

Carbon Tax is Not Dead

Do not dismiss the efficiency of carbon taxes



AN OPEN DIALOGUE

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Why? Carbon trading and carbon tax are complementary policy tools for reducing greenhouse gas (GHG) emissions. The revenue from carbon tax generated in developed countries is an important source for financing the mitigation and adaptation projects in developing countries affected by climate change.

According to an IMF estimate, financing for climate adaptation totaled USD 30 billion on average annually in 2017 and 2018, and adaptation costs in developing countries alone are currently estimated at close to USD 70 billion and are expected to rise to USD 140-300 billion by 2030. As the OECD countries are working all the angles to raise the money for their contribution to global environmental projects, carbon tax is slated to play an important role. The US Congressional Budget Office has estimated that a carbon tax starting at a relatively modest USD 20 per ton would raise USD 1.2 trillion in revenue in a decade.

In a recent edition of *The Atlantic* magazine, Robinson Meyer wrote an article titled “Carbon Tax, Beloved Policy to Fix Climate Change, Is Dead at 47”. If that is so, my readers might wonder why I am trying to resuscitate a dead cow, or as they say in many countries, “Why flog a dead horse?”

The outcry against the story in *The Atlantic* was spontaneous and strong. One cannot deny that many issues must be resolved before a country, developed or developing, can implement a carbon tax. A national consensus has to be reached on the disposal of the tax money collected. In 2010, Bangladesh was on the verge of adopting a carbon tax, but the idea was shelved partly because of the fear that it might hurt the pocketbook of the average

consumer. A legitimate question would be: does the cash raised go towards funding environmental projects or provide relief to the poor in the form of lower VAT? Another unintended consequence may be increased use of biomass. An example is the case of Sweden's carbon tax, which has resulted in increased biomass use for heating and industry because these fuels are classified as renewable. In Bangladesh, a carbon tax will unquestionably increase the consumption of firewood, biomass, bagasse and agricultural waste.

My optimism about the role of carbon tax and its efficiency will not necessarily be shared by all. In a recent, very well-written op-ed in this newspaper, Anis Chowdhury and Jomo Kwame Sundaram argued that carbon tax is

emissions trading and carbon tax, are invaluable instruments that deserve a chance.

As an economist who has worked in assessing and evaluating the efficacy and efficiency of market-based tools, as well as others known as command and control mechanisms, it has been my experience that the chief obstacle to carbon tax or other emissions reduction regulations is political. Chowdhury and Sundaram agree that many carbon reduction measures require legislative action, and coal and oil sectors wield strong economic and political power in the capitals of rich countries. However, it would be erroneous to single out carbon tax for ignoring “political realities, especially differences in key stakeholders’ power and

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PHOTO: REUTERS

Why not add a tax on coal based on its true “damage” to minimise consumption?

regressive, saying “it is unfair to the poor”. While this logic has some merit, there are various countermeasures to compensate lower-income taxpayers through reduced electricity rates and redistributive actions.

Nonetheless, I agree with Chowdhury and Sundaram that carbon tax is not a silver bullet. Climate change is a very complex problem and addressing this global issue requires experimenting with various mitigation tools. Along with mandated technological innovations, economic instruments, including

influence”, since all Net Zero initiatives face opposition from strong political lobbies.

Nonetheless, today 100 nations, states, and cities have instituted some form of carbon tax to limit GHG. Some countries don’t call it a tax, but to minimise its “shock effect” have found other names, including carbon fee and carbon dividend. But let us call a devil by its true name.

In the aftermath of COP26, it was reported by *Bloomberg News* that Russia will look to cut its ambitious goals for boosting coal

production in the coming decade and consider imposing a carbon tax or other regulations in the wake of the deals reached by major powers at Glasgow, according to two officials familiar with the plans.

To curb emissions, we can use traditional regulatory approaches (sometimes referred to as command-and-control approaches) that set specific standards across polluters, or instead adopt economic incentive or market-based policies that rely on market forces to correct producer and consumer behaviour. Of the many measures that have been proposed (and some of these have been tried), there are two that belong to the “market-based” group. Coal, for example, can be banned outright, but why not add a tax on coal based on its true “damage” to minimise consumption?

