quipped that "those who buy (SUVs) can afford to choose from pretty much the whole of the mainstream car market but have chosen to buy one of the most polluting vehicles."

For years, Republicans have dragged their feet on global warming. Now, with the Democrats in charge on Capitol Hill, we're likely to hear much discussion of federal action to cut greenhouse gas pollution. The most likely proposals, including the best-regarded one, Rep. Henry Waxman's (D-Calif.) Safe Climate Act, set limits on pollution that get stricter with time and rely on a market-based system to let big polluters find their own ways to meet the limits, or caps.

Polluting industries would be allowed to emit a certain amount of carbon dioxide per year for free under their assigned caps. After that, if they want to pollute more, they would have to pay for the privilege. They can do so by buying extra pollution credits from companies that aren't using all of theirs. A carbon-trading market, similar to a stock or commodities exchange, would be set up to trade carbon credits among companies.

Europe has run a carbon-trading system since last year under the Kyoto Protocol. Even

though the U.S. opted out of Kyoto, several states have started their own initiatives, and cap-and-trade schemes are now in the works in California and in the Northeast. Similar market-based regimes have been successful in reducing sulfur from electrical plants on a national level.

An emissions-trading approach is popular with business for its flexibility. Big polluters can decide if it's more profitable for them to clean up their act or just to buy pollution credits from others who don't need them because they've already cleaned up their own operations.

Politicians like emissions trading because business likes it and also because the public doesn't have to see it. It's basically invisible to the consumer.

It's doubtful that many consumers notice charges on their electric bills from power plants cleaning up their sulfur emissions. And that's just what industry and government want.

Skipping the carbon casino

For all its appeal to big business, critics point out many problems with a carbon-trading system.

In a carbon marketplace, rich countries like the U.S. could simply buy hot-air credits from depressed countries such as Russia or the Ukraine that have extra ones to sell. This would allow polluting nations to meet the goals of the Kyoto Protocol without reducing their own emissions at all.

In addition, under a cap-and-trade system, those same rich countries could get credit for dangerous activities like building nuclear plants on the grounds that they reduce emissions of carbon.

"Trade in hot air could reach some US\$30 billion per year," according to Corporate Europe Observatory, a watchdog group. "As the buying and selling of hot air does nothing to help global warming, this form of climate fraud will undoubtedly lead to a net increase in emissions rather than the 5.2 percent reduction that is the Kyoto target."

Finally, and perhaps most importantly, a carbon-trading scheme is brain-surgery complicated. It's a system of credits, offsets, futures, options and arbitrage that only a University of Chicago Economics Ph.D. could really understand and only a derivatives trader amped up on Jolt Cola could love.

In recognition of its potential for Enron-style corruption, critics denounce hot-air trading as a "carbon casino."

Not only will there be many loopholes for clever polluters with deep pockets to buy their way through; but the system will be so incomprehensible and invisible to the American consumer that it will not help the broad general public change our behavior at all.

"Carbon trading is opaque and complex, it is subject to gaming and it is remote from the average person's experience," Charles Komanoff told me.

Read my lips: more new taxes

Komanoff, an independent energy economist and environmental activist based in New York City, isn't afraid of the most fearsome three-letter combination in the American political lexicon: T-A-X.

He wants to tax carbon.

To avoid the problems of a complex cap-and-trade system, Komanoff favors a surcharge on carbon emissions, or a carbon tax, to reduce greenhouse-gas pollution to levels that scientists say are safe and avoid catastrophic global warming.

"What I like about carbon taxes is that they would internalize responsibility in all of us," he says. "We would have to bend our choices towards less carbon."

So how would a carbon tax work? And why would Americans ever want to impose new taxes on themselves, even well-intentioned ones?

"A carbon tax would be paid whenever a molecule of carbon dioxide is emitted to the atmosphere by burning fossil fuels," writes William Schlesinger, dean of the Nicholas School of the Environment and Earth Sciences at Duke University. "Utilities would pay it based on their smokestack emissions and pass the cost to consumers in their monthly electric bill. Each of us would pay it when we fill up with gasoline, based on the content of fossil carbon in the mix."

Komanoff believes that a carbon tax is one of the best ways to fight global warming with minimum economic disruption because it will raise the price of activities that cause climate change and encourage consumers to demand alternatives - which business will quickly provide.

"Can we create jobs, subsidize the good stuff and knock fossil fuel use way down without a carbon tax? I don't think so. Energy use in this country and around the world is the sum total of billions of moment-to-moment decisions. Do I set my thermostat to 77, 78 or 76? Do I buy the most efficient air conditioner? Do I buy blinds for my west-facing window? Do I buy ceiling fans? Do I wear shorts to work?"

Since price drives much of human psychology in a market economy, Komanoff thinks that government regulation will never be enough to bring carbon pollution down to safe levels.

If we require automakers by law to make cars that get 40 MPG, that's all we'll get; we won't get 41 MPG. But if gas prices become a big enough issue for consumers, then automakers will trip over each other to make the most efficient cars. Then we could see 60, 80 or 100 MPG.

