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Is carbon tax the right way to fight climate change?



AP Photo/Branden Camp

The coal-fired Plant Scherer, one of the nation’s top carbon dioxide emitters, in Juliette, Ga.

PRO: It’s time for energy producers to get on board

Carbon taxes are a mechanism that puts a price on emissions of carbon dioxide, generally focused on fossil fuel sources.

When the price of carbon dioxide emissions go up, so does the cost of fossil fuels, so consumers and producers use less energy and consequently emit less.

In February 2017 James Baker III, George Schultz and a group of conservative politicians and economists published a clear and convincing call to adopt a carbon tax in the United States.

Seventy governments around the world have already adopted carbon pricing schemes. It is time for the United States to join them. It is not only a good idea, it is now feasible.

In the past month, there has been a convergence of events that all point toward the potential for a U.S. carbon tax.

In October, the Intergovernmental Panel on Climate Change published a report indicating that the expected damages associated with 2.0 degrees Celsius warming are much higher than at 1.5 degrees — marine fisheries losses would double, sea levels would rise an extra 2 inches and human exposure to extreme heat would double. This adds to the sense of urgency to mitigate greenhouse gas emissions.

Leading up to the 2018 midterm elections, Republicans called for a second round of tax cuts. With criticism over the massive deficits associated with the 2017 tax cuts, however, they should be cautious about any move that further exacerbates that imbalance.

And of course, now that the Democrats have regained control of the U.S. House of Representatives, they should be looking for initiatives that all our leaders in Washington can support.

Enter carbon taxes. To see why carbon taxes make sense for a broad range of informed politicians let’s start with two important observations.

First, price signals are key to enabling markets to allocate resources efficiently. Taxes on capital and income distort price signals in markets, leading to inefficient use of resources.

This means that the cost to society of putting a dollar of money in the government treasury can be much more than a dollar.

Second, in the United States, a tax on carbon would be less distortionary than a tax on labor or capital.

These two observations create the possibility for a win-win tax reform.

Because it costs the economy less to raise revenue with carbon taxes than with labor and capital taxes, a shift toward the more environmentally friendly tax could also reduce the overall cost of our tax system, and stimulate employment and investment, even as it induces emissions reductions.

Analysis by two leading public finance economists, Ian Parry and Robertson Williams, demonstrates that a tax of \$33 per ton of carbon dioxide — about 25 cents on a gallon of gas and less than a couple of cents per kilowatt-hour of electricity — could simultaneously reduce

U.S. carbon emissions by 8.5 percent and save the economy \$4.5 billion per year, even ignoring environmental benefits.

The key to realizing those savings, however, is that Congress must simultaneously cut the more distortionary income taxes.

To offset the potentially regressive nature of a carbon tax — the fact that it is likely to take a disproportionate amount of low-income household budgets — the tax cuts could be supplemented by tax credits, or even payments, to those households.

To succeed, however, our representatives in Washington will need to first design a system that delivers both economic and environmental benefits.

That will take discipline, resisting efforts to carve out tax exemptions and earmark the revenue. And, because the positive effects of a carbon tax are less direct than subsidies or dividends, Congress and the White House will need to carefully explain to the voters why the carbon tax makes sense.

If they succeed, a move to carbon taxes leaves room for both parties to claim victory.

The Democrats can point to the environmental protection and support for renewable energy that are inherent in a carbon tax. Republicans can claim credit for improving the efficiency of the federal tax system. Both sides can show that they are able to work together to find win-win opportunities.

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KENNETH RICHARDS
Comment

CON: U.S. already leads the world in reducing emissions

The U.S. natural gas and oil industry is meeting the climate challenge head-on, investing in high-tech innovation, efficiency improvements and cleaner fuels.

The U.S. leads the world in reducing greenhouse gas emissions. Carbon dioxide emissions in the United States have plunged to their lowest level in a generation, while CO2 emissions around the globe have risen 50 percent since 1990.

As the American Enterprise Institute reported, 2017 marked the ninth time this century we’ve reduced emissions more than any other nation.

How did we do it? Increased use of natural gas in power generation is the single biggest factor. With technological advances unlocking previously inaccessible natural gas reserves, the affordable, reliable fuel has become the leading source for electricity generation — reducing carbon emissions to levels not seen since 1992.

It’s not just carbon. The combined emissions of six key air pollutants dropped 73 percent between 1970 and 2017 even while GDP soared 262 percent and energy consumption rose 44 percent increased.

Tailpipe emissions have plunged thanks to advances in clean fuels and vehicle technology. New cars, trucks, SUVs and heavy-duty trucks and buses run about 99 percent cleaner than models produced in 1970, according to the EPA, helping reduce pollution even as vehicle miles traveled nearly tripled.

It’s important to recognize this success — not as a victory lap, but as a roadmap. If we draw the right conclusions, we can build on our progress.

For starters, the trend lines convincingly show that energy development and environmental progress are not mutually exclusive. Key emissions have dropped as oil and natural gas production has skyrocketed, generating a slew of economic benefits.

If there’s a common thread in the promising emissions reduction data, it’s innovation.

The oil and natural gas industry has invested an estimated \$339 billion from 1990 — 2016 toward improving the environmental performance of its products, facilities and operations — \$1,045 for every man, woman and child in the United States.

One result: EPA data show that natural gas system methane emissions decreased 16.3 percent while natural gas production jumped more than 51 percent between 1990 and 2015.



KYLE ISAKOWER
Comment

The energy industry formed The Environmental Partnership last year to build on that progress through collaboration and targeted actions, including repairing leaks and replacing or retrofitting equipment. More than 50 of the nation’s oil and gas producers have joined so far.

The oil and natural gas industry has worked with regulators in support of smart regulations. The most effective regulations share two characteristics.

One, they recognize existing success and harness, not hinder, the innovations responsible. Two, they’re based on sound science.

In the case of energy, that means acknowledging that natural gas and oil will supply an estimated 64 percent of the energy the U.S. uses in 2050, even under optimistic scenarios for renewables, according to the Energy Information Administration.

Any regulatory policy not based on that reality risks raising consumer costs and jeopardizing U.S. energy security. Given the signals from House Democrats that environmental regulations will be a focus when they take control in the new Congress next year, those are important facts to keep in mind.

As a recent American president noted: “The all-of-the-above energy strategy I announced a few years ago is working, and today, America is closer to energy independence than we’ve been in decades.”

That was President Barack Obama, speaking in 2014, and he added that natural gas “can power our economy with less of the carbon pollution that causes climate change.”

The same formula that worked then — an “all-of-the-above” approach bolstered by natural gas and innovation — is still working to reduce emissions without sacrificing jobs and affordable energy. We have a road map to success.

By following it, the United States can continue its remarkable streak: breaking records in both energy production and emissions reduction.

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