

# Morality of Using Revenue from a Carbon Tax or Tithe

Tennessee Interfaith Power & Light

*a spiritual response to climate change*



# Sources

- How to Use Carbon Tax Revenue, Tax Policy Center (Urban Institute and Brookings Institute, 2016.
- Effects of a Carbon Tax on the Economy and Environment, Congressional Budget Office, 2013.

# Social Cost of Carbon

## The Polluter Pays Principle

The 'polluters pays' principle is the commonly accepted practice that those who produce pollution should bear the costs of managing it to prevent damage to human health or the environment.

This principle underpins most of the current regulation of pollution affecting land, water and air.



Price signals are probably the strongest motivation to change collective behavior that we have.

Recall how in 2008 the consumption of gasoline dropped when it approached \$5 per gallon.



# Ways to Use Carbon Tax Revenues

Carbon taxes reduce carbon emissions by making fossil fuel intensive products more expensive and less competitive.

A carbon tax will generate revenue. A key consideration is to how to use that revenue.



# First - Get the Price Right

## Carbon Tax Sufficiently Robust to...

- Give a consistent, credible, and strong investment signal.
- Trigger investments in low-carbon technologies to reduce exposure to tax.
- The price should rise steadily and gradually in a planned and predictable manner to inform future investments.
- Result in a measurable reduction in environmentally harmful behavior.
- Keep energy prices at a level that does not overburden industry and does not impede consumer access to energy.

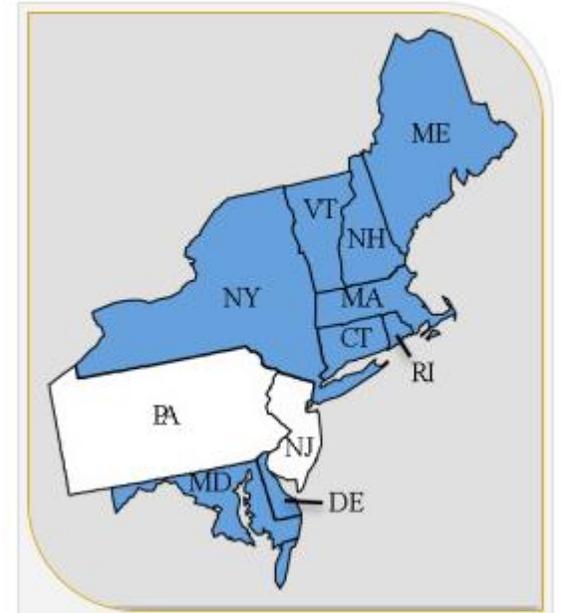
# Minimum of \$50/MT to serve as an effective price signal.

European Union has set carbon tax at \$5 / MT

China - from \$2 -5.

California set the price of carbon at \$15

Regional Greenhouse Gas Initiative has set it at \$3.

