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## Only carbon tax won't do

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**Evans ton, Illinois:** Everyone seems to be talking about a carbon tax. It's probably the most glamorous — and certainly the most unlikely—use of the tax code since Al Capone got hooked for tax evasion. The idea is that polluters should pay for the environmental damage they cause. Slap a tax on carbon, the theory goes, and you will get fewer carbon emissions, more revenue for government and energy independence, all at the same time. No wonder people from both sides of the political divide have come out in support of it.

But a carbon tax isn't a new idea. Denmark, Finland, Norway and Sweden have had carbon taxes in place since the 1990s, but the tax has not led to large declines in emissions in most of these countries — in the case of Norway, emissions have actually increased by 43 per cent per capita. An economist might say this is fine; as long as the cost of the environmental damage is being internalised, the tax is working — and emissions might have been even higher without the tax. But what environmentalist would be happy with a 43 per cent increase in emissions?

The one country in which carbon taxes have led to a large decrease in emissions is Denmark, whose per capita carbon dioxide emissions were nearly 15 per cent lower in 2005 than in 1990. And Denmark accomplished this while posting a remarkably strong economic record and without relying on nuclear power. What did Denmark do right? There are many elements to its success, but taken together, the insight they provide is that if reducing emissions is the goal, then a carbon tax is a tax you want to impose but never collect.

This is a hard lesson to learn. The very thought of new tax revenue has a way of changing the priorities of the most hard-headed politicians — even Genghis Khan learned to be peaceful, the story goes, when he saw how much more rewarding it was to tax peasants than to kill them. But if we want lower emissions, the goal of a carbon tax is to prompt producers to change their behaviour, not to allow them to continue polluting while

handing over cash to the government.

How do you get them to change? First, you prevent policymakers from turning the tax into a cash cow. Carbon tax discussions always seem to devolve into gleeful suggestions for ways to spend the revenue. Reduce the income tax? Give the money to low-income consumers? Use it to pay for health care? Denmark avoids the temptation to maximise the tax revenue by giving the proceeds back to industry, earmarking much of it to subsidise environmental innovation. Danish firms are pushed away from carbon and pulled into environmental innovation, and the country's economy isn't put at a competitive disadvantage. So this is lesson No. 1 from Denmark.

The second lesson is that the carbon tax worked in Denmark because it was easy for Danish firms to switch to cleaner fuels. Danish policymakers made huge investments in renewable energy and subsidised environmental innovation. Denmark back then was more reliant on coal than the other three countries were (but not more so than the United States is today), so when the tax gave companies a reason to leave coal and the investments in renewable energy gave them an easy way to do so, they switched. The key was providing easy substitutes.

The next president of the US seems sure to be more committed to environmental policy than the current president is, and a carbon tax is high on everyone's list of options. Indeed, a carbon tax has been promoted almost as a panacea — just pop in the economic incentives and watch them work their magic. But unless steps are taken to lock the tax revenue away from policymakers and invest in substitutes, a carbon tax could lead to more revenue rather than to less pollution.

If we want to reduce carbon emissions, then we should follow Denmark's example: tax the industrial emission of carbon and return the revenue to industry through subsidies for research and investment in alternative energy sources, cleaner-burning fuel, carbon-capture technologies and other environmental innovations, —*NYTNS*

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