



# Economists: A US carbon tax would be progressive

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Environmental justice concerns have been at the forefront in discussions of U.S. environmental policy. They have been central, in particular, to discussions of proposals for a nationwide carbon tax to address climate change. While economists tend to favor a carbon tax as the most cost-effective way to promote reductions in emissions of greenhouse gases, progressives and EJ groups often oppose this option on the grounds that it is regressive — that it would disproportionately burden low-income households.

Our [own research](#), conducted [independently](#), finds that this claim is unfounded. We find that a carbon tax is inherently progressive, narrowing the income gap between rich and poor households. Beyond that, we find that it can potentially *raise* real incomes of low-income households.

It is true that one outcome of a carbon tax works toward regressivity. A carbon tax would lead to higher prices of goods and services, especially those that are carbon-intensive (e.g., electricity and gasoline). There is ample evidence that low-income households spend a disproportionate share of income on these carbon-intensive goods and services; as a result, the higher prices from a carbon tax tend to have a regressive impact.

If this were the whole story, the carbon tax's overall impact would indeed be regressive.

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However, several other features of a carbon tax make it progressive. As some have noted, a carbon tax's revenue can be returned to households in ways that promote progressivity. The [Climate Leadership Council's](#) "carbon dividend" approach, in which the revenues are recycled in the form of a dividend check of the same amount to every U.S. household, would significantly work toward progressivity.

While this form of revenue-recycling may have many attractions, we find that such targeting is not needed to make the carbon tax progressive. Our work shows that a carbon tax is *inherently* progressive — a feature that has been overlooked in policy discussions. The carbon tax's inherent progressivity gives policy makers more options in policy design — they can consider devoting some or all of the revenues to other purposes (such as providing compensation to displaced workers, or financing investments in infrastructure) while maintaining progressivity.

The inherent progressivity stems from other economic responses to the tax.

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First, transfer programs in the United States, including Social Security and food assistance from the Supplemental Nutrition Assistance Program (SNAP), are partially or fully indexed for inflation. Lower income households, who rely more heavily on payments from these programs, are more protected from the higher prices of carbon-intensive goods and services.

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Second, while much of the cost of a carbon tax is passed through to consumers, a significant fraction of the cost would be borne by owners of capital (i.e., shareholders). That's because the industries most likely to be affected by a carbon tax are highly capital-intensive. This effect on capital returns is progressive since shareholders tend to have higher incomes.

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The two responses above are sufficient to bring about an overall progressive impact.

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A third outcome, environmental in nature, would augment the progressivity. In addition to reducing emissions of carbon dioxide (the main objective of the policy), a carbon tax would lower emissions of several local air pollutants correlated with CO<sub>2</sub>. The associated health benefits are likely to be especially important for low-income households — another progressive impact.

Meanwhile, alternatives to the carbon tax, including regulation and tax subsidies, are [much less progressive](#) and don't provide benefits to minority and low-income households in the same way that a well-designed carbon tax could.

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Beyond the dimension of progressivity, the carbon tax has further attractions related to fairness. While progressivity focuses on the relative burdens to low- versus high-income households, the *absolute* impact on income is an important ethical consideration. A 2017 U.S. Treasury [study](#) estimated that households in each of the lowest seven income deciles would on average experience an increase in overall income if the CLC's revenue-recycling approach were adopted.

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Claims that a carbon tax is regressive are simply incorrect. They stem from a narrow focus on just one of the several important channels through which a carbon tax affects people. A more comprehensive assessment reveals that it is progressive and can enhance the quality of life of individuals across the income spectrum.

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