

Will Carbon Taxes Work? Three Concerns

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(Presidency Maldives, <https://flic.kr/p/788FQ9>, all images via <https://climatevisuals.org>)

INTRODUCTION

- ▶ This presentation will advance **two main claims**:
 1. **COVID-19 is a good time** to introduce taxes and
 2. **three common objections to carbon taxes can be addressed** (they won't change behavior, they increase inequalities, and they stand in the way of fundamental systemic change)
- ▶ These concerns are that carbon taxes **won't change behavior**, they will **increase inequalities** and create unfair burdens, and what is really needed is **systemic change**

PRESENTATION OUTLINE

INTRODUCTION

A TAX IN CRISIS

ADDRESSING COMMON CONCERNS

CRISIS CONDITIONS

- ▶ First main claim: It is better to **introduce carbon pricing now** than under normal conditions
- ▶ Key **components** of the crisis:
 1. **low energy prices**;
 - ▶ Began with **Saudi/Russia oil war**, continued with **low demand** (NYT, <https://nyti.ms/2wCQKMK>)
 2. **supply and demand shock**; and
 - ▶ **Supply chains, on-shoring** (*The Economist* 435(9195), 7)
 3. **expansion of public balance sheets**
 - ▶ OECD faces **\$17 trillion public debt** due to coronavirus (<https://www.ft.com/content/66164bbc-40c7-4d91-a318-a0b4dbe4193e>)

IMPLEMENT CARBON PRICING UNDER COVID-19

- ▶ I argue taxes should be **introduced or strengthened now** (<https://prosyn.org/cL6cNDx> and <https://doi.org/10.1080/14693062.2020.1831432>)
 1. **low energy prices**;
 - ▶ If consumers mentally account for pre-shock prices, **current prices are low**, so the **harm to consumers will be lower**
 - ▶ Lower prices **cannot act as a stimulus** if products unavailable
 2. **supply and demand shock**; and
 - ▶ Changes in production less costly than circumstances where **processes are already being destabilized**
 3. **expansion of public balance sheets**
 - ▶ Carbon pricing is a **source of revenue** and, if used transparently to **address COVID-19 and/or reduce regressivity**, potentially justifiable

“CARBON TAXES WON'T CHANGE BEHAVIOR”

- ▶ Theoretical case: we can divide people into **three groups**: for any given carbon tax those who will continue high consumption, will continue low consumption, and those who will shift (lower) consumption
- ▶ Practical case, **for other goods: taxes decrease consumption**, e.g. cigarettes (Hu et al. 1995)
- ▶ Practical case, **global carbon prices: carbon prices associated with 2% reduction in CO₂ growth** (larger prices, larger reductions: 1EUR/tCO₂ associated with 0.2% reduction in growth) (Best et al. 2020)
- ▶ Practical case, **local carbon taxes**: British Columbia, Canada found the **broad-based carbon tax (\$30CAD/tCO₂) estimated to reduce emissions by 5-15% relative to trend** (Murray and Rivers 2015), not burdening the economy (Hassler et al. 2016)

“CARBON TAXES WILL INCREASE INEQUALITIES”

- ▶ If you look at the post-tax **without looking at post-tax-and-transfer distribution**, it is regressive
- ▶ However, if the **usage of that revenue is done carefully**, a robust result is that reduces the policy's regressivity (even make it progressive) (Rosenberg et al. 2018)
- ▶ Lukas Tank (2020) argues that the policy will make **unfair burdens**
- ▶ But the burdens will not be unfair (even given a non-progressive carbon tax) if the **transfers offset the regressivity** of the tax—and this **need not undermine the incentive** effects of the tax

“WHAT IS REALLY NEEDED IS SYSTEMIC CHANGE”

- ▶ We might think that carbon prices **interfere with plans for more fundamental changes** (e.g. rethinking or overthrowing capitalism)
- ▶ Fundamental systemic changes are **untested**; they **require time** to iterate and improve
- ▶ We can **expect disagreement** about what to change our society to and the need to test or refine different changes
- ▶ Assuming systemic change substitutes for climate policies, this time would be lost
- ▶ “(Fundamental) **change takes time**”

CONCLUSION

- ▶ First claim: It is better to **introduce carbon pricing during the COVID-19 crisis**, than under normal conditions:
 1. Low energy prices make it **friendlier to consumers**
 2. Shocks mean **market already destabilized**
 3. Fiscal pressures make **revenue more valuable**
- ▶ Second claim: **Common concerns can be met**:
 1. Evidence suggests **behavior changes in response to prices**
 2. Transfers can **offset regressivity**
 3. (Fundamental) **change takes time**
- ▶ **Thanks for your attention!** Thoughts/questions welcome at `kian.mintz-woo@ucc.ie` and draft versions available at <https://scholar.princeton.edu/mintzwoo>