

A Growth-Friendly Climate Change Proposal

Washington state's ballot initiative would reward conservation without hurting business, so why does the left oppose it?



Washington state is considering the nation's first revenue-neutral carbon tax in a ballot initiative this fall. *PHOTO: ELAINE THOMPSON/ASSOCIATED PRESS*



By
Greg Ip

Seattle

Climate change landed in a Washington, D.C., court this week as Republican governors and business groups sued to block President [Barack Obama](#)'s sweeping regulation of greenhouse gas emissions.

The lawsuit is only the latest example of how polarized politics have made it so difficult to reconcile two divergent priorities: climate change and economic growth.

Across the country, however, voters are being offered a plan that does just that.

In November, Washington state will vote on the country's first revenue-neutral carbon tax. By embedding the cost of carbon dioxide emissions in the price consumers and businesses pay for energy, such a tax automatically encourages conservation and makes renewable energy more appealing, without regulations and subsidies that distort investment and undercut growth. Because

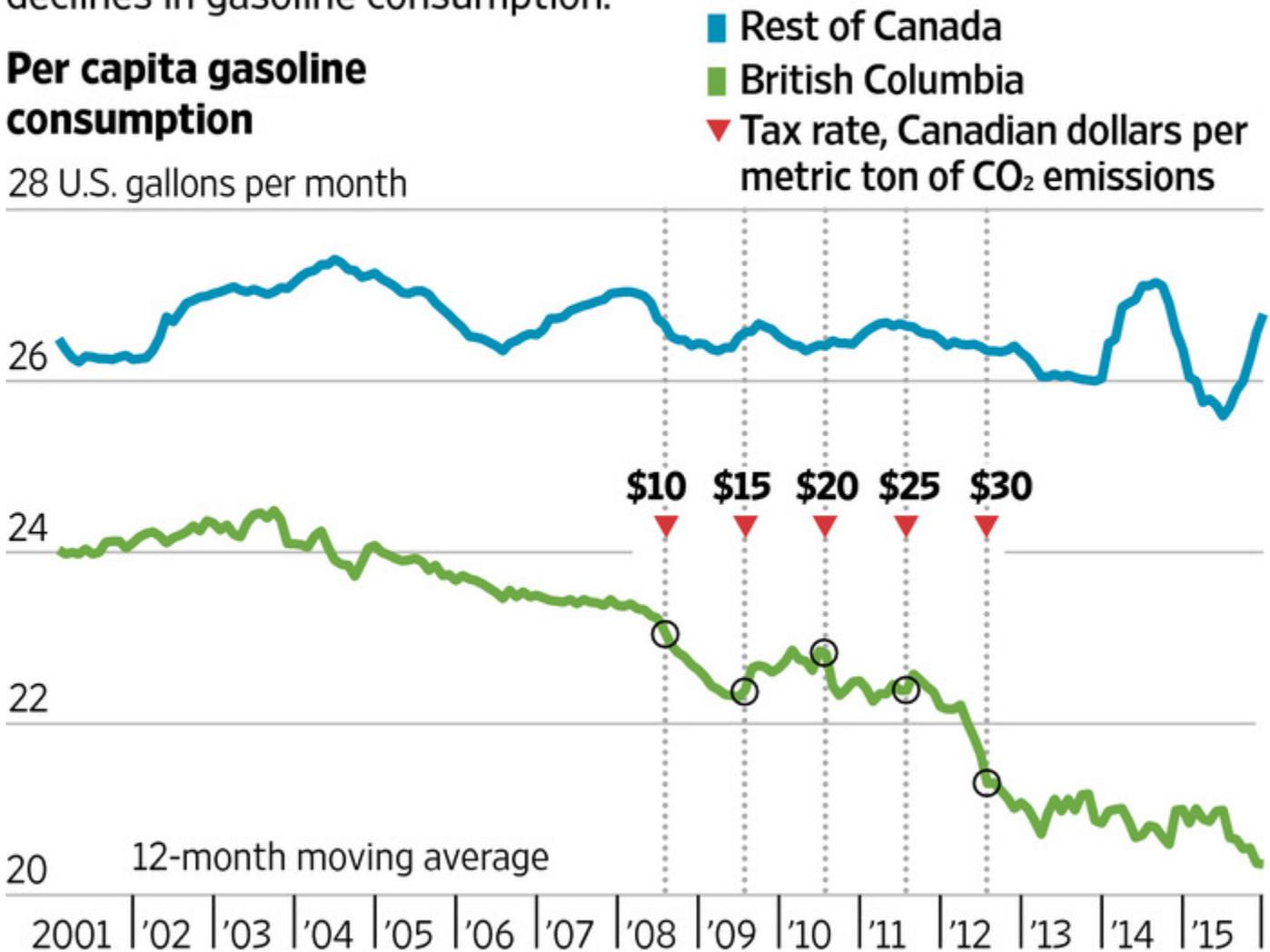
the revenue is used to cut other taxes, it doesn't crimp incomes or undermine business competitiveness.

