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A Conservative Plan to Combat Global Warming

CAMBRIDGE – I recently joined several other former senior Republican officials in proposing a [plan to limit carbon dioxide emissions](#). The group includes Jim Baker, Henry Paulson, and George Shultz – all of them Republican former treasury secretaries – as well as my Harvard colleague Greg Mankiw, who served as Chairman of the President’s Council of Economic Advisers under George W. Bush. I served in the same role under President Ronald Reagan.

I cite these participants to emphasize the level of conservative support for this proposal, which comes at a time when Republicans have generally opposed government efforts to limit CO₂ emissions, while Democrats have favored such plans. We hope that Republican support for our plan will provide the basis for bipartisan legislation.

The plan calls for combining taxes on all sources of CO₂ with a rebate of the collected revenues to all households on a *per capita* basis. Experts tell us that a tax of \$40 per metric ton would achieve greater reduction in CO₂ than all of the existing emissions regulations. Our plan therefore calls for legislation that eliminates all of this intrusive regulation in tandem with the tax-and-dividend plan.

Our group recognizes that there is substantial controversy about the extent of global warming both now and in the future, as well as about the role of CO₂ emissions from automobiles, home heating, and other human activity in contributing to that warming. But we believe the risk that CO₂ emissions will lead to dangerous future increases in global temperature is high enough that a policy should be adopted to reduce it.

A carbon tax is the simplest and economically most efficient way to limit CO₂ emissions. It is better than the more cumbersome methods of regulation now in place. It is also simpler and more reliable than the “cap and trade” method that has been tried in Europe and proposed during President Barack Obama’s administration.

The strategy of a carbon tax is very simple: require each household and business that causes CO₂ emissions to pay a tax in proportion to the volume of emissions that they create – whether by using gasoline to drive their car or oil to heat their home or in operating a business.

A carbon tax would be levied indirectly by taxing the raw material at the point at which it enters the economy. Thus, oil would be taxed at the refinery, coal when it leaves the mine, and so on. The tax would then be built into the prices of the products made from the raw material. Individuals and businesses would internalize the carbon tax without the inconvenience of paying a tax on each transaction.

Because the carbon tax would be reflected in the prices of all goods and services that use carbon in their production, households and businesses would have an incentive to change their behavior in ways that reduce the volume of CO₂ emissions. That might mean driving less, using more fuel-efficient technology, or investing in conservation. Solar power and wind power would become more competitive relative to carbon-based power without the need for government subsidies.

Different types of carbon-based raw materials produce different amounts of CO₂. For example, using coal to generate electricity produces more CO₂ than using natural gas. The carbon tax at the point of entry to the economy would therefore vary by the type of raw material. Engineering experts can advise the US Congress how much to tax each type of carbon-based raw material to achieve a tax equal to \$40 per ton of CO₂ (or whatever level of overall tax is desired).

The practical problem of enacting a carbon tax has been political. No one wants to pay more taxes. That's why our plan calls for combining the carbon tax with a "cash dividend" to households. Each household would receive the same "carbon dividend" for each adult and half that amount for each child. The dividend would *not* depend on the amount of carbon tax that households pay.

Thus, the carbon tax would provide the right incentive by being proportionate to the payer's emissions, while the carbon dividend would cause about two-thirds of all households to receive more in cash than they pay in carbon taxes. A carbon tax of \$40 per ton would produce enough revenue to give a four-person household a \$2,000 annual dividend.

We propose that the level of the tax be reviewed every five years in light of current scientific evidence on global warming and its link to CO₂ emissions. Even if it were appropriate to raise the level of the tax, the same procedure for returning all of the revenue to households would apply.

Because a carbon tax would raise the cost of US exports, the legislation that we propose calls for a rebate to exporters equal to the amount of carbon tax built into their product. Similarly, our carbon tax would be levied on imports from countries that do not impose an equivalent carbon tax, and the revenue would be added to the pool of funds distributed to all households.

After this plan was publicly released earlier this month, I received a very large number of emails from individuals on the left and right saying how much they like the idea. Democrats applaud Republicans for proposing a plan to reduce CO₂ emissions and combat global warming. Republicans like the idea of dealing effectively with global warming while eliminating the existing environmental regulations.

Democrats are traditionally the main US advocates of legislation to reduce CO₂ emissions. With Republicans now in control of both houses of Congress and the presidency, the time is right to enact a plan that will command bipartisan support.

<https://www.project-syndicate.org/commentary/republican-carbon-emissions-reduction-plan-by-martin-feldstein-2017-02>

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