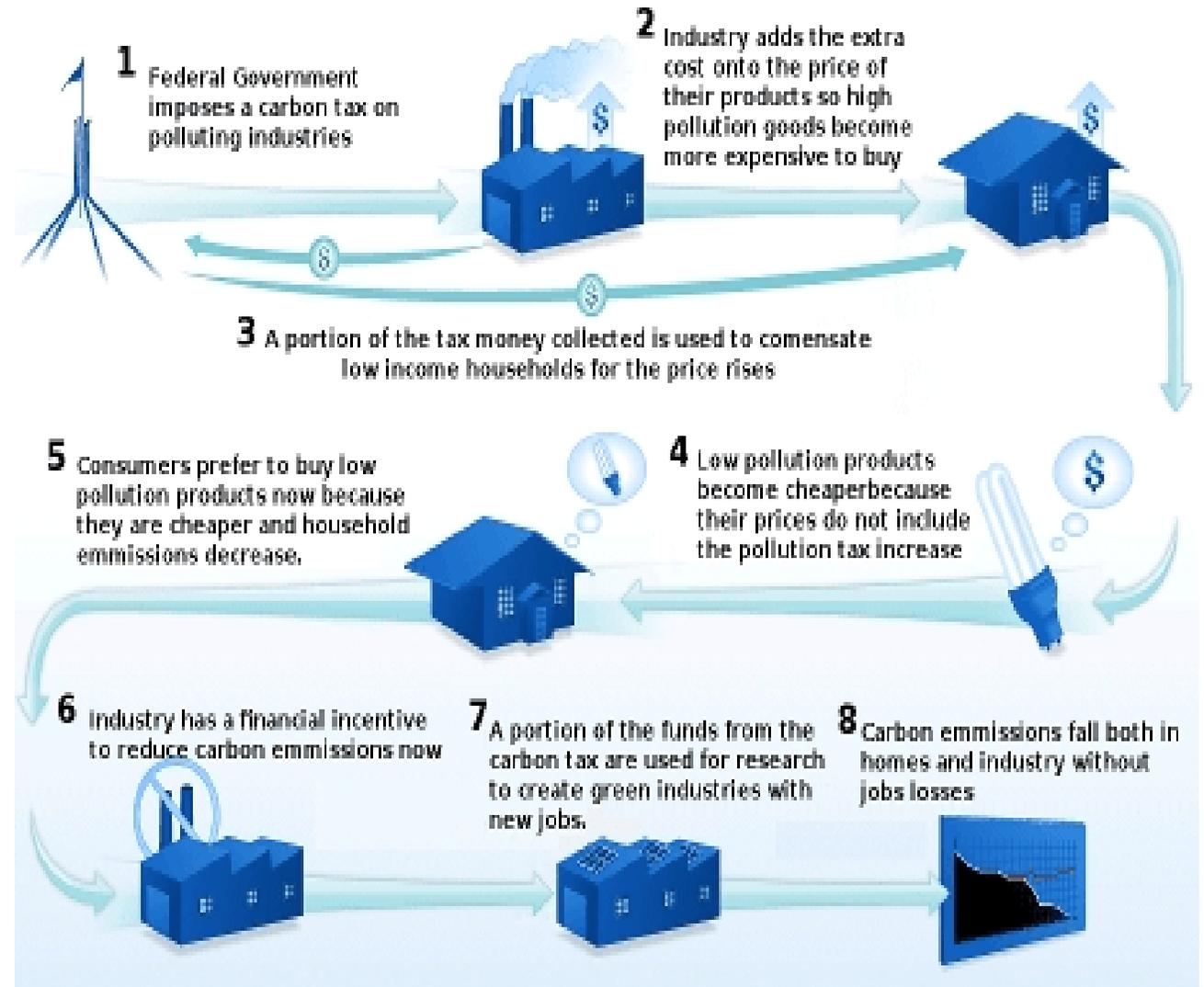


Regional Greenhouse Gas Initiative states

More than half of existing carbon prices are below \$15/MT. At such a low cost, little incentive to decarbonize economy.

