

Oregon Economists' Letter in Support of a Carbon Tax in Oregon

Dear Governor Kate Brown and Members of the Oregon Legislature:

We the undersigned Oregon economists are writing to urge you to adopt legislation and implement a revenue neutral carbon tax with the goal to reduce Oregon's carbon emissions from the burning of fossil fuels. We recommend this policy to you as an efficient, effective, fair and transparent way for Oregon to help reduce the potentially catastrophic future climate changes highlighted in the 2014 U.S. Climate Assessment.¹

About 40 countries and more than 20 sub-national jurisdictions have adopted some form of carbon pricing and 13 carbon taxes exist, often in conjunction with other carbon pricing mechanisms. Though in 2014 the Government of Australia opted to roll back its carbon tax, the 2014 World Bank State of Carbon Pricing indicates that carbon pricing progress across the world is steady and in 2013 eight new systems were initiated, including carbon taxes in Mexico and France.²

Although climate change ultimately must be addressed at national and international levels, lack of progress has increased the importance of state leadership to promote action. Oregon has always been at the forefront of innovative environmental policy. We believe that early action to reduce carbon emissions will demonstrate to other states, the US Government and other nations that a carefully constructed and implemented carbon tax can reduce our dependence on carbon-based fuels and usher in a new era of clean energy. Such strong leadership will help reduce damaging climate change.

Three reasons motivate our support for a carbon tax in Oregon.

1. A Carbon Tax Relies on Market Forces to Reduce Carbon Emissions.

A carbon tax will add climate change costs to fuels, such as oil, natural gas and coal, in proportion to their carbon contents. Right now the prices of goods and services we buy don't include any of the potentially damaging climate change effects that come along with things we purchase. A carbon tax will make the prices we pay reflect climate change costs we impose. Oregon households can then react to those additional costs as they see fit. For example, people going to work might pay closer attention to automobile tire pressure for better fuel economy, avoid unnecessary idling, join with friends and neighbors to carpool and more frequently take public transit.

A carbon tax also gives Oregon businesses incentives to find and use less carbon emissions-intensive methods and stimulates our market-based economy to innovate and develop new clean-energy technologies. By simply increasing the prices of carbon-based fuels, a carbon tax provides flexibility and allows firms to reduce their climate impacts in ways that are best for them. For example, companies might choose to improve the efficiency of their heating and cooling systems, switch to less carbon-intensive fuels or more efficiently manage their transportation systems.

¹ <http://www.globalchange.gov/what-we-do/assessment>

² http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2014/05/27/000456286_20140527095323/Rendered/PDF/882840AR0Carbo040Box385232B000U0090.pdf

2. A Revenue-Neutral Carbon Tax is not Expected to Hurt the Economy.

Economic science and experience show that a broad-based largely revenue-neutral carbon tax is effective and economic costs may be low. British Columbia, for example, adopted such a tax in 2008. Consumption of refined petroleum products decreased by 15% from 2008 to 2011, while it increased by 1.3% in the rest of Canada. Importantly, there was little evidence of significant harm to the British Columbia economy.

Though giving households and companies the right incentives to reduce their climate impacts is a sufficient economic justification for the use of carbon taxes, the latest research suggests that the strategic use of carbon tax revenues to lower other taxes may yield important economic benefits. Existing personal and corporate income taxes can drag down economic activity, but a shift to carbon taxes may be used to offset such distorting taxes, potentially improving our state's economy even as we play our part to stabilize the climate. Indeed, a key conclusion of Carbon Tax & Shift³ is that revenue neutral carbon taxes would offer Oregonians employment and economic benefits as we reduce our carbon emissions.

Scientific analysis suggests that the average Oregon family should experience little or no reduction in its standard of living, and the average business would see little or no change to its competitiveness vis-à-vis other businesses inside or outside the state from a largely revenue neutral carbon tax. Because of such recent evidence, though using carbon tax revenues for strategic investments may be appropriate, we recommend that Oregon use most carbon tax revenues to reduce existing taxes on households and businesses.

3. Disproportionate Negative Impacts can be Addressed using Carbon Tax Revenues

Carbon tax revenues can be used to forcefully address unequal and inordinately large negative economic effects on particularly vulnerable businesses and low-income households. A thoughtfully designed policy that deliberately uses a portion of carbon tax revenues to ease burdens on especially exposed Oregonians can help reduce or eliminate short-run economic effects and facilitate transitions to more climate-friendly behaviors and methods.

As reviewed in the 2013/2014 Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment⁴, there is a strong and unambiguous scientific consensus that we need to take immediate and strong action on climate change and this means reducing our carbon emissions. One of the most effective policies to create incentives for all of us to do what we can to reduce carbon emissions is to put a price on carbon and let our market system find innovative solutions. With a carbon tax we provide the right signals to our households and businesses and as a result the State of Oregon will contribute to a stable climate, potentially a stronger economy and certainly a brighter climate future for our children. We urge you to take immediate steps to institute a carbon tax in Oregon.

³ <http://www.pdx.edu/nerc/carbontax2013.pdf>

⁴ <http://www.ipcc.ch/report/ar5/>

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January 1, 2015