"I'm interested in rewiring our brains," Komanoff says. "I think that taxing carbon could do it. It would internalize the costs of fossil fuel use. The fact of doing it would change the mind-sets of individuals, businesses, governments and societies. It would bend all of us - I like the world 'bend' as Martin Luther King Jr. put it, we need to 'bend towards justice' - I

want us all to bend our world towards reducing the use of energy and fossil fuels."

For other economists, fighting global warming is only a secondary benefit of a carbon tax. The real attraction is that taxing carbon could raise huge amounts of money for a deficit-plagued federal government with a minimum of pain to consumers and taxpayers. The current public debt stands at \$1.4 trillion, the highest level since World War II, and projected government revenues seem unlikely to bring it down anytime soon.

"Under a cap-and-trade system, the government will not raise much revenue," Paul Portney, dean of the Eller College of Management at the University of Arizona, told me. "We have a big deficit, and it's going to get bigger. We need to find ways to raise revenue. So why not do it in a way that will help the environment?"

"A carbon tax will help on both accounts. The public may not want to make changes from the environmental side, but it does perceive that the government is in debt that would burden their kids. Taxing carbon is a policy approach that will reduce the national debt, help with the balance of trade and make us less dependent on unstable Middle Eastern governments. As a side effect, it will also reduce carbon dioxide emissions."

Why it might not be political suicide

That all sounds good - except for the T-A-X part. What politician would ever support it?

"It would require a leader committed to getting something done" with political courage, according to Portney. "And if you present a carbon tax as a deficit-cutting measure, you'll more likely get Republicans to support it."

With only thin margins in Congress, and Bush still holding the veto pen, Democrats will have to work with Republicans on any proposal to limit carbon emissions. To its credit, a carbon tax would let conservatives keep their tax cuts while sticking it to the likes of Osama bin Laden and Venezuela's Hugo Chavez.

Portney says that any carbon tax would have to be phased in gradually so as not to hurt the economy by destroying the value of long-term investments that companies have made in power plants and factories and that consumers have made in their cars and homes.

The best part for consumers is that while slapping a tax on fossil fuels might hurt ExxonMobil and big coal producers, it need not be an added burden on the average taxpayer.

"The revenues would not fund alternative energy or subsidize mass transit or bus systems," as worthy as those goals might be, under Komanoff's plan. "It's important to be clear that every single dollar should be returned to the American people the form of a rebate or tax shift."

Komanoff says that clean energy and transit won't need big subsidies if dirty energy and long commutes by personal car become much more expensive because they are taxed.

"Proximity will begin to win out over urban sprawl, and businesses will emerge to meet the new needs. It will be more advantageous for families to winterize their homes, replace inefficient appliances and hold incandescent-light-bulb smashing parties."

If a carbon tax would just replace existing taxes, then the net result would be no new taxes. Indeed, people who become especially energy-efficient could wind up saving money on their taxes.

"Still want an SUV?" Duke University's Schlesinger asks. "Buy it, but each year you'll pay more for gasoline than your neighbor who has a Toyota Prius. Want to live in the country? Fine, but remember it will cost you to drive the extra miles to work each day. Want to save some money at home and send less to the taxman? Put on a warm sweater and lower your thermostat."

It's the economy, stupid

The overwhelming virtue of a carbon tax is that it's simple and transparent to consumers.

With a high cigarette tax, smokers can still get that box of Marlboro Lights, as long as they don't mind paying \$6. But a lot of marginal smokers will skip it because of cost alone. The cost is clear and the choice is clear.

We need the same clarity about doing things that contribute to global warming.

The science of human-caused greenhouse warming is hard enough for the public to understand, nonetheless accept. Solutions should be simple.

A carbon casino will be invisible to the public, and it won't directly encourage us to use less energy. At the same time, it may not even reduce carbon pollution by much. It could simply degenerate into a Wall Street circus, giving PR cover to big polluters and new profit opportunities to a pin-striped legion of carbon brokers, carbon traders and carbon consultants.

At the same time, we don't need the government trying to stop us from turning on our big screen TV, driving to Starbucks for a tall latte or making an offer on a 6,000 square-foot house in the suburbs.

But with a carbon tax, we will have to pay more to do these things. That means we will have to choose more carefully whether we really want to do them. And if costs encourage us to conserve energy, then businesses will step up to offer less wasteful alternatives.

Of course, we should insist that carbon-tax receipts go only towards paying down the national debt or offsetting existing taxes. That means keeping the funds out of pork-barrel projects for Jack Abramoff's clients or from going down the Iraq-war black hole. A tall order to be sure, but incoming Speaker of the House Nancy Pelosi (D-Calif.) has said that the new Congress will insist on honest government. The public should hold the Democrats to that promise.

Perhaps the biggest benefit of a tax on SUVs and McMansions will be psychological. Only when we start to see that our choices have consequences for our wallets will our economy and our climate receive the dividends.

Erik Curren is a regular contributor to The Augusta Free Press. Curren is the author of [Buddha's Not Smiling: Uncovering Corruption at the Heart of Tibetan Buddhism Today](#). More information about Curren's works is available on-line at www.alayapress.com. The views expressed by op-ed writers do not necessarily reflect those of management of The Augusta Free Press.

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