Let us take the case of two countries, India and Australia, both of which are major coal producers and consumers. India, according to a 2019 Brookings Institute report, will still produce the majority of its electricity from coal at the end of 2030. As part of Covid-19 stimulus packages, Rs 50,000 crore was given for coal transportation infrastructure to boost production from 730 million tons in 2019-20 to 1.5 billion tons in 2023-24. While India’s domestic production cost is lower than the price of imports, it can’t meet all the demand. In recent times, as the price of imports went up, domestic coal supply has substituted imports.

The price of Australian coal was USD 60.8 in 2020. India imports Australian coal at a

lower price than anywhere else. If Australia reintroduces carbon tax (which was AUD 23 per ton), the price advantage for coal will diminish and importers such as India (as well as China) will reduce their reliance on Australian coal.

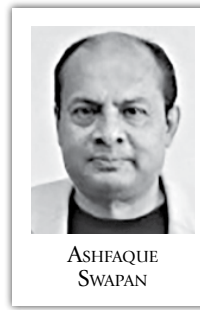
Carbon tax is often misconstrued as the only or major instrument to curb GHG emissions, even though it is but one, and only one, of many policy options. Each country can choose from an array of tools and some of them are bound to fail. A complete ban on carbon emissions by legislation has not worked and will not work. Similarly, expensive technology to retrofit coal-burning power plants will be rejected. These measures fall under the “command and control” armoury.

China’s own experience with economic reforms suggests that using price signals and market forces tend to minimise the costs of structural change. In particular, raising China’s carbon price to a sufficiently high level, and announcing a predictable price path with a sufficient lead time could enable electricity producers and users to adjust and adapt better, thus helping them to achieve the same amount of emission reductions, with less foregone GDP growth.

Finally, governments that have implemented a carbon tax have taken steps to moderate the negative impacts on households and businesses. These include reducing other taxes—in British Columbia, legislation mandates that all carbon tax revenues must be returned to taxpayers through tax cuts—and phasing in the tax to give time for firms to adapt. This makes it easier for firms to adapt over time and has been used in British Columbia, South Africa (proposed) and the European Carbon Trading Scheme. Other options include providing partial exemptions to some sectors defined as export-oriented for a certain period of time, and investing in infrastructure that can be used to improve firms’ competitiveness—for example, by ensuring good transport links and reliable energy supplies, two key considerations in Bangladesh.

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A green shoot of hope in a (still) arid, racist terrain



The facts of the case are brutally simple: On an unfounded suspicion of burglary for which the armed defendants had no evidence, they pursued the unarmed Arbery. When Arbery tried to flee, he was cornered and shot to death.

death, often with impunity. A BBC timeline lists 11 high-profile cases since 2014 where police were involved in such killings. This includes the case of George Floyd, whose gruesome killing drew international protests. Only in four instances were officers prosecuted. In one of those cases, the involved officer was cleared of murder charges. (The Georgia murder is not included in this list, as the convicted murderers did not belong to law enforcement.)

So it is remarkable that the jury found Travis McMichael; his father, Gregory McMichael; and their friend William Bryan—all White—guilty of felony murder offences after the trio chased down and then shot to death Ahmaud Arbery, a 25-year-old Black youth, in Brunswick, Georgia, in February last year.

What transpired before the case came to trial is even more remarkable. Arbery was killed in February, several months before the killing of George Floyd, the international cause celebre. Although police had immediate access to a cell phone video of the murder, absolutely nothing happened for months. Even when the case went into trial, there was far too much doubt about the eventual verdict. The facts of the case are brutally simple: On an unfounded suspicion of burglary for which the armed defendants had no evidence, they pursued the unarmed Arbery. When Arbery tried to flee, he was cornered and shot to death.

Local police and prosecutors base their refusal to arrest on the preposterous claim that the defendants killed in self-defence. It was only after the murder video went viral on social media and resulted in a statewide—and eventually nationwide—outcry that Georgia’s Republican Governor Brian

Kemp stepped in at the request of local authorities and brought in the Georgia Bureau of Investigation, a state agency. The GBI started an investigation and arrested the three defendants.

