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New Global Warming Taxes?

Disguised Taxes Would Be All Cost, No Possible Benefit for North Carolinians

KEY FACTS: **• There are three new proposals that would impose hundreds of millions of dollars in new taxes on North Carolinians in the name of fighting global warming.**

• None of these proposals are actually called taxes.

• Included in these taxes are a deceitfully named energy tax known as the public benefits charge, a hidden electricity tax known as the renewable portfolio standard (RPS), and a special charge on people who do not drive high-mileage vehicles known as "feebates."

• The public benefits charge is estimated to cost electricity customers about $180 million a year, and the RPS could cost as much as $300 million a year by 2018.

• "Feebates," which would tax people for driving larger, less fuel-efficient cars, will harm families, especially those with younger children, and lower-income people the most.

• Based on data from the National Highway Transportation Safety Administration, it is also likely that they will increase both fatalities and injuries from traffic accidents because the tax will encourage people to drive smaller and lighter cars.

• There is no evidence to suggest that if North Carolina — by itself or even with all the other states in the union and all the other nations of the world — enacted these taxes, there would be any noticeable difference in global temperatures over the next century.

New taxes are on the way. In the past we have had tax increases to balance the budget, save the education system, reduce teenage smoking, pay for transit, and a host of other reasons. A new round of tax increases on the citizens of North Carolina is being proposed to save the planet from global warming, but in fact they will have absolutely no effect on temperatures. The real purpose of these taxes is to punish North Carolina citizens for using what some members of the General Assembly, Division of Environment and Natural

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Resources (DENR) bureaucrats, and environmental ideologues think is too much of the wrong kind of energy.

At the present time the legislature and DENR's Division of Air Quality (DAQ) are looking at policies meant to encourage or force the citizens of North Carolina to use less energy from fossil fuels — especially coal and oil. Coal is primarily used by utilities for generating electricity, while oil is used for heating homes and powering internal combustion engines in everything from automobiles to lawnmowers and generators. Along with natural gas, most of our energy comes from these two sources. The most visible effort is being pursued by the Legislative Commission on Climate Change, established by the General Assembly in 2005, while the less visible but possibly more important is the DAQ's Climate Action Plan Advisory Group (CAPAG). As it turns out, CAPAG is acting as the policy formulation arm of the Commission. Based on policy parameters set by and economic analysis done by a consulting firm called the Center for Climate Strategies, hired with grants from several well-heeled leftwing foundations, CAPAG makes recommendations to the Commission. The Commission in turn votes on these policy proposals and recommends them to the legislature. If the first round of 16 recommendations to the Commission is any indication, the Commission will simply be a rubber stamp for whatever CAPAG recommends.

Taxes Not Called Taxes

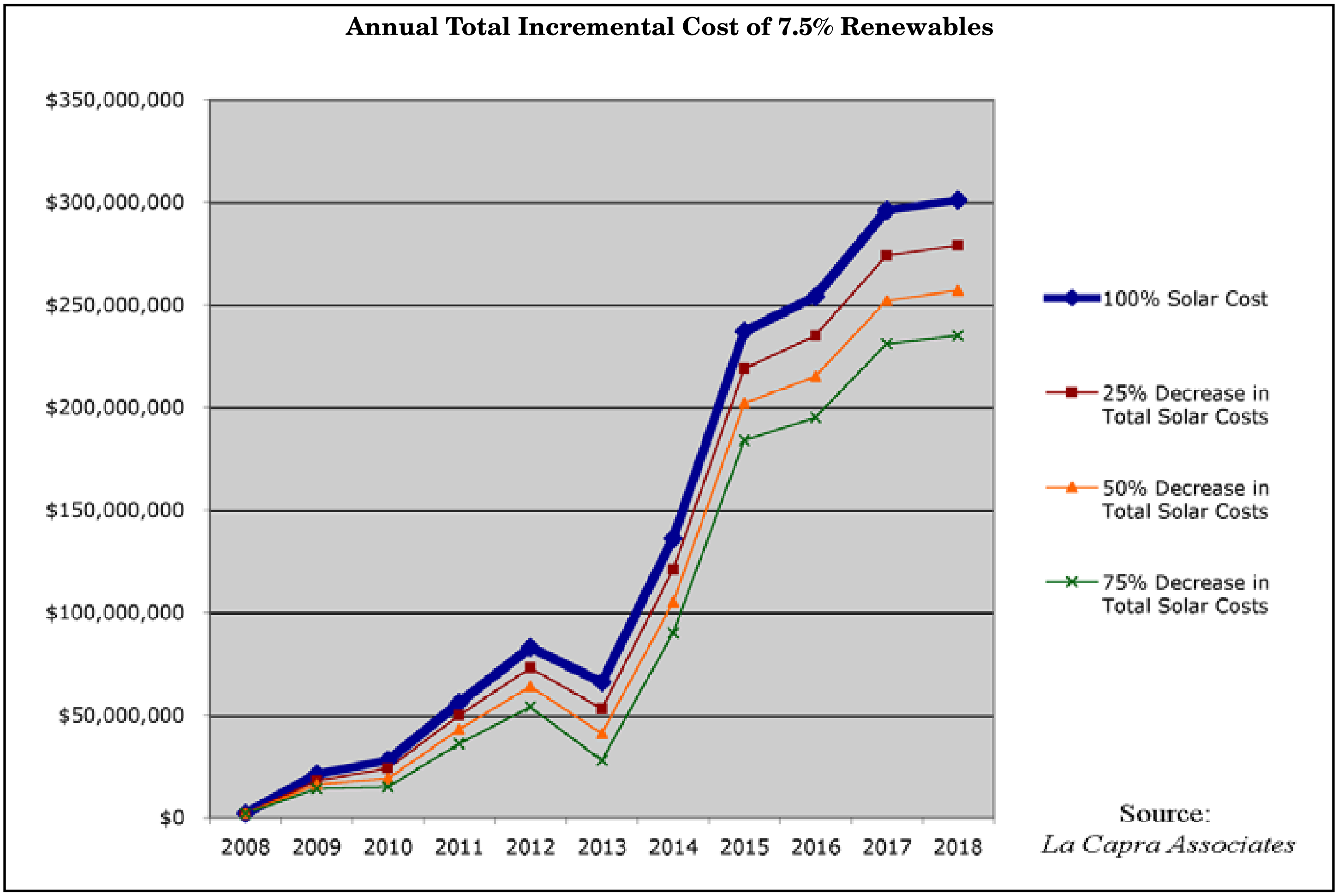
While there are dozens of proposals being considered and analyzed as part of this process, there are three that would impose hundreds of millions of dollars in new taxes on North Carolinians. The one thing that all of these new taxes have in common is that none of them are actually called taxes. So in addition to being harmful to North Carolinians and, as argued below, irrelevant to solving the perceived global warming problem, these tax proposals are all dishonest and inconsistent with an open and democratic political process. Included in these hidden taxes are a deceitfully named energy tax known as the public benefits charge, a hidden electricity tax known as the renewable portfolio standard, and a special charge on people who choose to drive the wrong kind of car known as "feebates."

