

Putting a Price on Carbon

All climate change policy proposals seek to reduce emissions of carbon dioxide. While the greenhouse gas can be removed from the air (plants and trees are nature's best example), slashing man-made emissions tops the list of climate change remedies. A carbon tax or cap-and-trade tax are the current options for doing so.

CARBON TAX

Q: What is it?

A: A levy on energy sources emitting carbon dioxide meant to cut consumption of fossil fuels like coal, natural gas, and oil. The tax would most likely be based on the actual carbon content, in tons, found in each fuel type. The effectiveness of such a system depends on the actual price established per ton of carbon.

PROS

- ⊕ Economic certainty: costs are easily tallied up-front
- ⊕ Resulting revenue could be used for research on new energy technologies, create incentives for non-emitting sources such as nuclear power and renewables, or returned to taxpayers via rebates and other assistance

CONS

- ⊖ No specific goal for carbon dioxide reductions set
- ⊖ Sources of emissions could essentially pay to maintain "business as usual"
- ⊖ If the tax is set too high, prices could skyrocket across the board; electricity bills, as well as the price of goods and services dependant on fossil fuels, would increase

Source: National Rural Electric Cooperative Association

CAP & TRADE TAX

Q: What is it?

A: In its most basic form, a cap-and-trade tax uses market forces to curb emissions of greenhouse gases like carbon dioxide. Each source (like a power plant) has a limit, or set number of allowances, placed on the amount of gases it can release—the cap. Those who make investments to curb emissions under the cap can sell any extra allowances to those who can't make reductions as easily—the trade. The cap-and-trade tax being considered by Congress would sell allowances through an auction, essentially making all sources pay for any amount of carbon dioxide emitted.

PROS

- ⊕ If implemented well, provides an opportunity to find the most efficient ways to reduce emissions
- ⊕ Guaranteed environmental benefits

CONS

- ⊖ Financial speculators could ultimately determine the price of carbon, directly impacting electricity bills
- ⊖ Success of reducing emissions relies on technology that is currently limited, largely untested, and expensive
- ⊖ If used to generate additional federal revenue, essentially turns electric co-ops into government tax collectors