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FRIENDS COMMITTEE ON NATIONAL LEGISLATION

... a Quaker lobby in the public interest

April 15, 2013

Chairman Kevin Brady
Vice-Chairman Mike Thompson
Energy Tax Reform Working Group
House Ways and Means Committee

Dear Reps. Brady and Thompson:

The Friends Committee on National Legislation (FCNL) is greatly appreciative of the House Ways and Means Committee's bipartisan and comprehensive effort to consider significant tax reform. Founded in 1943 by members of the Religious Society of Friends (Quakers), FCNL's multi-issue advocacy connects historic Quaker testimonies on peace, equality, simplicity, and truth with peace and social justice issues which the United States government is, or should be, addressing. FCNL is non-partisan.

We are pleased to submit our comments recommending the establishment of a fee on pollution caused by the burning of fossil fuels (carbon pollution) and the end of fossil fuel subsidies. We recognize that the House of Representatives has introduced a resolution [rejecting the concept](#), and that numerous calls for hearings on climate change have not yet been heeded. We also recognize, that the manifestation of [extreme weather events](#), including last summer's drought (between [\\$12-20 billion](#) in damages) and [Superstorm Sandy](#) (\$75 billion), are consistent with scientific predictions about climate disruption. Notable institutions like the World Bank and IMF are expressing statements and documents of grave concern and alarm regarding future impacts of unchecked greenhouse gas emissions upon human and ecological systems.

In view of the present political and climatic circumstances, we submit these recommendations based on fundamental economic principles and guided by present and future threats posed by runaway climate disruption. We hope this catalyzes bipartisan recognition of the reality of climate disruption, and Congressional enactment of a national tax on carbon pollution and elimination of subsidies for fossil fuels. As the protection all peoples, particularly the vulnerable, future generations, and God's Creation are aspirations of ours and many faith traditions, we seek the implementation of these and other policy tools that ensure the long-term ecological, social and economic health of our nation and world for the benefit of all peoples.

Thank you for the opportunity to contribute, and for your consideration of our views.

Sincerely,

A handwritten signature in blue ink that reads 'Jose Aguto'.

Jose Aguto
Legislative Secretary
Sustainable Energy & Environment
Friends Committee on National Legislation



A National Tax on Carbon Pollution

Background

FCNL is encouraged by the House Ways and Means Committee's bipartisan, comprehensive, and public outreach effort to explore significant tax reform. We are pleased to submit our comments recommending the establishment of a tax on carbon dioxide emissions resulting from the burning of fossil fuels (otherwise known as carbon pollution).

Political Context

Recognizing that at present, the only official opinion expressed in the 113th House of Representatives is an [introduced resolution](#) rejecting the concept of a tax on carbon pollution, and that the House has rebuffed numerous calls for hearings on climate change, FCNL's recommendations are centered upon fundamental justifications and general guidelines for such a tax. Through this approach we seek to generate bipartisan recognition in the House of the reality and gravity of anthropogenic climate disruption, and which in turn substantially strengthens the justification for a tax on carbon pollution.

Climatic Context

[Extreme weather events](#) such as unprecedented droughts, heat waves, floods, tornado outbreaks, hurricanes, wildfires and winter storms have occurred in the recent past and now, generally consistent with or worse than scientific predictions regarding the impacts of climate disruption. Last summer's drought and Sandy caused between [\\$12-20 billion](#) and \$75 billion in damages respectively. [NOAA reported](#) a record 14 weather and climate disasters in 2011 each caused \$1 billion or more in damages—not even including the loss of human life and property. The events affirm the message that the Earth's climate is being disrupted in costly and painful ways.

Addressing a Profound Market Failure

Because carbon dioxide contribution a huge percentage of national GHG emissions ([84% in 2011](#)) which in turn fuel the negative impacts of climate disruption now (and on even greater scales in the future should emissions continue unabated), the glaring absence of an economic policy mechanism to account for the massive costs of carbon dioxide emissions is a **market failure of the grandest scale**.

As such, FCNL calls for the establishment of a tax on carbon dioxide pollution caused by the burning of fossil fuels, as a significant, effective, and efficient method to dramatically and urgently reduce national greenhouse gas emissions. This is consistent with the fundamental economic principle to remedy this gross economic distortion by internalizing the costs of negative externalities of climate disruption generated by such pollution through what is known as a Pigouvian tax.

This and other methods are consistent with the concern [FCNL](#) and [many other faith traditions and organizations](#) share regarding humanity's responsible stewardship of God's Creation, the care for the poorest and most vulnerable of our fellow human beings, and for a thriving future for subsequent generations.



