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Ithaca joins nationwide debate on carbon tax, cap and trade

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ITHACA — Experts agree that reducing greenhouse gas emissions and fighting global warming will take more than increasing insulation and switching to fluorescent light bulbs. Exactly how to make major reductions in emissions is the tricky part.

Ithaca Common Council's Planning and Economic Development Committee unanimously voiced its support for one method — a federal carbon tax — at its meeting late Wednesday night.

As opposed to a gasoline tax, which only impacts consumers at the pump, a carbon tax would be charged "upstream," at the point where fossil fuels enter the economy, thus impacting efficiency and upgrading decisions of producers, as well as consumers.

An alternate strategy — called cap and trade — has much broader federal legislative support. The system to cap emissions and let businesses trade pollution credits is supported by all Democratic presidential candidates and Republican candidate John McCain, according to USA Today. No other major Republican candidate supports either cap and trade or a carbon tax.

The committee argued that national political leaders fear the term "tax," and therefore support cap and trade, even though that method ends up costing consumers more than a straightforward tax would.

"I had a visceral reaction to the word 'tax,'" said Alderman Eric Rosario, I-2nd. "I thought, 'No way.'"

But after researching both methods and seeing endorsements of a carbon tax by a variety of economists, environmentalists and business leaders — including the CEO of Duke Energy — Rosario said he was "converted."

The cap and trade system acts as a hidden tax but is less effective, more expensive and easier to abuse than a straightforward carbon tax, said Sylvester Johnson, who holds a Ph.D. in applied physics and is a member of the Climate Change Action Group of Central New York. Johnson wrote the resolution that the committee passed.

"It's worth noting that both liberal and conservative economists, many economists at least, are backing this," Johnson said. "Emissions trading looks, from the consumer's point of view, like a tax, but it's more expensive than an actual tax and less effective for the environment than a tax."

Mayor Carolyn Peterson said a carbon tax is the most effective way to go beyond meeting the city's goal of reducing its own carbon emissions.

Alderman Dan Cogan, D-5th, said a carbon tax "makes all the sense to me in the world."

"To the extent that we want to provide an incentive for people to reduce their carbon emissions and we want to do it as cost effectively as possible, this is pretty much a no-brainer," he said.

Under cap and trade, the federal government sets a limit on the total annual amount of carbon dioxide emissions. The fixed limit allows politicians to set specific emissions goals.

Democratic presidential candidates Barack Obama, Hillary Clinton and John Edwards favor using cap and trade to reduce carbon emissions by 80 percent by 2050, according to USA Today. McCain favors a 65 percent reduction by 2050.

Under the proposed system of cap and trade, carbon emitters could trade emissions credits: Companies with newer, higher efficiency equipment could sell their emissions credits to companies with older, higher polluting equipment. A similar system has been used to limit emissions of sulfur dioxide.

Cap and trade supporters argue their method is superior because it actually caps the amount of greenhouse gas emissions. In contrast, a carbon tax doesn't cap emissions; it just makes them more expensive. A strict carbon cap, however, creates great market volatility, Johnson said.

"When prices of any commodity vary substantially, that makes it less attractive to make investments in that area. Investors like to have assured returns or as much certainty as anything. The less certain, the less likely that investment will be made in renewable energy investments," he said. "It's a counter-productive effect."

Johnson said most cap and trade proposals also include a way for pollution emitters to get around the cap. Most cap and trade plans include a "stop-price safety valve" to help curb the market volatility that could send energy prices through the roof when the nation nears the cap and emissions credits become more valuable. Once emissions credits reach that price, the government will distribute more emissions credits, ignoring the cap, he said.

The carbon tax is supported by former Vice President Al Gore, former federal reserve chairman Alan Greenspan and Harvard professor Gregory Mankiw, former chairman of the Bush administration's Council on Economic Advisors, among others.

"From what I have seen and read, informed expert opinion is heavy on the side of a carbon tax," wrote alderwoman Jennifer Dotson, D-1st, in a memo to the mayor and Common Council.

Johnson said the resolution is meant to encourage federal legislators that a carbon tax is politically possible.

"I think that this could be replicated nationwide so that Ithaca could initiate a nationwide movement for local entities to voice support for a federal carbon tax," he said.

Johnson said a sample resolution modeled on Ithaca's is available for free download from the "Initiative" page of his Web site: www.climatehealth.net.