

8 Advantages and Disadvantages of the Carbon Tax

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It is widely believed that the release of carbon dioxide is the main contributor to social and environmental problems, particularly global warming. This type of pollution is deemed as a negative externality, which is a cost imposed on the entire society and not just the certain individuals who are using or consuming polluting products, such as cars. And because certain carbon-intensive industries are creating negative externalities, the social cost of production should be greater than that of the private entities.

Now, the carbon tax is employed to internalize such an externality, which means that the final price of goods should include the external and not just the private cost. Similar to the “Polluter Pays Principle”, it was incorporated into international law at the 1992 Rio Summit, stating that those who cause environmental costs should be made responsible to pay the full social cost of their actions. Theoretically speaking, this tax should be equal to the external cost. At this output, the marginal social cost should be equal to the marginal social benefit, making the demand to fall and the new equilibrium to be socially efficient.

Withal the positive intentions that this type of tax carries, its idea still has garnered some criticisms, leading to some heated debates around the world. To come up with a good opinion about this subject matter on our end, it is best to look at its pros and cons.

List of Advantages of Carbon Tax

1. It encourages people to find alternative resources.

With the carbon tax causing increases in business overheads, companies will be prompted to find more efficient ways to manufacture their products or deliver their services, as it would be beneficial to their bottom line. What’s more, this can even result in more environment-friendly and ingenious ideas across various industries, from logistics to agriculture. This would be very helpful by the time the post-oil economy arrives, as it would make transition a lot faster and easier for those who are involved. Instead of relying heavily on fossil fuels and nuclear power, electricity would be generated from alternative sources, which are more eco-friendly and less polluting. Aside from these, the tax would also encourage people to cycle or walk to work, promoting a healthy lifestyle.

2. It helps with environmental conservation.

The main objective of the conception of the carbon tax is to make sure those organizations and companies that emit large amounts of carbon dioxide CO₂ will reduce, if not eliminate, their emissions, which minimizes pollution and the impact of global warming. When everyone would take part in this noble cause, the damage had by the environment at this moment can be addressed, paving the way for possible recovery. As a result, the environment is expected to last longer, and we would still have our planet to live in for the thousands of years.

3. It promotes socially efficient income.

Take note that that both businesses and individuals will be paying the social cost of excess carbon dioxide through the carbon tax, which entails that they would be more socially aware of what emissions could mean to businesses and the world. This would prompt them to switch to means of gaining income that are socially efficient.

4. It helps increase revenue.

According to a 2011 report by the Congressional Budget Office, “A \$20 per ton carbon tax would raise nearly \$1.2 trillion over the next decade.” This means that there would be plenty of opportunities to produce green energy to address the need for sustainable and less damaging power sources, and that a growing green movement that would be beneficial to society would be promoted. The same revenue can be spent on repairing any damage caused by natural disasters and pollution.

List of Disadvantages of Carbon Tax

1. It imposes expensive administration costs.

The carbon tax can be really expensive, considering that the government would need a substantial amount of money for its implementation. What’s worse, if sufficient funds were not available at their disposal, implementation of such a rule would be ineffective, as basically it requires money to ensure it would function properly. Plus, it is stated to be often difficult to determine the actual external cost and the tax amount that must be imposed, which requires more time, effort and money as well.

2. It causes a shift in production.

It is highly possible that business establishments will move their operations to a region that has lower or no carbon tax—a place that is also known as “pollution haven”—which will have an impact on the economy, especially when trade-offs would fail to aid the economy in general. Also, this would mean that a significant number of workers would lose their jobs, causing unemployment rates to shoot to the roof. So, carbon tax would not exactly stop carbon dioxide production, but would only change where and how it is produced.

3. It carries the risk of cost increases.

Many critics believe that this type of tax will increase the fossil fuel costs, which will consequently increase expenditures that are involved in the production of goods and delivery of services. For developing countries, this can spell bad news as it would be difficult for them to afford the slightest increase in energy costs, not to mention that low earners would suffer from increases in energy bills. This will most likely call for a carbon tax rule that reflects each company or individual’s ability to pay.

4. It promotes covert operations.

The carbon brings about the odds of companies looking for ways to evade it, such as covert strategies and dirty tricks to fool the system. What’s worse, these establishments would be secretive about their entire operations, producing carbon dioxide in a way that could cause more environmental damage. It is very important to keep in mind that unethical production of carbon dioxide and tax evasion is a very deadly combination.

With the ongoing debates of whether global warming is catastrophic or not, questions about what benefits the carbon tax will bring also remain. Companies and organizations that will be greatly affected by it would always look at it as a bane, while environmentalists would certainly view it as a very good thing. Based on the advantages and disadvantages listed above, what do you think?