It took a full 77 days since the murder for the three defendants to be arrested. Notwithstanding this ignoble record, there are signs of heartening changes.

First, a little historical note is

organisation NAACP, was murdered in 1963 by the segregationist White Citizens Council member Byron De La Beckwith, Democratic Mississippi Governor Ross Barnett actually met and shook hands with him during his trial. (Despite overwhelming evidence, White juries failed to reach a verdict twice. Beckwith lived a free man for three decades until he was finally tried and convicted in 1994.)

Compared to the Evers murder, the verdict on Arbery’s murder has been relatively swift. Yet it is a bittersweet moment for many.

Rev. Raphael Warnock, a Democratic US senator from Georgia, issued a poignant tweet: “This verdict upholds a sense of accountability, but not true justice. True justice looks like a Black man not having to worry about being harmed—or killed—while on a jog, while sleeping in his bed, while living what should be a very long life. Ahmaud should be with us today.”

It is a heartbreaking observation. What gives me some hope, however, is that it comes from someone duly elected US senator from a deep South state despite being “a fitting heir to the mantle once worn by The Reverend Dr. Martin Luther King, Jr”, according to *The Atlanta Journal-Constitution*.

It is also sadly true that this hope is diminished by the fact that the path to justice for Arbery was unconscionably tortuous. It is a sobering reminder of how much remains to be done.

As Adam Serwer trenchantly observed in *The Atlantic* magazine: “To say the system worked in this case is like saying your car made it home—after your entire family had to get out and push it miles down a dirt road.”

in order. Georgia, like most other formerly-Confederate southern states had shifted lock-stock and barrel to the Republican Party after the landmark passage of the Civil Rights Act and the Voting Rights Act in the 1960s by Democratic President Lyndon Johnson. Republicans vehemently deny this,

crisis with alacrity and welcomed the verdict. “Ahmaud Arbery was a victim of vigilantism which has no place in Georgia,” Kemp said in a statement.

This is a welcome contrast with another Southern governor at another time. After Medgar Evers, a Mississippi activist with the Black civil rights

organisation NAACP, was murdered in 1963 by the segregationist White Citizens Council member Byron De La Beckwith, Democratic Mississippi Governor Ross Barnett actually met and shook hands with him during his trial. (Despite overwhelming evidence, White juries failed to reach a verdict twice. Beckwith lived a free man for three decades until he was finally tried and convicted in 1994.)

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PHOTO: MARCO BELLO/REUTERS

A jury in the US state of Georgia convicted three men of the murder of Ahmaud Arbery in February last year.

QUOTABLE Quote

BILLY SQUIER
American musician

I try to remember our relative insignificance on this planet and that these seemingly important things do not mean quite as much as we think they do.

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 Warsaw native

5 Go ashore

11 Stratford's river

12 Wide street

13 Cribbage markers

14 Tidy up

15 Quarrel

17 Drop the ball

18 Mythical giant

22 Flanks

24 Boosted

25 Commotion

26 Obtained

27 Pumpkin's kin

30 Book makeup

32 Modify

33 Penny prez

34 Fiesta food

38 Skunk feature

41 Music genre

42 Illinois city

43 Continental coin

44 Visitors from space

45 RBI or ERA

DOWN

1 Hemingway nickname

2 Finished

3 Closed a session

4 Guarantee

5 Hamlet, for one

6 Calendar items

7 "Get lost!"

8 Industrious insect

9 Paris street

10 Writer Follett

16 "—Miniver"

19 In fancy duds

20 Lotion ingredient

21 Brooklyn team

22 Heroic tale

23 Revered one

28 Stop working

29 Visit

30 Contrived

31 Humbles

35 Sailor's septet

36 Surrounding glow

37 Mailbox part

38 Mud bath setting

39 — Aviv

40 King of France

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YESTERDAY'S ANSWERS

C	H	I	P	B	L	I	M	P	S
L	I	N	E	A	I	R	O	U	T
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V	E	I	N	S	I	Q	S		
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BEETLE BAILEY

BABY BLUES