

[New Larson Bill Raises the Bar for Congressional Climate Action](#)

03/6/2009 by Charles Komanoff

Carbon taxing to safeguard Earth's climate took several major steps forward — politically and intellectually — with the introduction yesterday of the [America's Energy Security Trust Fund Act of 2009](#) by [Rep. John B. Larson](#), chair of the House Democratic Caucus and fourth-ranking Democrat in the House of Representatives.

The new bill builds and improves on [Rep. Larson's 2007 bill](#) with these provisions:

- The first-year tax rate is \$15 per ton of carbon dioxide.
- The rate rises by \$10/ton *per year*.
- After five years, that increase rate is automatically bumped up to \$15/ton if U.S. emissions stray from an EPA-certified glide path to cut emissions by 80% from 2005 levels in 2050.
- To protect domestic manufacturers, the bill authorizes the Treasury Department to impose a "carbon equivalency fee" on carbon-intensive products imported from non-carbon-taxing nations.
- Clean-tech R&D and investments are eligible for \$10 billion a year in tax credits.
- Impacted workers and industries are eligible for transition assistance of \$7.5 billion in the first year; this is phased out after year 10 but still totals \$41 billion.
- All other revenue is tax-shifted to Americans via reductions in payroll taxes.

Rep. Larson, a member of the powerful, tax-writing Ways & Means Committee, appears to have crafted his new bill to counter most if not all salient objections to carbon taxing:

- *To the insistence on emission guarantees:* the Larson bill responds to the "quantity-certainty" objection by virtually guaranteeing deep emission cuts. Emissions would fall to 25% below 2005 levels in 2022, according to CTC's conservative [carbon tax-impact model](#). If that's insufficient, the automatic tilt to a \$15 annual increment will push the 2022 reduction percentage higher (we estimate to 30%), with cuts continuing after. The average annual decline rate in that scenario matches the 2% target rate in most cap-and-trade proposals and kicks in much more quickly, due to the tax's shorter lead time.



- *To concerns about "tax-and-spend"*: over the first ten years, 96% of revenues would be returned to U.S. families. The recapture percentage reaches 99% in year 15.
- *To fears of eroding U.S. competitiveness*: the payroll-tax reductions provide the much-sought "[double dividend](#)" of stimulating the economy while encouraging work. The carbon equivalency fees protect against lagging nations stealing market share from U.S. manufacturers.
- *To calls for clean-tech R&D and investment*: in tandem with the tens of billions in tax credits and other incentives for efficient and renewable energy in the new [American Recovery and Reinvestment Act of 2009](#), the \$10 billion annual allocation will support critical research, demonstration and deployment of energy efficiency and renewables.
- *To those in impacted industries and regions*: the \$41 billion in grants will likewise help workers and communities make the transition to low-carbon and zero-carbon industries.

The Larson bill isn't perfect; for one thing, the energy-price protections from the payroll tax-shift will need to be extended to non-working families and individuals. But the automatic upward adjustment in the carbon tax rate, if required to meet certified emission goals, is a big step forward, and should help allay concerns of cap-and-trade adherents over any quantity-uncertainty with a carbon tax.

Equally impressive is the Larson bill's carbon tax *level*; with an increment rate of either \$10 or \$15 a ton per year — implying annual increases of at least 10 cents per gallon of gasoline and $\frac{3}{4}$ of a cent per kWh for electricity on a national-average basis — producers, consumers and intermediaries will be moved inexorably to lower-carbon investments and choices.

What may make the robust carbon tax level politically feasible, in turn, is that only a small and declining fraction of the revenue is earmarked for new programs. As noted, by the tenth year, 98% of incoming revenue (96% of cumulative) will be recycled to workers and their families. This should be attractive to growth advocates, deficit hawks and advocates for working families.

Prospective losers: profligate emitters, oil barons and sheiks, mountaintop miners, and ideologues who regard as anathema governmental action to correct "[the greatest market failure the world has seen](#)." And, oh yes, cynics who said the U.S. could never enact a meaningful carbon tax.