# How Carbon Tax Might Be Implemented

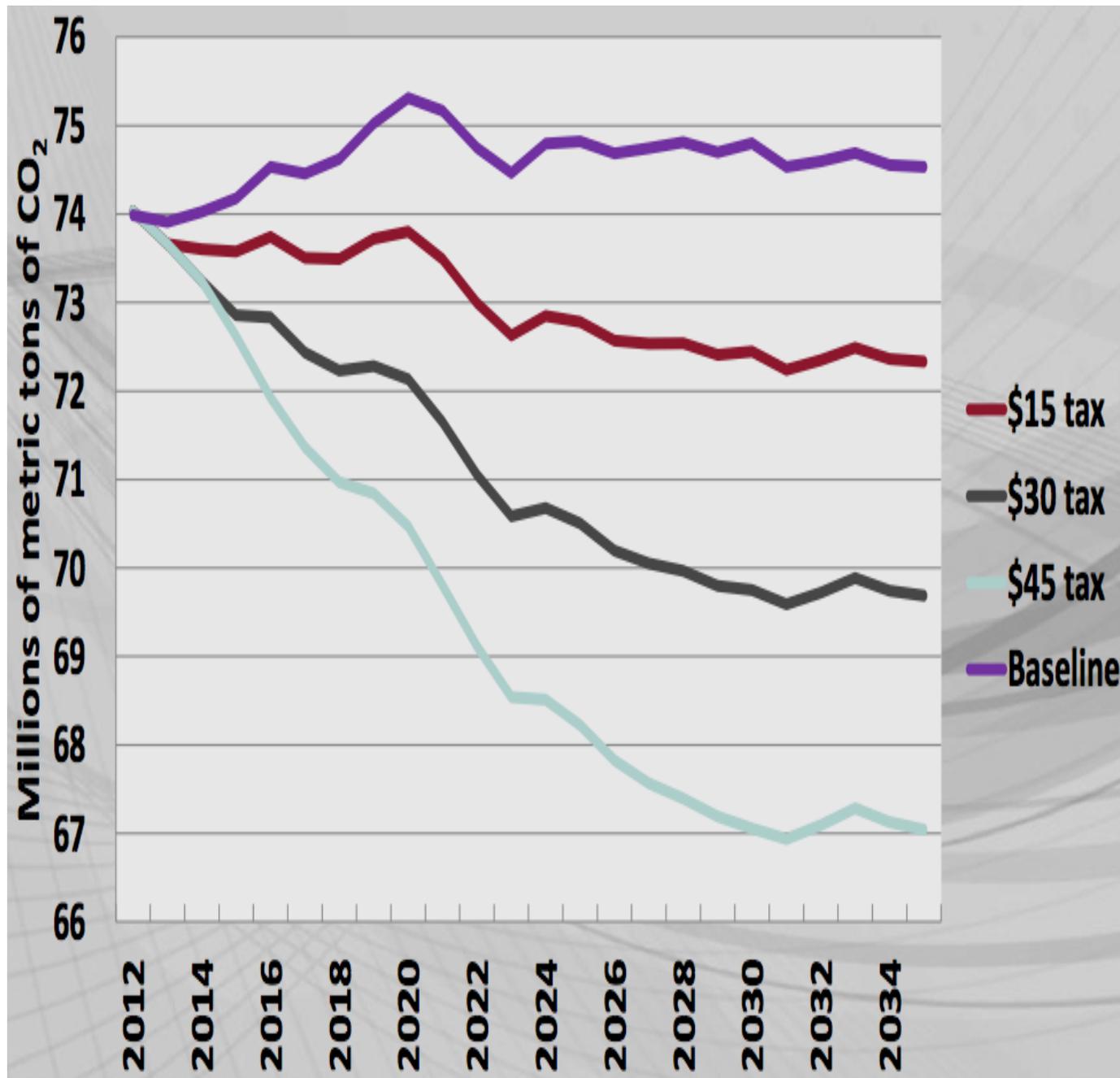
- The tax would be levied as far upstream in the fossil fuel chain as possible.
- Electric generators like TVA will pay the mandated carbon tax to their coal or natural gas suppliers. The supplier forwards the tax to the government. TVA passes costs onto customers.
- Similarly for petroleum products (e.g., gasoline, jet fuel, heating oil), government collects the tax from refiners or importers of refined petroleum products.
- The cost of the taxes are passed on to energy retailers and eventually to retail customers.



# Large Amounts of Revenue Generated

Carbon taxes can raise substantial revenue, at least until the economy is largely decarbonized.

