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A carbon tax would be sunnier

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More than 30 years after scientists and a few public officials first raised questions about the impact of greenhouse gases on the world's climate, and several years since a majority of Americans decided that Congress should take strong action, we're still a long way from passing a serious program.

It's becoming increasingly clear that the legislation currently being considered in the Senate will never gain the 60 votes it would need to pass. It's time to move to another approach — call it Plan B — that could do better both politically and for the climate.

This approach is the same one that Al Gore pushed decades ago in "Earth in the Balance" and then again last year in his Nobel Prize lecture: Use a tax on different forms of energy based on their carbon content — that is, on how much each harms the climate — and then recycle the revenues as tax relief for American households.

Politically, a tax shift can help neutralize the glaring political liability of all climate programs: that they raise everyone's energy costs. Just as important, a tax-based climate program can provide stronger and more stable incentives than the Senate's cap-and-trade approach to get businesses and households to transition to low-carbon technologies and fuels. The critical aspect of using a tax shift to address climate change is that it applies a known price to carbon, so companies can figure out how much they might earn by developing climate-friendly fuels and technologies, and other businesses — along with the rest of us — can calculate how much could be saved by adopting them.

The central flaw in cap and trade, which lies at the center of the House-passed Waxman-Markey bill and the Kerry-Boxer proposal now stuck in the Senate, is that putting an annual cap on energy emissions without knowing how great demand for energy will be ensures that the price of the permits to use the energy and produce emissions will be volatile. In fact, the price of permits in the world's major cap-and-trade program, the European Trading Scheme based on the Kyoto accords, has moved up or down an average of about 20 percent per month over the past four years. Since those permit prices also affect energy prices, that kind of volatility is bad for the economy and the environment.

The other clear contrast with a Plan B tax shift is that cap and trade's complexity makes it very vulnerable to special-interest pressures for exemptions and exotic offsets. To get the votes to pass Waxman-Markey, for example, most coal-based utilities won such sweet deals that their bond ratings actually rose when the bill passed. Carbon-intensive industries also will certainly press for special treatment under Plan B. But a tax on carbon is so much easier to understand that special-interest horse trading, and other attempts to wrangle exemptions will be much more obvious.

The world's current financial market problems have created another reason to consider alternatives to cap and trade: The public here and almost everywhere is understandably skeptical about creating $1 trillion in new financial instruments — the emission permits for almost every form of energy — that would immediately be transformed into securities and derivatives and then traded on Wall Street. The volatility of the price of those permits would guarantee that these new securities would become a focus for speculators. Beyond that, the European Trading Scheme is already plagued with increasing incidents of manipulation and insider trading. A tax shift has no permits to trade, which presumably helps explain why the major financial houses are boosters of cap and trade.

The best test of both plans, however, is their actual impact once implemented. After three years of the European Trading Scheme, Europe's emissions are still rising — even with the recent recession. Sweden, however, put a carbon-based tax in place in 1990, and since then, its emissions are actually down 8 percent, even as the Swedish economy has expanded by 44 percent (and that's adjusted for inflation). That's why there's talk in France, Ireland and Denmark of a new carbon tax program for Europe.

The only real obstacle to a carbon tax shift here has been the assumption that the American public would never tolerate a new tax on anything. The fact is that cap and trade would also raise energy prices, through its permits, to encourage all of us to reduce our carbon emissions. From the perspective of cap-and-trade supporters, the political difference is that this strategy is more obvious with a tax than with their approach.

But nobody would be fooled for long. Moreover, the other difference is that a tax shift can take the sting out of those higher prices by recycling the revenues as payroll or other tax cuts.

In fact, a national survey just released by Hart Research shows that the American public understands what's going on and actually favors a carbon tax shift over cap and trade by nearly 2-to-1. Environmental activists might take note that the survey also found that those who consider climate issues more important are even less likely to support cap and trade as the best solution.

The president's senior political adviser, David Axelrod, recently described the Hill's ongoing cap-and-trade deliberation as "tempests and ... kerfuffles." As everyone downsizes expectations for Copenhagen, Washington should consider an approach to climate that can offer a sunnier forecast.

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