The Politics of Carbon Pricing: Lessons from the Past Decade

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“The Americans can always be trusted to do the right thing, once all other possibilities have been exhausted.”

—Winston Churchill*
The Conventional Wisdom on Carbon Pricing

- Good Economics
- Bad Politics
- Policy Non-Starter, especially in tax-averse USA
“We knew it was the right thing to do but could not touch the politics”—Murray Weidenbaum
“If only he would read my textbook about carbon taxation...”
“The one best way…” Peter Orszag
Conventional wisdom on Carbon Pricing

- Great from an Economics Standpoint

- Awful from a Political Feasibility Standpoint
  - Aversion to Direct Cost-Imposition
  - Public comfort greater with regulatory approaches that obscure/disguise costs
  - Particular hurdles in North America given growing hostility to any form of taxation
  - Benefits elusive, longer-term, and do not play into political/electoral cycles
Prior Waves of Carbon Pricing

- 1980s/90s: Norway, Sweden, Finland, Netherlands, Germany...

- 2000s: Ireland, Slovenia, France, Australia, New Zealand, ETS, WCI, MGGRA, British Columbia....

- Proposed widely, enacted occasionally. But are these fluke cases? And, if adopted, do they endure? (And, if they endure, do they perform as advertised?)
If adopted, are they durable?

- Not always: Consider Australia

- Not always: Numerous exemptions and loopholes added to various Nordic and Northern European taxes and back-tracking after ETS experience

- Not always: Whatever happened to the Western Climate Initiative, the Midwestern Greenhouse Gas Reduction Accord, New Jersey?? All those states? All those provinces?
Cap & Trade 2003

The chart shows the number of state and provincial policies from 2001 to 2015. The policies are categorized by whether they are state or provincial, with a substantial increase in 2008 and 2010.
But Other Excise Taxes Prove Durable, Even Popular

- Cigarettes

- Alcohol (Marijuana in CO)

- Gambling/Casino Taxes

- Severance Taxes on mining, based on percentage value of mined material:
  - Oil, natural gas, uranium....
  - Gold, silver, copper, potash, timber, “rare earths”....
So can carbon pricing policies prove durable—or sustainable?

- 1) Initial adoption
- 2) Resiliency through an election cycle and change of leadership (partisan control)
- 3) Flexibility/Adaptation capacity
- 4) Constituency-building through revenue use from tax or auctions
- 5) Public awareness or support (public opinion)
- 6) Evidence on meaningful impact (reducing emissions in a cost-effective manner): Do they live up to the hype??
## Carbon Pricing Policy Options

### Taxation Labeling

<table>
<thead>
<tr>
<th>Climate Labeling</th>
<th>Explicit</th>
<th>Implicit</th>
</tr>
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<tbody>
<tr>
<td>Implicit</td>
<td>Washington Gas Tax Increases</td>
<td>Public Benefit Funds, Social Benefit Charges</td>
</tr>
<tr>
<td>Indifferent</td>
<td>Gas Tax Increases</td>
<td>No policies</td>
</tr>
</tbody>
</table>
Explicit Carbon, Explicit Taxation: The Guy on the Left
Drivers in British Columbia

- Right-center party wanted to out-flank opposition on the left
- Highly-entrepreneurial Premier: Gordon Campbell

- Revenue-neutrality
  - First, a dividend check
  - Second, ongoing payroll tax deductions

- Results: Durability, some impacts, some complications
Explicit Carbon, Implicit Taxation: Auction Anyone?
RGGI and Durability

- Sound managerial base: Years of cross-state negotiation
- Flexibility: Ability to adjust cap and floor pricing
- Resiliency across elections, change of leadership
- Constituency-building: $$ for Energy Efficiency to each State in the region via “RGGI Success Stories”
Support for a carbon tax (no specified use of revenue)
Support for a carbon tax despite higher energy costs
Support for a carbon tax with revenue used for deficit reduction (Ireland)
Support for a revenue-neutral carbon tax, with revenues returned to public via tax rebates (BC)
Support for a carbon tax with revenue used for renewable energy R&D (RGGI)
The Carbon Tax King: Linking Costs & Benefits
Enter Contested Federalism: **LET’S MAKE A DEAL**
Clean Power Plan: States Begin to Respond

Go to Court
~14
Texas, Wisconsin

Go Slow
~22
Pennsylvania, Virginia

Let's Go
~14
California, New York
Public Reaction to the Clean Power Plan: NSEE Fall 2014
Public Opinion: How do you want your state to respond to the Clean Power Plan?

- Red: Cooperate and enter into negotiations with the federal government on a plan
- Brown: Delay until more is known about the plan and see how other states respond
- Blue: Refuse to cooperate and join other states in suing the federal government to block the plan

Chart showing percentages for Overall, Democrat, Republican, and Independent.
Public Opinion: Support for the federal “building block” options for Clean Power Plan compliance?

Q29: Requiring a set portion of all electricity to come from renewable energy sources such as wind and solar.

Q30: Requiring increased energy efficiency standards for new homes and appliances in your state.

Q31: Increasing taxes on ALL fossil fuels used in generating electricity in order to reduce greenhouse gas emissions.

Q32: Allowing businesses to buy and sell permits to release greenhouse gases to reduce greenhouse gases. This policy is commonly referred to as cap and trade.
## Durability of Regional Cap-and-Trade Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Members: 2010</th>
<th>Members: 2015</th>
<th>Political Resiliency</th>
<th>Design Flexibility</th>
<th>Constituency Building</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Greenhouse Gas Initiative (RGGI)</td>
<td>10 states</td>
<td>9 states</td>
<td>Robust, except one defection</td>
<td>Emissions cap adjustment process and price floor</td>
<td>Auction revenue for alternative energy builds support</td>
</tr>
<tr>
<td>Western Climate Initiative (WCI)</td>
<td>7 states, 4 provinces</td>
<td>1 state, 1 province</td>
<td>Partial Collapse</td>
<td>Phase-in provisions and cross-sector expansion</td>
<td>Auction revenue remains political battleground</td>
</tr>
<tr>
<td>Midwestern Greenhouse Gas Reduction Accord (MGGRA)</td>
<td>6 states, 1 province</td>
<td>None</td>
<td>Full Collapse</td>
<td>Never developed</td>
<td>Never developed</td>
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