A Climate Policy Leaves Its Mark

A proposed revenue-neutral carbon tax in Washington state is modeled on British Columbia's, which has led to relatively faster declines in gasoline consumption.

Per capita gasoline consumption

28 U.S. gallons per month



Source: Werner Antweiler and Sumeet Gulati, University of British Columbia

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In environmentally conscientious Washington state, Initiative 732, as the ballot initiative is known, ought to be a slam-dunk. It isn't—a poll shows voters roughly split. The reasons are a window into why climate policy is so polarizing.

The resistance comes not just from the usual opponents on the right, but even more strikingly from the left. The reason: Many environmentalists see climate change as an opportunity to remake the economic order. They want to use carbon taxes to fund renewable energy and green technology and

bolster the incomes of workers and communities they say are most hurt by climate change. Whatever the merits of these goals, the effect is to equate climate policy with bigger government, which makes it harder to achieve broad-based support.

Nearly a century ago the British economist Arthur Pigou advanced the idea of stamping out socially destructive activity by taxing it.

Washington state's proposed levy is a textbook "Pigouvian tax" which should come as no surprise since it's the brainchild of an economist: Yoram Bauman, who previously taught economics at the University of Washington. He now makes his living doing stand-up comedy about economics (One liner: "You might be an economist if you refuse to sell your children because they'll be worth more later.").

Democratic Governor Jay Inslee had proposed a cap-and-trade plan modeled on California's, but couldn't get it passed through either the Democratic-controlled state House or the Republican-controlled Senate.

So Mr. Bauman's group, Carbon Washington, [put forth I-732](#) as an alternative. It would impose a \$15 tax per ton of carbon dioxide in the first year, rising to \$25 in the second, and thereafter by 3.5% after inflation annually to \$100 in current dollars.

The tax would add 25 cents to the price of a gallon of gasoline and boost the average monthly electric bill by about \$8. All the revenue—roughly \$2 billion a year—would be returned to taxpayers via a one-percentage point cut in the state sales tax, elimination of a business tax, and a tax rebate of up to \$1,500 a year to 460,000 low-income workers.

The Sightline Institute, a Seattle-based environmental think tank, [reckons the tax](#) is just high enough to achieve the state's statutory emissions reduction goal: 50% below 1990 levels by 2050.

I-732 is modeled on a similar levy introduced in British Columbia in 2008 that now stands at \$23 per metric ton. A study by Werner Antweiler and Sumeet Gulati at the University of British Columbia found [the tax has curbed](#) the average person's fuel consumption by 7% and boosted the average car's fuel efficiency by 4%.

Given all that, why don't more environmentalists support it? In part, internal politics: Some groups are miffed they didn't have more say in the design of I-732. Others think I-732 won't pass and their energy is better devoted to politically more viable initiatives. Having failed to pass cap-and-trade legislation, Mr. Inslee has, like Mr. Obama, since moved to cap some emissions via regulation.

But the main reason is that I-732 sends its revenue back to taxpayers, whereas environmentalists would like the revenue for other priorities. The Washington Environmental Council, which doesn't support I-732, says revenue from any climate initiative should be plowed into the "clean energy economy...infrastructure for clean, abundant water and healthy forests" and assistance for "the most vulnerable workers and communities."

Rather than compromise, other climate activists have sought to oust their political opponents—usually Republicans.

Their stance is short-sighted, for two reasons. While a carbon tax makes emissions caps and subsidies redundant, it can also complement them by nudging consumers in the same direction. Second, it risks turning climate change into a one-party issue.

Some environmentalists “have this dream the Republican Party is going to jump off the cliff, but the evidence is the Republican Party is going to stick around for a while,” says Mr. Bauman.

It is precisely because a revenue-neutral carbon tax isn't weighed down by so many ancillary social goals that it stands the best chance of appealing to people across the political spectrum.