



## Cap-and-Trade Versus Carbon Tax

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**A cap-and-trade system would help reduce atmospheric carbon, but it is difficult to understand and complicated. A simple carbon tax can achieve the same goals.**

Alternatives to carbon-based energy (coal and oil) are not being developed at a rapid pace because doing so is not cost effective. Carbon based energy is cheap compared to alternatives, such as wind and solar based energy. If the cost of carbon-based energy were to rise, companies would spend more on energy production that does not increase the amount of carbon in the atmosphere. For this reason, many governments around the world are discussing, or have embarked on, ways to increase the cost of carbon-based energy. This would reduce incentives to use carbon-based energy and increase incentives to use non-carbon-based energy. Two proposals being discussed in the US are a cap-and-trade system and a tax on carbon emissions.

### Cap-and-Trade

Under a cap-and-trade system, companies are given a limit, or "cap," on its carbon emissions. If its emissions come under the cap, they can use the difference as a credit that can then be sold to another company. If a company goes over its cap, it must buy carbon credits to make up the difference. These carbon credits would be traded on an open market like a stock exchange. A cap-and-trade system would allow a government to reduce the overall level of carbon emissions over time while allowing companies some flexibility in deciding the timing of their reductions in carbon emissions.

### Criticisms of Cap-and-Trade

Cap-and-trade has critics on both the right and left of the political spectrum while also gaining some bi-partisan support. In the last election both major party nominees, Barack Obama and John McCain, supported cap-and-trade, for instance. One of the criticisms is that it is too complicated. Since it is difficult for most of the general public to understand, how will voters know whether they support it? Voters may not understand, for instance, that a cap-and-trade system would increase the cost of many of the goods and services they use. Indeed, some support cap-and-trade exactly because it is misleading. As Thomas L. Friedman writes in an April 7, 2009 editorial for the *New York Times* titled "[Show Us the Ball](#)", "Advocates of cap-and-trade argue that it is preferable to a simple carbon tax because it fixes a national cap on carbon emissions and it 'hides the ball'-it doesn't use the word 'tax'-even though it amounts to one. So it can get through Congress." Also, since the current financial collapse, there is not much confidence in Wall Street type traders. So, there is some concern about setting up a market for carbon credits. An alternative that would be more simple and easier to understand is a tax on carbon emissions.

### Carbon Tax

A carbon tax would tax all carbon-dioxide emissions, regardless of the source. The cost of carbon-based energy would rise as a result, and non-carbon-based energy would become more cost effective. This would reduce the amount of carbon emissions overall as individuals and companies turn more often to these energy alternatives. The carbon tax has the advantages of being simple and easy to understand. Voters understand taxes. Plus, it would be easy to implement. If the revenue raised through a carbon tax were used to offset payroll or income taxes, it may even get Republican support. Republican House member Bob Inglis made this argument in an editorial he co-wrote with Arthur B. Laffer for the *New York Times* on December 27, 2008 titled, "[An Emissions Plan Conservatives Could Warm To](#)."