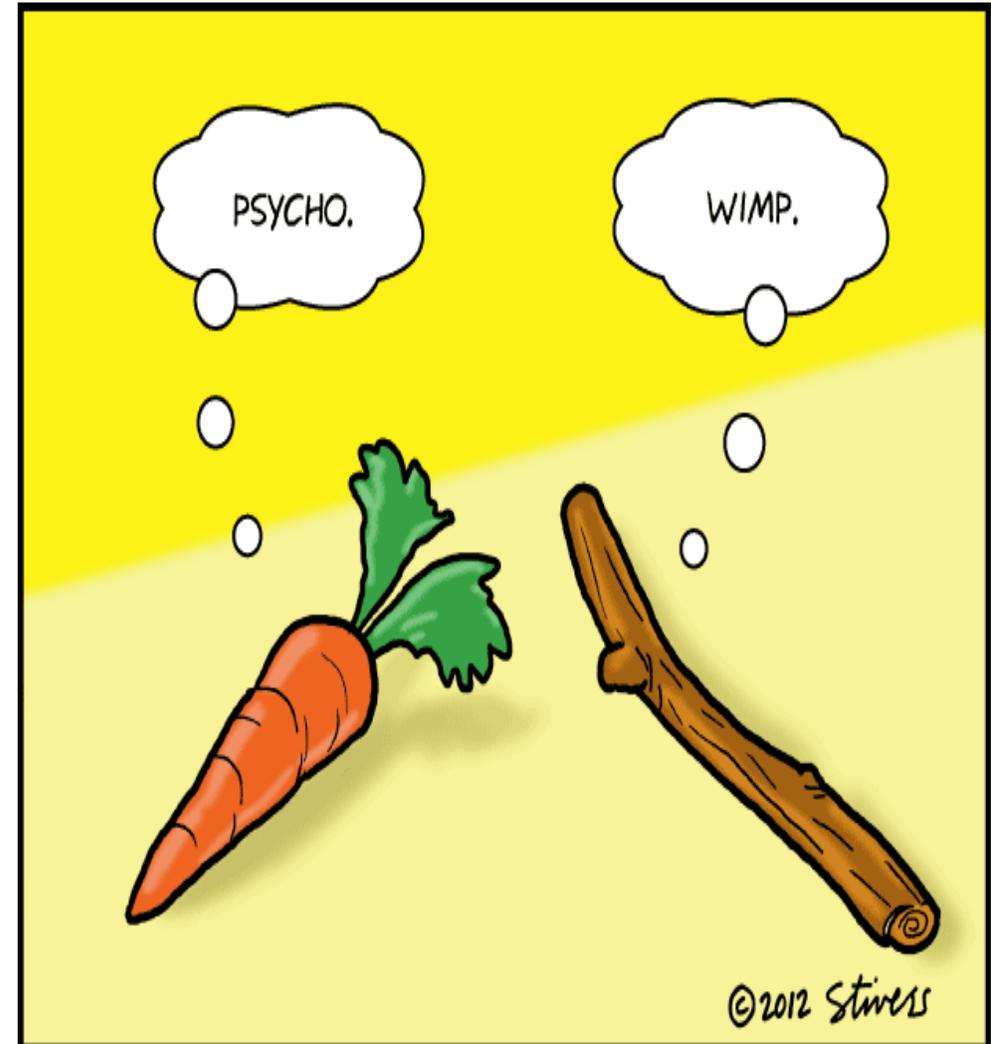
OMB finds that a tax set at \$40 per MT (adds \$.40 cents / gallon gas) would generate revenues of \$194 billion the first year. With an annual tax hike, it would increase to \$250 billion within a decade.



# Tax is the Stick

## How to Spend the Revenue is the Carrot

The right mix of revenue policy goals can overcome the political unwillingness and resistance to enacting a carbon tax.



# Four Alternative Policy Goals

We will review four alternative policy goals:

- Offsetting new burdens that a carbon tax places on lower income and vulnerable communities.
- Supporting further efforts to reduce greenhouse gas emissions.
- Reducing the harms of climate change.
- Funding priorities unrelated to climate.



# Revenue Policy 1: Offset the Lower Income Burden of a Carbon Tax

**Lower income households** already spend a greater share of their income on direct energy costs – home heating/cooling and gasoline. Raising the cost of fuels and electricity would increase that burden.

Using some revenue to offset these burdens could reduce undesired distributional and economic harms.

## Options:

- Supplementing existing social safety net systems (food stamps, refundable tax credits.)
- Directly rebating some revenues to qualified recipients.



