Clarke, H. (2011). Some Basic Economics of Carbon Taxes. *The Australian Economic*

*Review,44*, 123-136.

This article seems to be very opinionated, which is something to keep in mind when using this article as a reference. The Australian Economic Review, the journal in which the article is published, is an applied economics journal which pushes a specific set of policies. The article is relatively current, being published in 2011, giving it a bit more credibility, although economics has not changed much throughout the last 50 years. However, the issue of climate change is new. An article from 15 years ago may not be a credibility issue for economics, but for climate change it would be. Over the course of the past two to three decades, we have done much more research for climate change science and our views have evolved dramatically as a society. The article made many assumptions, some of which conflicted with each other. One such conflict is that despite its assumption that the energy market is competitive, it also assumes that the energy market is inefficient and fails to price at the market equilibrium. If the market was competitive, it would be efficient and the Coase Theorem would be correct. Over the long-run, in a competitive and efficient market, the Coase Theorem states that marginal social cost (MSC) and marginal private cost (MPC = Supply) would become equal. In other words, the negative externalities of the carbon taxes would be incorporated into the market. The article goes so far to say that eventually, people will realize that the deadweight loss (DWL) caused by the carbon tax is a positive thing. This issue with this is that if people would see the deadweight loss as a positive thing, then the externality would be incorporated into the market already and the tax would be unnecessary. Harry Clarke, the author, goes on to talk about how politicians in Australia rejected the carbon tax due because doing so would allow them to be reelected more easily. He later explains that the market of energy is probably not competitive and is more monopolistic. He also explains that the demand is relatively inelastic for energy, meaning that the tax incidence, or the burden of the tax, would fall mostly upon the consumers, which is something that is not shown by figure 1, where the supply and demand curves are equally elastic. Clarke explains that imposing carbon taxes would incentivize energy companies to relocate to what he calls “pollution havens”. He introduces the idea increasing import tariffs for energy and on countries that have weak pollution regulations, which is another form of taxation falling mostly on the consumers. He finishes the article by stating that using economic instruments as opposed to direct regulation is preferable as it would be the more economically efficient way to deal with the issue of climate change.