

Carbon Taxes: The Oil Industry's Favorite Climate Solution

An alliance of plutocrats — ranging from corporate-backed environmental groups to the very companies responsible for climate change — have rallied behind the idea of taxing carbon, often as an alternative to existing or proposed environmental regulation.¹ But carbon taxes are far from being a bipartisan solution and are unpopular across the entire political spectrum.² They are also ineffective, especially compared to mandatory controls on emissions. Taxing carbon has not and will not produce meaningful greenhouse gas reductions, but will raise costs for people struggling to get by.

Carbon Taxes Do Not Work

While there are an abundance of op-eds, abstract models, and press releases supporting carbon taxes, few studies of actual carbon pricing exist (despite the fact that carbon taxes have existed in several European countries since the early 1990s).³ While proponents point to small emissions reductions in these countries, it is worth mentioning they also have other, more stringent climate policies in place⁴ — which makes it difficult to actually attribute the small reductions to the taxes. Moreover, a 2021 review of 37 studies found very little hard evidence of the effectiveness of carbon pricing, with an overall effect of zero to two percent reduction in emissions annually.⁵

Studies of existing carbon taxes show that while they may slow the growth of emissions domestically, they appear to be pushing those emissions elsewhere — which, in the end, does nothing for the climate. And they certainly have not achieved anything close to what is needed to address climate change.⁶ The United Nations Intergovernmental Panel on Climate Change estimates that it may take carbon prices as high as \$5,500 per ton by 2030 to keep temperatures below 1.5 C.⁷ However, existing carbon prices tend to be very low (most are below \$10 per ton, with average prices at \$2 per ton).⁸ Carbon taxes really just create a carbon revenue stream that rewards the continued use of fossil fuels,⁹ while discouraging additional regulation.

Rather than reshaping the energy system and creating a pathway to full decarbonization, carbon pricing has promoted fuel switching (for example, from coal to gas) and miniscule efficiency improvements.¹⁰ Carbon pricing proponents also love enabling technologies like carbon capture and storage (CCS), and support the “switch to natural gas” argument because they do not want

fracking to go away.¹¹ However, the upstream leakage of methane during natural gas extraction and the increased energy uses associated with carbon capture mean that fracked gas fails to be cleaner than coal, and CCS proves barely capable of making a dent in electricity emissions.¹² These false solutions just prop up fossil fuels.

Carbon Taxes Are Regressive

Carbon taxes also exacerbate income inequality. They are regressive because lower-income households spend a substantially higher portion of their income on energy.¹³ The tax could fall up to five times as hard on the lowest ten percent of earners as the top ten percent. Households on the bottom third of the income ladder could pay anywhere from \$8,063 to \$22,106 annually for a \$50 per ton tax on carbon.¹⁴ Low-income households are also less likely to be in a position to retrofit the homes they rent, buy expensive electric cars, or install solar panels.¹⁵ While the rich can afford to go green and avoid the tax, market-based pollution controls have been shown to disproportionately shift pollution into low income and/or communities of color.¹⁶

There Is no Quick Fix to the Regressive Nature of Carbon Taxes

Proponents claim that rebating all of the carbon tax revenue through universal payments or “dividends” would alleviate regressive impacts and improve the political fortunes of a carbon tax.¹⁷ However, rebating carbon tax revenues does not magically make the tax popular (or a good solution).¹⁸ Carbon taxes also raise prices faster than they raise revenue.

The carbon pricing mechanism does not work. But if it did, it would need to create profits for utility companies from utility bills and not recouped by tax revenue. For example, carbon prices raise the operational costs for coal more than those for natural gas (a \$50 per ton tax would generate \$50 worth of revenue per megawatt hour (MWh) from a coal plant, but \$20 per MWh from a gas plant). This is how carbon taxes encourage fuel switching.¹⁹ In this hypothetical, gas plants operating alongside coal plants would receive an additional \$50 from selling their electricity, while only paying an additional \$20 in taxes, thus creating a \$30 profit reward for gas plants. This is because electricity prices are often set by coal plants, often the costliest electricity source.²⁰

The problem is that even if 100 percent of the tax revenue were redistributed to consumers, ratepayers would still be on the hook for the additional profit that carbon tax proponents concede is necessary to change technologies. This dynamic would become more pronounced as the share of electricity generation from coal and natural gas plants declines (for example, as a result of effective policy). In this case, only a small portion of active generators would pay into the carbon tax revenue coffers, while a majority of cleaner electricity generators on the grid would reap higher prices.²¹

Conclusion: There Is no Shortage of Effective Climate Policy

Carbon taxes are a distraction from climate policies that work. This is not just speculation; where carbon prices coexist with other policies, regulations do most of the heavy lifting, driving the majority of emissions reductions.²²

Food & Water Watch recommends addressing climate change through bold action, including:

- Banning fracking nationwide;
- Regulating greenhouse gas emissions through the Environmental Protection Agency (EPA);
- Requiring a national shift to real renewables;
- Setting technology and performance standards for industry;
- Retrofitting buildings with energy efficient technologies; and
- Creating millions of good paying public jobs in the United States green manufacturing industry.

Endnotes

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