

## National Small Business Network

### Tax and Fiscal Policy Reform for Economic Sustainability

NSBN Policy Recommendations for the 114<sup>th</sup> Congress

February 2015

#### Section Excerpts-

#### 6. National Infrastructure Repair and Improvement Recommendations.

Good infrastructure is vital to continued economic growth. Congress should, as a beginning step repair our deteriorating transportation systems, by rebuilding the depleted Highway Trust Fund. Increase the current Highway fuel tax rates, last set in 1993, from 18.4 cents per gallon for Gasoline to at least 30 cents per gallon, with comparable increases for diesel fuel and further increases in later years. This should have been done years ago and gradually phased in, but the current decline in oil prices provides any opportunity for an increase now without significant economic hardship. Reducing our consumption of greenhouse gas producing carbon fuel, and our strategic dependence on foreign oil, are important national objectives. Let the market based incentive of higher fossil fuel costs reduce unnecessary consumption and emissions. The added revenue can be used to help build a modern transportation infrastructure, including good public transit, rather than continuing to send our dollars to foreign oil supplying countries.

Good transportation infrastructure is vital to the US economy, but much of our current system is deteriorating and is inadequate for future needs. The federal transportation program, funded by the federal fuels tax, has been the primary source of system improvement funding, along with state and local funds. After years of watching the program go broke from under funding, Congress rushed through a stop gap measure, P.L. 113-159, in August of 2014 that is neither a logical, nor adequate, solution. It reauthorized funding just until May 31 2015, and provided no sustainable funding base to rebuild the program. It was “funded” with an increased general fund deficit, and short term revenue scoring from requiring businesses to reduce pension plan funding for workers. This was short sighted, and a better solution needs to be developed.

Transportation projects often take 5 to 30 years from planning to completion and require reliable long term funding sources to be done efficiently. Funding for transportation improvements should also come from those who use and benefit from the system. Because of the progressing changes in modes of transportation and the development of alternative fuel vehicles transportation system funding will probably need to move beyond a simple fuel tax at some point. But, development of new complex funding approaches will probably take years and require major interaction with all the states.

#### 7. Environmental Economic Threats:

Just as borrowing against the future is bad fiscal policy, compromising the country’s physical environment and future economy for short term gain is bad national policy. Failure to protect the environment and climate would not only be a failure of our responsibility to future generations, but could also present a very real treat to our economy and the lives of our citizens. Our current culture and governmental

policies have created an “Environmental Cost Deficit” which is growing year after year. Unless we act soon to identify and reduce critical damage, the long term costs of paying off our “Environmental Deficit” may be even greater and more economically damaging than the consequences of our Fiscal Deficit.

Unfortunately, the problem with our “Environmental Deficit” is that there is no agreed, or comprehensive, accounting system to measure the growing future economic costs of our short term environmental decisions. We see some small pieces of the eventual cost in the costs of environmental cleanups, crop failures, abnormal storms, floods, and droughts, but there are no standard long term cost projections to guide public policy decisions.

The greatest potential long term economic costs could result from climate changes and rising sea levels caused by continued growth of atmospheric levels of carbon dioxide (CO<sub>2</sub>), methane, and other greenhouse gases. There is clear long term scientific research to know that increased greenhouse gases will warm the earth and result in significant climate changes. The US alone emits about 1.5 Billion metric tons of CO<sub>2</sub> per year, or about 19 metric tons per capita. There may still be some debate about how much of the increased greenhouse gas levels result from human activity, versus natural emissions which are estimated at about 4% of the total, but the issue is really moot, since the only CO<sub>2</sub> emissions we can realistically hope to reduce are the man-made ones.

A recent Department of Defense Report concludes that climate change will result in very real public costs. The report states that “rising global temperatures, changing precipitation patterns, climbing sea levels and more extreme weather events will intensify the challenges of global instability, hunger, poverty, and conflict. They will likely lead to food and water shortages, pandemic disease, disputes over refugees and resources, and destruction by natural disasters in regions across the globe.” The Defense Department calls climate change “a threat multiplier, because it has the potential to exacerbate many of the challenges we are dealing with today...”

