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Rethinking carbon pricing

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Adding a “tax” or “price” on carbon emissions—a key driver of climate change—has been on and off the climate change mitigation agenda for years. New political realities and communications strategy theories show that the time may finally be coming to introduce a price on carbon in the United States, as its neighbor Canada did in 2018.

A carbon tax “sets a price that emitters must pay for each ton of greenhouse gas emissions they emit.” It could be levied on the carbon emissions required to produce goods and services at, for example, the point of extraction or introduction into the economy (e.g., import locations) or at the point of final sale. These are known as “upstream” or “downstream” collection points. A climate change tax more broadly could be designed to cover other greenhouse gases such as methane or nitrogen oxides, which have much higher heating potential than carbon dioxide (CO_2).

Carbon pricing would harness market forces to disincentivize the use of greenhouse gas-intensive products and services. Higher prices including a carbon tax would shift purchases toward non-carbon–emitting products and services.

Currently, approximately 68 direct carbon pricing instruments are in operation around the world: 36 carbon taxes and 32 emissions trading systems (ETSs). Swedish companies, for example, already pay a combined carbon tax of approximately \$200 per metric ton CO_2 equivalent. Denmark will follow suit with a carbon tax of \$107 per metric ton CO_2 equivalent in 2030. Switzerland currently taxes CO_2 at \$99 per metric ton CO_2 equivalent.

Given the historically similar backgrounds and somewhat similar cultures of the United States and Canada, an analysis of Canada's embrace of a carbon tax is instructive. Under Canadian law, each province may design its own regulatory system. In British Columbia, for example, the current carbon tax rate is \$50 per metric ton of CO_2 equivalent (CO_2e). If provinces do not create and implement their own system, the federal "backstop" system will kick in at \$50 per metric ton. The proceeds will be distributed to the provinces.

Carbon pricing was once a hotly contested political issue in Canada, as it remains today in the United States. In the

United States, many conservative legislators still oppose higher taxes of any kind and perhaps especially one that invokes the phrase "climate change," which itself is still seen by some as politically controversial. But Canada's experience, particularly the shift in position by Canadian conservatives, can help inform the political debate and course of action in the United States.

In Canada, a carbon tax was vilified for years. It was said to come at a "hefty financial expense," to lead to "ineptitude at actually combating climate change," to "kill jobs," to be "bad public policy," even to be "bourgeois" and "elitist" policy. A repeal of the carbon tax was at the top of the agenda for some political hopefuls.

By the 2021 federal election, however, Canadian conservatives had turned 180 degrees on the issue. In part, Canadian conservatives simply evolved politically on this scientifically proven problem. Many parts of the Conservative Party had also been pushing for environmental solutions for years, and they accepted that environmental protection is a "conservative" as well as a "liberal" issue. As a result, in Canada, all major federal parties now support some version of a carbon tax. In fact, the political reality in Canada is now such that "the Conservatives federally cannot get elected without a credible climate plan." One former Conservative member of Parliament admits that she believes she lost her seat because her party opposed a carbon tax.

While the same political reality may not yet have come to the United States, it may be budding. For example, the Climate Leadership Council—an organization promoting bipartisan climate solutions—is developing a conservative angle toward the implementation of carbon taxes and dividend payments (i.e., returning the collected taxes to all U.S. residents on an equal and monthly basis via dividend checks, direct deposits, or contributions to individual retirement accounts). Similarly, in February 2023, Senator Mitt Romney (R) said, "[i]f we want to do something serious about global emissions, we need to put a price on carbon." Other Republicans are interested in a U.S. Department of Energy loan program designed to advance cleaner technologies that the private sector will not yet fund. Under the recently enacted Inflation Reduction Act, this program will be expanded.

So far, climate conversations have typically been conducted in language promoting community values and fairness. But that language does not necessarily resonate with conservative ears. Conservatives arguably tend to respond to hierarchical and individualistic language because they believe in working through a chain of command, and they believe in individual effort and reward. Accordingly, conservatives may be more open to arguments that tie into concerns about jobs, the economy, national security risks, immigration concerns, and ensuring clean air and water.

At bottom, many types of rhetoric lead to the same result: we need to curb climate change *now*. There is no single silver bullet; we need to take action from many angles. How we implement a carbon price (let us call it that) is, as always, a matter of politics. In turn, this requires accurate, and thoughtful, communication. Language matters, especially when it comes to carbon pricing.

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