The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Analysis of the Hon. John Dingell's carbon-tax proposal

Posted by Engineer-Poet on September 28, 2007 - 10:00am
Topic: Policy/Politics
Tags: carbon tax, diesel, gas tax, gasoline, john dingell, legislation [list all tags]

Rep. John Dingell has a long history of opposing fuel-economy increases and other "green" initiatives. His position as defender of Detroit's remaining auto industry more or less forces him to support the production of whatever vehicles are still profitable there, regardless of what they do to US energy security, balance of trade or global climate. For the last 20 years or more, this has meant large cars and personal trucks: the "guzzler" segment. Because of this, I was surprised and pleased to learn of a proposal from him for a carbon tax and a petroleum tax, to help move the US away from both fossil fuels in general and petroleum in particular.

Both emotions lasted about as long as it took to read the summary. It does not appear to be a serious basis for initiatives to move away from fossil energy. Instead, it looks like a straw-man proposal designed to fail, while appearing to promote the interests of union labor in the process. My final appraisal is "disappointingly cynical".

(begin insert of unattributed material)

Representative John Dingell (D-Michigan) is not the person most people would be expect to introduce carbon tax legislation. He is often seen as the congressman representing the automobile industry. In the past, he has opposed any legislation that might harm the automakers, from tailpipe emissions legislation to air bags to gas mileage.

Dingell is chairman of the House Energy and Commerce Committee, so he is in a position where he can have considerable influence over energy legislation passed. This summer, he surprised people by starting to talk about the possibility of carbon tax legislation. He has now taken the process a step further. On Thursday. September 27, he posted a summary of his proposed carbon tax legislation to his website, and invited public comment on it. The actual legislation may vary from the initial summary, based on public comment.

What does the proposal include?

The major parts are

1. A $50 / ton tax on carbon

• Phased in over 5 years and then adjusted for inflation
• Applies to coal, including lignite and peat
• Applies to petroleum and any petroleum product
• Applies to natural gas

2. A tax on gasoline in addition to the carbon tax

• .50/ gallon of gas, jet fuel, kerosene, etc...
• Added to current gas tax
• Phased in over 5 years and then adjusted for inflation
• Exemption for diesel
• Biofuels that do not contain petroleum are exempt. Biofuels blended with petroleum are only taxed on the petroleum portion of the fuel.

3. Phases out the mortgage tax forgiveness on houses over 3,000 square feet

• Exemptions for pre-1900 homes and farm houses
• Exemption if owner purchases carbon offsets
• Exemption if LEED certified
• Phases in based on size (0% credit over 4,200 square feet; partial credit 3,000 to 4,199)

4. Attempts to be revenue neutral. Tax funds would be used for the following:

• Expansion of the earned-income tax credit, to help lower-income families pay for fuel
• Gas tax goes 40% to mass transit and 60% to roads
• Jet fuel tax goes to airport and airway trust fund
• Carbon tax goes to medicare and social security; universal healthcare (if passed); state children's health insurance; conservation; renewable energy R&D; and low income home energy assistance program

(end insert of unattributed material)

Where the money goes

The bill would raise taxes on fossil fuels based on their carbon content, and on most petroleum fuels specifically. It would *not* raise taxes on diesel fuel, ostensibly to promote more efficient vehicles (but more likely to gain the support of the trucking industry and Teamsters). It would also phase out mortgage tax deductions on very expensive homes. This would take a lot of money out of the economy.

The money wouldn't come back to most individuals. Here is Dingell's proposal for the expenditures of all this tax money:

Where will the revenue go?
First and foremost, the Earned Income Tax Credit will be expanded. This helps lower income families compensate for the increased taxes on fuels.

- Expansion of the Earned Income Tax Credit
    - Zero Children:
        - max earned income level from $5,590 to $7000
        - Phase-out from $7000 to $9000

- One Child:
  - Max earned income level from $8390 to $10,000
  - Phase-out from $15,390 to $17,000

- Two or More:
  - Max earned income level from $11,790 to $15,000
  - Phase-out from $15,390 to $18,000

The revenue from the gas tax goes into the high way trust fund, with 40 % going to the mass transit and 60 % going to roads. The revenue from the tax on jet fuel goes into the airport and airway trust fund.
Finally, the revenue from the fee on carbon emissions will go into the following accounts:

- Medicare and Social Security
- Universal Healthcare (upon passage)
- State Children's Health Insurance Program
- Conservation
- Renewable Energy Research and Development
- Low Income Home Energy Assistance Program

Everyone would pay more for motor fuel. A fair number of people would pay more taxes because of less deductible mortgage interest. About the only people who would see increases in their monthly income would be the working poor. The rest of the money would go to union-related interests (highway and airport construction, mass-transit construction workers and operators) and various government programs. More construction of systems which will be used less as we have less fuel, but less incentive to e.g. move freight from trucks to rail. More big labor, more socialism.

This is a country which is sick of cronyism, but it lost its patience with welfare-statism some time ago and hasn't regained it. This bill looks like a scheme designed to fail, so that its author can claim that the public really doesn't want to do anything about oil dependence or the climate. It has "cynic" written all over it.

Gail also took some time looking at the bill, and here are her comments:

It would be great if this legislation, or something like it, can be passed.

This approach is relatively simple. Using a combination of a gas tax and a carbon tax makes it more effective in reducing transportation used of fuel than a straight carbon tax would be.

The proposed combination of taxes would be much easier to administer, and probably more effective than a cap and trade program. The automakers might find the proposed program easier to live with than an increase in CAFE (mileage) standards.

According to the Carbon Tax Center, the tax after phase-in equates to 63 cents per gallon of gas and 90 cents per 100 kilowatt hours of electricity, for the national fuel mix. The amount of revenue from the taxes would be about $180 billion a year, after the phase in. The Carbon Tax Center would prefer a higher, more steeply ramped up tax. Their overall comment, however, is that is that the proposed legislation is "terrific".

TOD members can comment on Dingell's reply form. Dingell seems to be willing to take comments from anyone. (The site accepted mine, and I am not in Michigan). Take some time, and make your comments known on his site.