If greenhouse gases were red, instead of colorless and odorless, so we could see the millions of tons we are releasing into the atmosphere every year, we would probably have found ways to replace most carbon fuel use long ago. But, the more important problem is that we can’t “see” the true economic cost of fossil fuel use, because none of the long-term public or private costs of the environmental consequences are included in the market price.

#### **RECOMMENDATION:**

**To help consumers make better long-term energy decisions, Congress should enact a revenue neutral Carbon Emission Adjustment fee on all fossil fuels produced or imported into the United States, to provide a simple market based economic incentive for reducing carbon emissions.**

The Carbon Emission Adjustment (CEA) fee would be collected from all producers or importers of fossil fuels at the time of domestic extraction or importation, based on the carbon content of the specific fuel. It is estimated that this would affect less than 2500 large businesses and would have little administrative cost since it could be combined with existing reporting and fee collection programs for coal extraction and petroleum production and importing. The cost effect of the adjustment would then pass throughout the rest of the economy without any administrative cost other than providing a potential fee offset for non-fuel uses, such as petrochemicals, or for other types of significant carbon sequestration. The collection of the CEA fee should be kept as simple as possible, particularly in the early years when the adjustment amount is smaller. Carbon emission content varies by the type of fuel, but standard conversion lists

already exist for most fuels and different units of measurement. The adjustment fee, based on the amount of Carbon Dioxide (CO<sub>2</sub>) emitted when the fuel is burned, would provide a market based incentive for reduced use of high carbon content fuels and conversion to lower carbon fuels or alternative energy sources. By more accurately reflecting the hidden costs of carbon emission impact, the CEA would give consumers more accurate information when making energy choices. The fee also continues the political tradition of expecting those who cause public expenses, or public infrastructure, to pay part of the cost.

To reduce any initial economic or political issues we suggest the CEA fee start at only \$10 per metric ton of CO<sub>2</sub> (\$36/ton of carbon) emission content, and increase by \$5 per ton each year for at least 5 years, to a level typical of other countries emission taxes. This initially equates to a price impact of about \$.09/ gallon of gasoline; \$.10/ gallon of diesel, jet, or heating fuel; \$ .58 /1000 cut. of natural gas; or \$.012/ kWh of electricity generated from coal. US per capita CO<sub>2</sub> emissions are about 19 tons per year, so the total initial CEA cost impact would only be about \$190 per person, for both personal and workplace fuel use and total fee revenue would be only about \$15 Billion. In coordination with other nations we should also support development of international carbon emission adjustment standards, along with provisions for crediting foreign carbon taxes already paid on imported fuels.

To prevent overall economic effects, the CEA should also be revenue neutral, at least initially, by rebating about the same amount that is collected to individuals and businesses on a per capita or business size basis. Most individuals and businesses could receive their rebate as an exemption against existing taxes, taken proportionally through the year as a reduction in withholding rates or estimated taxes. Non-taxpayers receiving public income or retirement assistance could receive a comparable rebate through increased monthly payments, with provisions to prevent duplicate benefits.

It is important that the CEA adjustment, or any US carbon reduction program, be done at the federal level, not by individual states, to prevent wasted duplication of administrative costs, and disruption of free interstate commerce. A CEA adjustment on imported fuels is also practical to collect only at the US customs port of entry, not after fuels are distributed throughout the states.

A predictable and transparent carbon content adjustment fee is also likely to be more effective, and more equitable, than carbon emission trading schemes that encourage speculation and reward the largest existing carbon polluters, not energy consumers.

Why should the United States adopt a carbon price adjustment system now, when global warming effects the entire earth and many other nations have not yet acted? We are the world's largest economy and largest CO<sub>2</sub> emitter on a per capita basis. We also think of ourselves as one of the world's leaders in doing what is "right", even at great sacrifice, as we have proven in many wars. The need to prevent climate related economic damage from increased carbon pollution is just as serious as a war, and just as threatening to our nation's future.

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