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Elon Musk's Powerful Case for a Carbon Tax

AUGUST 2, 2016 BY [CHARLES KOMANOFF \(HTTP://WWW.CARBONTAX.ORG/BLOG/AUTHOR/CHARLES/\)](http://www.carbontax.org/blog/author/charles/)
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Visionary inventor-entrepreneur Elon Musk is constantly in motion. Last week he was in Nevada checking on his Gigafactory (<http://www.cnn.com/2016/07/31/teslas-entire-future-depends-on-the-gigafactory.html>), which purportedly will be the world's largest-footprint building (as big as 107 football fields) and make enough batteries each year to power 1.5 million Tesla Model 3s (<http://www.theverge.com/2016/3/31/11335272/tesla-model-3-announced-price-release-date-specs-preorder>). Yesterday Musk [revealed](http://www.nytimes.com/2016/08/02/business/dealbook/tesla-solar-city-merger-elon-musk.html) (<http://www.nytimes.com/2016/08/02/business/dealbook/tesla-solar-city-merger-elon-musk.html>) his intention to merge Tesla Motors and SolarCity — a \$2.6 billion wager that Tesla owners will use those batteries to store power from SolarCity panels.

This is big business, big climate and big vision rolled into one. Large-scale deployment of batteries could let solar and wind resources dominate electricity production without need for carbon-emitting grid support by fossil fuel plants. Replacing gasoline-powered autos with electrics will almost certainly squeeze carbon emissions out of transportation faster than biofuels or other low-carbon liquid fuels.

In Nevada, Musk also spoke up for carbon taxes, though hardly for the first time. Four years ago, for example, at the Wall Street Journal's ECO:nomics conference in Santa Barbara, CA, Musk disparaged tax credits for green cars and declared that "the best method for addressing climate change in the automotive industry is to impose a tax on carbon dioxide emissions," according to the trade journal [pluginincars](http://www.pluginincars.com/tesla-ceo-musk-carbon-tax-119829.html) (<http://www.pluginincars.com/tesla-ceo-musk-carbon-tax-119829.html>).

But what he said last week was so richly detailed and articulated that it deserves to be quoted in full.

As [reported](http://www.rgj.com/story/money/business/2016/07/28/elon-musk-makes-libertarian-argument-carbon-tax/87638264/) (<http://www.rgj.com/story/money/business/2016/07/28/elon-musk-makes-libertarian-argument-carbon-tax/87638264/>) by Benjamin Spillman in the Reno Gazette-Journal, Musk was asked whether the Gigafactory would have been economically viable without over a billion dollars in state incentives, plus federal tax credits for electric vehicles and solar panels. He replied:



[I]f you accept the scientific consensus[,] every oil burning activity is subsidized, dramatically. If you believe there is a value to the CO2 capacity of the atmosphere and oceans and that CO2 capacity is not being paid for by the price at the gas pump or the coal that is being burned for electricity generation or whatever its use may be then every single fossil fuel burning activity is massively subsidized.

After reminding his Nevada audience that climate change “has become sort of an ideological issue because there are people who think that global warming is not true,” Musk continued:

[A]ll we are doing [with a carbon tax] is trying to match the inherent subsidy for fossil fuels . . . on the sustainable energy side. Fossil fuels are already getting a massive subsidy if you believe in global warming. If you don't then [the subsidy] seems really unfair. If you do then it is like oh we are just trying to correct it.

But Musk was just warming up to the carbon taxing subject:

The real right way to correct [the subsidy] would be to establish a carbon tax. If you ask any economist they will tell you that is the obvious thing to do, put the correct price on carbon because we currently have an error in the economy which misprices carbon at zero or something closer to zero. It is a fundamental economic error.

He then turned to the supposed conflict between libertarian ideology and taxation:

For people that have a sort of libertarian bent they get a little confused. . . They need to appreciate the high level principle of why they are opposed to government intervention. They are actually opposed to government intervention because it causes false pricing. If the government says we are going to massively incent the production of corn, so that effectively corn gets mispriced and we make too much corn, that . . . does not benefit the country if you make too much of something because of a government driven pricing error . . . That is sort of what people with a libertarian bent are opposed to.

However if you have . . . an unpriced externality [with] the CO2 capacity of the oceans and atmosphere priced very close to zero then any government action to increase the price above zero reduces the error in the economy. [What libertarians] should actually be opposed to is anything that increases the error in the economy, a pricing information error. So pricing carbon, if you believe in global warming, does not increase the price of the error it decreases the price of the error.

Spillman tweeted these remarks, and Musk retweeted his approval:

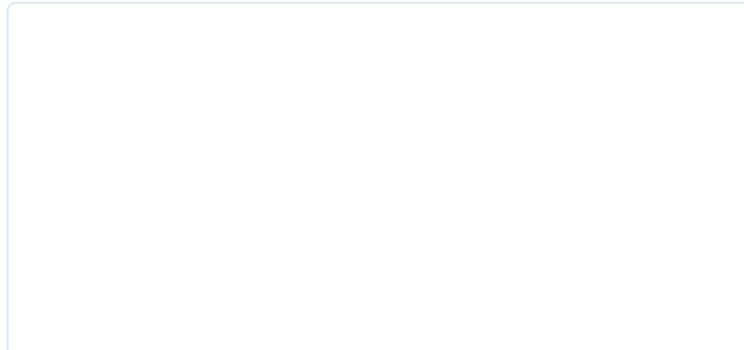
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The libertarian argument for a carbon tax rgj.com/story/money/bu...

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rgj.com

1,604

3,932

Whether or not you identify as libertarian, you should savor Musk's bracing clarity on (and for) carbon taxing. Maybe in time, other solar and wind advocates will bolster their customary [pleading for subsidies](http://www.nytimes.com/2016/08/01/opinion/making-the-transition-to-renewable-energy.html) (<http://www.nytimes.com/2016/08/01/opinion/making-the-transition-to-renewable-energy.html>) with their own clarion call for carbon taxing.

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The world's latest genius! Love it!

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In presentations on climate reality and carbon fee and dividend, I reference the market failure of negative externalities in the pricing of fossil fuels, and I also reference Musk's progress with battery storage. These remarks help me put it all together more succinctly and convincingly. Thank you.

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"Tax Carbon, California - the nation will thank you."
Terrific L.A. Times op-ed: latimes.com/opinion/op-ed/
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Cap and trade is a complex program. If California must pass new legislation with a two-thirds majority to extend its climate efforts anyway, policymakers should consider replacing it with a simple straight-up carbon tax. It would provide even more powerful market signals to encourage emissions reductions, serve broader fiscal purposes and thereby make for a better model for federal legislation.

A tax is simpler than cap and trade because it doesn't involve allowance auctions, registries to keep track of who can sell and who must buy, market monitoring or carbon offsets. Emitters just pay a predictable (and gradually rising) fee for each ton of carbon dioxide they emit, not unlike the tax on a pack of cigarettes. Even a modest tax is likely to be more environmentally effective than the current approach because it is a direct and predictable incentive to lower emissions and use cleaner technology.

— L.A. Times op-ed by Michael Worr, Stanford Law School; Adele Morris, Brookings Institution; Jerry Taylor, Niskanen Center.

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QUOTE OF NOTE

“I-732 is revenue neutral, to the best of anyone's ability to forecast it.”

— Does I-732 Really Have a “Budget Hole”?
(<http://www.sightline.org/2016/08/02/does-initiative-732-carbon-tax-have->

[a-budget-hole/](#)). Sightline Institute report on the I-732 Washington State carbon tax ballot initiative, Aug. 2.

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