General Principles of a National Tax on Carbon Pollution

A national tax on carbon pollution should be established that:

1. Is based on prices and rates that reflect the real economic and social costs of its harmful impacts (i.e. internalizes its negative externalities). Suggested prices range from various legislators and think tanks range from \$15 to \$35 per ton with rate increases of between 2% to 8% per year. National limits (caps) on CO₂ emissions necessary to avoid catastrophic impacts of climate disruption should also be considered as a basis for pricing and rates. Previous legislative proposals have reflected dramatic emission reductions, such as by 83% of emissions in 2005, the year 2050. However, generally accurate and sometimes more severe and frequent manifestations of climate disruption occurring now that were predicted by scientific institutions suggest even more dramatic rates of GHG reductions.
2. is applied progressively, *i.e.* in a way that returns the majority of the tax revenue to the American people, with primary focus on:
 - a) Americans who spend relatively high percentages of their income on carbon based fuels, such as the poor, the elderly, and those on fixed incomes, in order to substantially if not fully compensate for the increase in prices of essentials such as food, gasoline, and electricity; and
 - b) Workers and their communities whose livelihoods may be significantly impacted by the transition from carbon-based and renewable energy sources, through the job training and procurement of other meaningful employment.
3. distributes a percentage of this revenue to support the transition from finite fossil fuel sources to renewable sources of energy that is necessary for the long term ecological, social and economic sustainability of national and global human society;
4. creates a similar tax or other fees upon imported goods (border tax adjustment) to ensure that American businesses are not disadvantaged; and
5. As a valid and necessary instrument to further the national social, ecological, and economic well-being, and to correct a fundamental and massive **market failure**, should not be created in exchange for the diminishment or derogation of EPA's authority to regulate carbon dioxide and other greenhouse gases, or of a corporate tax that is regressive in its effect.

To further hasten this necessary energy transition, FCNL calls for the end of national economic policies – such as tax benefits and other subsidies which promote fossil fuel production, and supports the institutionalization of national policies supporting research, development, and deployment of renewable energy production.



Underlying Premises for a Tax on Carbon Pollution

1. *National economic policy* (of which tax policy is a part) *should be guided by the overarching goal of maximizing the well-being and stability of society at large.* Furthermore, national economic policy should be focused far more upon the health of our ecological systems, for ***our economic systems are wholly owned subsidiaries of our ecological systems, not the other way around.*** The economy cannot grow, much less function, if the ecological systems do not support products and processes fundamental to the well-being of human society, like clean air, sufficient and drinkable water, adequate food production, and resilient physical and social infrastructures.

This is affirmed in the truism, “water is life” whatever lens applied, such as physical, social, ecological or economic. Water of insufficient quality and availability detrimentally impacts people, communities, governments, farmers, and many commodity producers alike. For producers in the economic realm, the foundation of its existence and profit rests foremost upon adequate and sustainable inputs like water, gifted to us all by the natural systems, as part of an inter-linked system upon which subsequent steps like superior product, organization, and marketing depend.

2. *Our ecological systems, and by extension, economic systems and basic needs, are threatened by climate disruption.* Many [military experts](#) and religious leaders increasingly recognize that climate disruption, which will cause or exacerbate inter and intrastate conflicts over scarcer natural resources, threatens the peaceful co-existence of humankind. Put another way, unstable societies are poor conduits for robust and sustainable economic growth.
3. Anthropogenic (human-caused) emissions of greenhouse gasses (GHG) are the primary cause of climate disruption. *Our nation and world are doing far too little to reduce the rates of GHG emissions, and are exceeding worst case [emission scenarios](#) developed by the Intergovernmental Panel on Climate Change, which predict [massive failures](#) in significant ecological systems and human societies around the world.* Current scientific find that the world will likely not be able to stay below the 2 degree Celsius target set as the maximum acceptable global temperature increase needed to avoid serious and catastrophic disruptions of Earth’s ecosystems and in turn human societies. Even more sober are recent scientific assessments based on present day manifestations of climate disruption, that this target is now too high. *This current and woefully unacceptable state of affairs is causing alarm among respected institutions like the World Bank, IMF, and International Energy Agency.*

The [International Energy Agency](#) says that the world *must leave 60% of the world’s proven carbon reserves in the ground* to remain on track of staying under the 2°C goal currently pledged by countries under the United Nations Framework Convention on Climate Change (UNFCCC). World Bank President Jim Yong Kim states in the [press release](#) for the World Bank report “[Turn Down the Heat: Why a 4°C Warmer World Must be Avoided](#)” that “[I]ack of action on climate change threatens to make the world our children inherit a completely different world than we are living in today. *Climate change is one of the single biggest*



*challenges facing development, and we need to assume the moral responsibility to take action on behalf of future generations, especially the poorest.” He states in the report’s Foreword, “It is my hope that this report shocks us into action.” Christine Lagarde, managing director of the International Monetary Fund, [stated at the World Economic Forum](#) in Davos that “*unless we take action on climate change, future generations will be roasted, toasted, fried and grilled.*”*