# **Revenue Policy 1: Offset the Burden of Vulnerable Communities**

## **Vulnerable Communities:**

- Carbon extraction / processing communities: support worker transitions.
- Regions in which coal primary fuel for electricity generation – larger increases in electricity prices.

**Reducing burden of lower income and vulnerable communities is estimated to consume 15% of the carbon tax revenue**



# What A Carbon Tax is Supposed to Do

- Cost increases caused by carbon tax would provide an incentive for manufacturers to decarbonize their products.
- Cost increases caused by carbon tax would incentivize consumers to find ways to reduce their consumption of carbon intensive products – conservation, efficiency, substitution of less carbon intensive products and services.
- If tax does not encourage sufficient emission reductions, then raise the tax to further carbon reductions. Investors will reduce their exposure to the carbon tax.

# Problems with Using Funds for Further Emission Reductions

- May subsidize the same behavior changes the tax itself is supposed to cause.
- Incentives may go to those who would have done it to reduce exposure to tax alone.
- Inducement costs may exceed benefits they provided. Subsidies are less efficient at correcting externalities than a corresponding tax.

# Revenue Policy Goal 3

## Reduce Harms of Climate Change

- Growing need to assist people and communities that suffer from the damages of climate change, displacement
- Invest in measures that will reduce potential harms.
- Possible investments
  - Weatherize lower income homes.
  - Infrastructure investments that would reduce damage from extreme weather events and sea level rise.
  - Emergency management – disaster victims
  - Green Climate Fund – provide financial assistance to developing nations that bear the heavy costs of climate change



# Reducing Harms of Climate Disruption – Expect Political Headwinds



- **Reminder:** Social Cost of Carbon is the estimated harm that a metric ton of carbon will cause others.
- Cultural bias for inequity
- Assistance to reduce climate harms for vulnerable people in our own country and in other countries will face political hurdles domestically, as has all non-military foreign aid

# Effect of Carbon Tax on the Economy

- Fossil fuels account for 80% of all energy used in the U.S. Taxing carbon would impose costs on the entire economy.
- By raising the cost of fossil fuels, a carbon tax would increase the cost of producing goods and services, especially the more carbon intensive, and reduce the investor's return on investment.
- Increases in the costs of living would diminish purchase power of wages. Workers would experience a decline in real wages.



# Revenue Policy Goal 4

## Reduce Harm to the Economy

- Tax swapping – using revenue to reduce taxes
- Founded on the belief that this approach will build durable public support as it overcomes reluctance to pay among powerful interests.



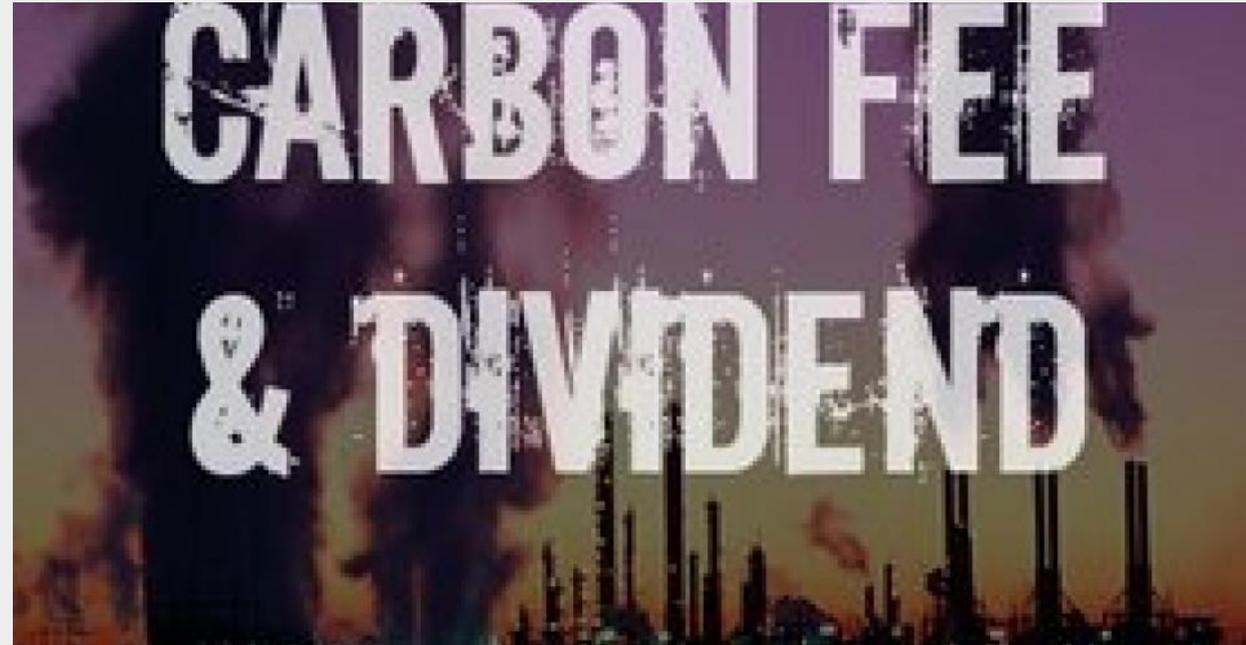
# Corporate Proposal for Revenue Use Tax Swap

