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The Promises and Pitfalls of Taxing Carbon

Las Promesas y los Problemas de Gravar el Carbono

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Carbon taxes are an important part of the policy toolbox for addressing climate change. Some economists, like William Nordhaus, have gone so far as to claim that "raising the price of carbon is a necessary and sufficient step for tackling global warming" (Nordhaus 2008, p. 22). Others have expressed skepticism about the efficacy of carbon taxes, at least as they have been configured so far (Green, 2021). Nevertheless, there is broad agreement—especially amongst economists—that carbon taxes are a critical policy instrument for disincentivizing unsustainable behavior and making green alternatives more attractive (Mintz-Woo, 2022; Mintz-Woo, 2024).

Along with early adopters like South Africa (Tyler & Cloete, 2015) and British Columbia in Canada (Murray & Rivers, 2015), carbon taxation had a major boost in late 2022, when the European Union (EU) announced its new "carbon border adjustment mechanism" (Hancock 2022). This mechanism effectively levels the playing field for EU producers by taxing all goods imported into the bloc in line with its internal price on carbon. By forcing imports to internalize the same "carbon costs" as domestically produced goods, the incentive to avoid green transitions or simply shift carbon-intensive processes abroad to escape taxes is nullified (Martin et al, 2014; Meadows et al, 2024; Mittiga 2019).

Carbon tax policies are not doing so well everywhere, though. In Australia, for instance, a well-designed carbon tax introduced in 2012 became a polarizing issue, leveraged to oust the government in power, and was repealed within just two years. Likewise, in France, the yellow vest ('gilets jaunes') protesters and

other populist movements have positioned themselves firmly against carbon taxes (Raymond, 2020, Devellennes 2021). While this may be because the fuel-tax policy that ignited resistance there was poorly designed (or at least poorly explained), resistance in France and in many other parts of the developed world might reasonably generate pessimism (Mittiga 2022). Overall, the factors that increase or decrease the likelihood of carbon taxes being implemented—and succeeding—are complex, and warrant further study (Steinebach, 2021; Haites, 2018).

In Latin America, carbon taxes have been implemented—to varying degrees—in Chile, Argentina, Uruguay, Columbia, and Mexico. Not all of these are economy-wide; some only cover certain sectors. Yet, Uruguay's carbon tax, first established January 1, 2022, currently has the highest price per metric ton of carbon emission equivalents (tCO_2e) worldwide at $137 USD (Statista 2023)—ahead of Switzerland, Sweden, and Liechtenstein at $130 USD per ton. Some of Latin America's larger economies have been less ambitious. Chile, Argentina, and Columbia all price carbon at only $5 USD per metric ton, while Mexico is at $3.70 USD (Statista 2023). Of course, many of these policies have been designed to increase gradually, allowing time for polluters to plan and adopt less carbon-intensive business models (Castiblanco-Rozo 2022). And in the meanwhile, some work is being done toward implementing a regionally coordinated Latin American carbon emissions scheme to reduce mitigation costs for individual states (Oliveira, Gurgel, and Tonry 2020).

Geopolitical changes in Latin America are putting carbon taxes on the table in some of the states that have not yet implemented them, at times as a way to deal with larger socio-economic crises (Trevisani 2023). Lula's return to power in Brazil with a promise to preserve indigenous Amazonian territories is a case-in-point. For Lula—as with the new progressive governments in Chile and Colombia—a commitment to redistributing ecological and economic power may take practical form, in part, through the adoption of ambitious carbon taxation schemes (Associated Press 2023). After all, some of the most ecologically destructive industries and actors on the continent are also most responsible for harming indigenous communities and undermining indigenous sovereignty.

Moreover, Latin America is poised to be a net exporter of carbon credits on the world market—which reached $95 billion USD in value May 2023 (World Bank 2023)—making carbon taxes a potentially lucrative international policy (International Carbon Action Partnership 2021). And while some studies suggest that the continent could experience deteriorated terms of trade with more developed partners, like the EU, that are developing carbon border adjustment mechanisms (CBAMs), mitigation and cap-and-trade may be easier in Latin America, given its relatively low carbon intensity (Giordano and Watanuki 2012; Oliveira et al., 2020).

Against this backdrop, we believe that now is an opportune moment to look more critically at the politics and ethics of carbon taxation. While the papers

in this special issue are not regionally focused, we believe that the moral and political issues they raise warrant wider discussion and debate, especially in the Latin American context.

John Broome's article distills the case for carbon taxes into three economic points: (i) the need for taxation, (ii) the need to avoid externalization, and (iii) the need to avoid inefficiency. First, governments require resources to finance their operations and social welfare programs. Carbon taxes can serve that purpose. Second, carbon taxes promote positive incentives by making it (relatively more) expensive to be unsustainable and (relatively) less expensive to be sustainable. That way, the costs are not borne by society as a whole, but by those agents who are increasing emissions. Third, in the absence of accurately pricing carbon through a carbon tax, there will be a propensity for individual and collective actors to exploit the untaxed externalities. In principle, under a carbon tax, everyone could be better off—even future people. But without transfers, some (mostly current) people will be losers (e.g., oil and gas companies), so we might need to compensate them. Broome argues that this compensation could be achieved via borrowing by contemporary governments (effectively diverting non-green future-oriented investment to present-oriented consumption), with future citizens repaying the relevant debts (by diverting their future excess consumption to repaying those who loaned money to the government, or their descendants). He concludes that carbon taxes are not only necessary, but also, if well-designed, agreeable to everyone.

Lisa Ellis' article embraces a Kantian model of social interaction while also showing how the climate context challenges, in two ways, the standard Kantian model (hypothetical coordination instantiated by social institutions with incremental improvement and critique). The first challenge is that climate change is enough of an emergency that incremental improvement may be too slow. The second is that Kantian social institutions are meant to follow a type of liberal neutrality, but in this context we might have to resort to civil society groups that lack the relevant organizational norms or broad social legitimacy. Given the current situation, Ellis supports more direct limitations on individual choices, since there is insufficient coordination amongst the relevant groups. One change which would facilitate action (and deter non-compliance) is removing the Chicago Convention's exemption on airplane fuel taxes. Since this exemption effectively subsidizes more air travel, it is difficult for individual airports to act alone in reducing air transit—many of the flights might just move to other airports. Thus, if there is a consistent market signal, that could induce coordination. More broadly, Ellis means to show that a climate emergency requires new and creative ways of coordinating groups beyond the more familiar consideration of national or regional governments.

Steve Vanderheiden's article compares a personal carbon allowance policy—which is like a cap-and-trade scheme, but for individuals—with a carbon tax policy. While agreeing that they could have (roughly) the same distributive effects, Vanderheiden endorses the personal carbon allowance policy because

of the moral signals it sends. In particular, although a carbon tax policy can be made progressive by introducing rebates or lump-sum transfers, this is a second component of the policy after the (usually regressive) initial incidence of the tax payments. In contrast, if individuals have a cap (which is roughly equal to other individual caps—that may be made equitable through adjustments for some special individual needs), any transfers they make to buy or sell carbon allowances are a direct response to going above or below that equitable amount. Vanderheiden argues that this connects the distributive justice elements directly to the resource use instead of making it an additional aspect of the policy, which, he believes, is an important moral consideration in favor of personal carbon allowances over carbon taxes (even when they offset regressivity with transfers of tax revenue).

We believe that the contributions included here offer new insights into the morality and politics of climate change. And we hope that having this symposium in the *Revista de Ciencia Política* will promote future work on carbon taxes and similar policies with particular attention on Latin America and the Global South.

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