4. *The costs of inaction (i.e. the negative externalities) are vast, and require a global transition to renewable energy sources for the sake of our future.* The benefits of action rise dramatically the sooner action is taken, based on the precautionary principle and the adage that an ounce of prevention is worth a pound of cure. The repercussions of the ecological debt we are leaving to future generations, if unaddressed, will be far greater than our economic debt. Qualitative and quantitative assessment of the economic impacts of climate change and the costs of inaction and benefits of action have been documented on a state-by-state by, among others: [American Security Project](#); [Natural Resources Defense Council](#); [University of Maryland Center for Integrative Environmental Research](#) for the states of Colorado, Georgia, Illinois, Kansas, Maryland, Michigan, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Pennsylvania, Tennessee; and, other institutions for the states of [Florida](#) , [Oregon](#), and [Washington](#) .
5. *Because the climate disruption is human-caused, **human-inspired solutions are possible and necessary.*** Since carbon pollution from the burning of fossil fuels is a primary contributor to GHG emissions, and therefore contributes most to the damages (externalities) wrought by climate disruption, one effective and efficient human solution is for Congress to tax that activity, known as a Pigouvian tax. Given the alarming manifestations of and warnings about climate disruption, the prices and rates should be urgent, ambitious, and dramatic, with national caps of GHG emissions that avoid catastrophic temperature increases (e.g., beyond 2°C) as a guideline (along with other GHG emission reduction strategies) for the setting of prices and rates.

By doing so, *the US Congress would exercise its role as the most pivotal national and global institution today capable of reversing the present course on anthropogenic greenhouse gas emissions and policies.* It can serve this role ably in its protection of the welfare of general society and its public goods by imposing costs upon the negative externalities of pollution. Because purely economic actors are constitutionally unwilling to voluntarily pay for the negative ecological and social impacts their activities have upon larger society, Congress can and must serve the interests of the American people.

Congress and other governmental institutions already impose taxes and fees upon a host of polluting activities, such as disposal fees for tires, motor oil, packaging, and other solid and hazardous wastes. Only until a national tax was imposed on the production of chlorofluorocarbons (CFCs) - a gas scientifically proven to create a hole in the atmospheric ozone layer - did CFC emissions decline. The Oil Spill Liability Trust Fund, funded primarily from an 8-cent-per-barrel excise tax placed on the oil industry for petroleum produced in or imported to the United States, to help pay for the cleanup of oil spills and other damages



incurred. However, an [IRS ruling](#) finds “Tar sands imported into the United States are not subject to the excise tax,” under the fund, and we call for the closing that loophole.

6. ***However, carbon dioxide polluters pay no price for the negative externalities for the costs of their emissions.*** Given the huge role anthropogenic carbon dioxide contributes to climate disruption now and even more in the future, the lack of a Pigouvian tax on such emissions is a ***market failure of the grandest scale.***

Based on the premises that economic and ecological principles based on the maximization of the well-being, stability, and sustainability of society, and the present appalling absence of a market mechanism balancing the benefits and harm to society, *a tax on carbon dioxide emissions should be established in its own right.* To ensure the tax is not regressive, the majority of the revenue should be returned directly to the American people, particularly those who spend relatively high percentages of their income on carbon based fuels, such as the poor, the elderly, and those on fixed incomes. Revenue should also be directed to workers and communities whose livelihoods may be significantly impacted by the transition from carbon-based and renewable energy sources, through the job training and procurement of other meaningful employment.

7. Carbon tax legislation has been proposed in this Congress and in previous Congresses. Think tanks such as the [Congressional Budget Office](#), [Carbon Tax Center](#), [Brookings Institute](#), [Resources for the Future](#), and the [World Resources Institute](#), have developed models for consideration, among others. Representatives across [political spectrum](#) and sectors call for serious consideration or the establishment of a tax on carbon pollution, including the [Carbon Price Communique](#), a group of over 100 corporations “making the case for setting a price on carbon emissions as one of the main building blocks of an effective and ambitious climate change policy framework.”
8. Finally, as transition from carbon-based to renewable energy sources is necessary for the long term national and global economic and social well-being, *economic policies subsidizing the production of fossil fuels should be eliminated.* Economic policies supporting the production of energy from renewable sources should be promoted. An [IMF report](#) estimates that globally, subsidies for petroleum products, electricity, natural gas, and coal reached \$1.9 trillion in 2011 on a post-tax basis which also factors in the negative externalities from energy consumption subsidies, and that the United States is the top subsidizer in the world in absolute terms at \$502 million. Consistent with the principle that activities harmful to society should not be promoted, such subsidies should be ended.