- Reduce Corporate Income Tax - focus of Senator Lindsay Graham's (R-NC) proposal for a carbon tax. Most regressive revenue policy.
- Reduce Payroll Taxes
- Aim: Reduction in other taxes to keep the level of overall tax burden on business the same.

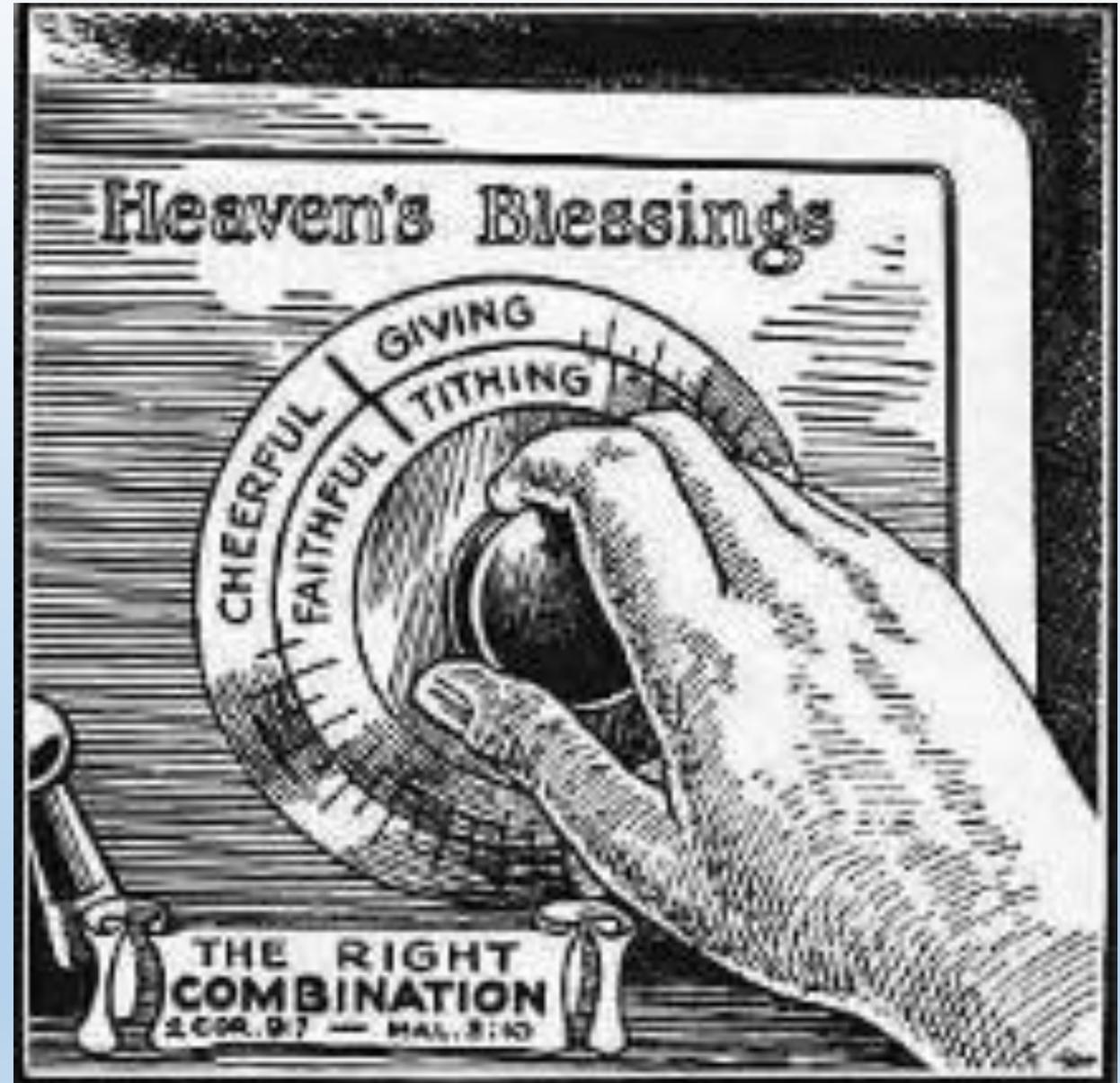


# Revenue Neutrality: Tax and Dividend

- Return the revenue as equal per-capita shares (dividends) to every U.S. citizen in the form of annual checks.
- Citizens Climate Lobby - revenue distributed by Social Security Administration quarterly to every household (combination of 1<sup>st</sup> and 4<sup>th</sup> Revenue Policy):
  - CCL estimates that households in the bottom 70% of income would come out ahead. Checks received would outweigh any price increase in goods that are carbon intensive, such as fuels.



# The Four Policies Applied to Faith Group Use of Carbon Tithe Revenue



# Revenue Policy One

*Offsetting new burdens that a carbon tax places on lower income and vulnerable communities.*

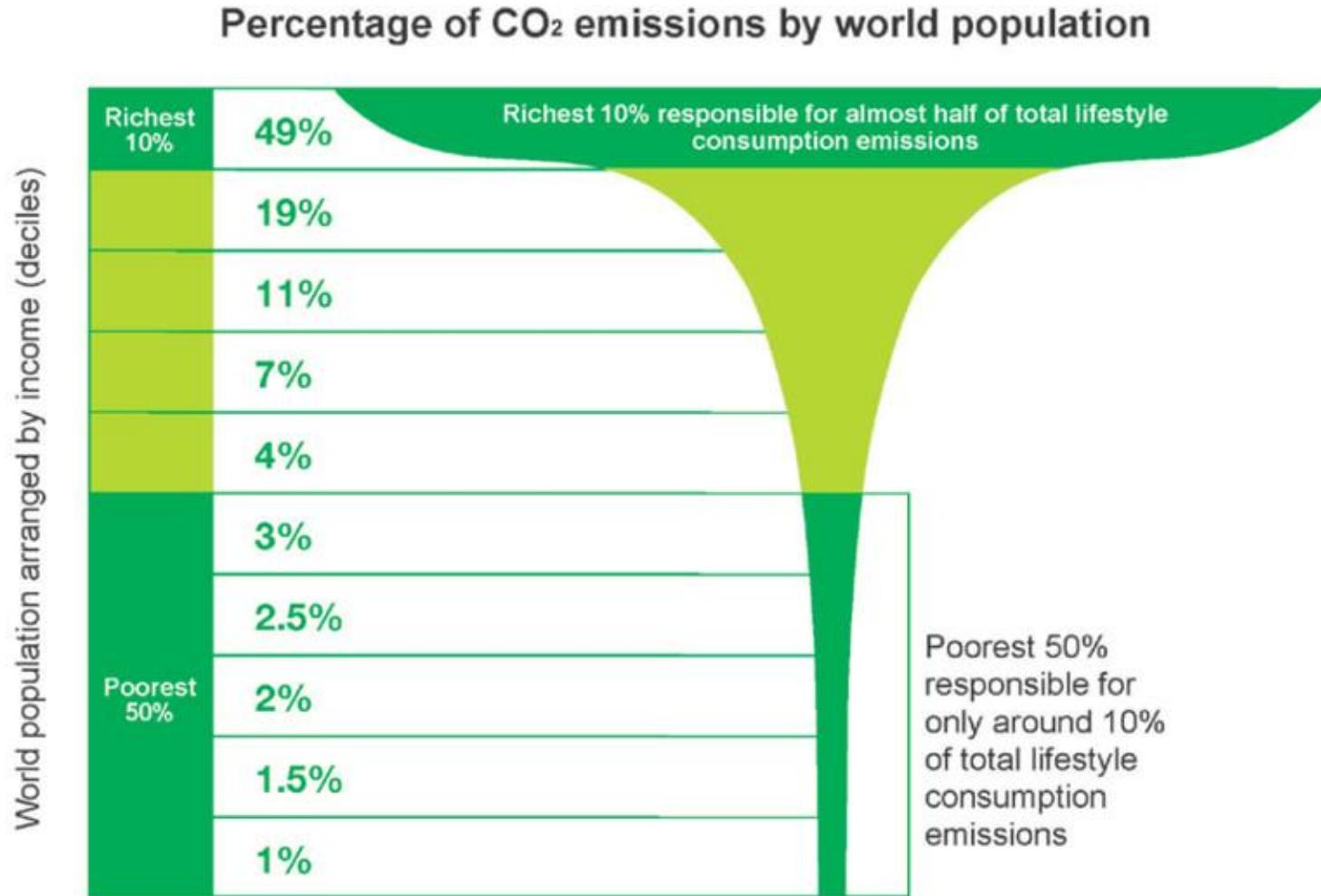
## **How responsible are members for climate change?**

If your members are primarily considered lower income, they are the least responsible for climate change. You may decide that the carbon tithe does not apply to your congregation.

If your congregation includes mixed incomes, you might, for example, have a unique opportunity to increase the resilience of those with the least resources within your congregation— such as using revenue to help weatherize their homes.

If your congregation is largely middle-upper income, then as individuals and a group you probably are among those most responsible for carbon emissions.

**Figure 1: Global income deciles and associated lifestyle consumption emissions**



To be in the top 10 percent, a person needs to have **\$68,800** in wealth.

The median American wealth is **\$68,828**.

# Revenue Policy Two

*Supporting further efforts to reduce greenhouse gas emissions.*

Reminder: The Social Cost of Carbon reflects the harm done to others and the earth from our use of fossil fuels.

If a congregation considers using carbon tithe revenue on measures to reduce its carbon emissions, how does this use of funds benefit those harmed by climate change?

Might a faith group consider using other funds to invest in measures that reduce its carbon emission exposure?

# Revenue Policy Three

## *Reducing the harms of climate change.*

- Faith groups need to investigate how they can best fulfill this purpose of reducing the suffering caused by their carbon emissions within their communities and world. Knoxville TIPL is developing a vetted list of suggested organizations within the Knoxville region and beyond.
- Consider volunteering to reduce the suffering of climate change within your community. The 2017 in-kind value of a volunteer hour is \$24.14. A weekend Habitat for Humanity crew might payoff your carbon tithe.

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# Revenue Policy Four

## Funding priorities unrelated to climate.

- Examples: Paying down debt, using funds for payroll taxes, or helping to fund a position or program within a faith group.
- Question: How would the funds used in this way address the damages of climate change?

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# Four Alternative Policy Goals Applied to Carbon Tithe

## *The art of realpolitik*

For buy-in from a wider group, a combination of different policy goals may be needed.