The Public Benefits Fund: A tax by any other name …

The Public Benefits Fund is a special pool of money that would be set aside to pay for "statewide programs targeted at energy efficiency, renewable energy, low-income assistance, and research and development." The money for this fund would be raised through a new tax, which in Orwellian fashion is being called the "public benefits charge." This "charge" would consist of a per-kilowatt tax placed on the use of electricity. It is estimated in the state energy plan that if the tax in North Carolina equaled the average tax levied in the other states that impose it, using 2001 energy usage rates, the tax would cost electricity consumers $181 million annually.[1]

The Renewable Portfolio Standard

The Renewable Portfolio Standard (RPS) is clearly the most dishonest of the three tax plans. RPS legislation is already being considered by the General Assembly. This legislation would require public utility monopolies to generate a minimum of 7.5 percent of the electricity that they sell in North Carolina from so-called renewable energy sources. These renewable sources include wind power, solar power and biomass. An example of biomass would be energy generated from animal waste such as hogs or chickens. Renewable sources cannot include what is clearly the cleanest and least expensive of the renewables: nuclear power. Typically, electricity generated from these sources cost about twice as much per kilowatt-hour as electricity generated from conventional sources such as coal and natural gas. This is where the tax comes in. Electricity rates would be raised to pay for this extravagance, and the annual cost of this program would be significant. According to a report prepared for the state by La Capra Associates[2] the added annual costs of this program to electricity customers would be about $50 million after the first 3 years and would rise to over $300 million a year by 2018 (see graph). Even if one makes some rather unrealistic assumptions — i.e. that the costs of solar



power drops by 75 percent over time presumably due to improved technology — the increase still goes from just under $50 million after 3 years to $235 million in 2018.

"Feebates: Taxing Choice"

The point of this program is to encourage people to drive more fuel-efficient cars by charging registration fees based on the mileage rating of the automobile being registered. As is stated in analysis provided by Center for Climate Strategies, CPAG's foundation funded consultants, the purpose is to "change the fleet mix." Individuals and families with larger cars that get less gas mileage would be charged a higher fee each year when the car is reregistered than those with smaller, more fuel-efficient cars. In other words, the purpose of the tax is to alter people's choices — i.e., to punish the purchase of some kinds of cars while rewarding the purchase of others.

While there has not been any quantitative analysis of this proposal, it is possible to come to some conclusions regarding who will bear the burden of this tax. First, and maybe foremost, families with more children would suffer, since they tend to need larger vehicles that carry more passengers and have more cargo capacity. Families with small children would probably be penalized the most. This is because of safety regulations that require children up to eight years of age to ride in some form of protective car seat. These seats take up much more space in the car and therefore require families to have larger and therefore less fuel-efficient cars than they would otherwise need. It is also likely that this tax would be borne more heavily by lower-income families. In other words, it would be regressive. That would be because lower-income people tend to drive older cars, which are less fuel-efficient. As is noted below, regressiveness is a common characteristic of all of these taxes.

The Hidden Costs

The dollar costs are not the only costs of these policies. First, all of these added monetary costs represent portions of people's incomes that cannot be spent on other things. If you are forced to spend more on electricity or the car you drive, that means you have less to spend on others things. It might mean not taking your family out to dinner, a movie, or a ballgame as often. If you are a lower-income person, the forgone alternatives may be more serious. The fact is that all of these taxes are regressive. Lower-income people feel the burden more heavily because thesy tend to spend a greater portion of their income on basics like energy and, as noted, they tend to drive older cars, which are less fuel-efficient. By taxing electricity and the kinds of cars people drive, the state would disproportionately be hurting the poor. For middle-income people, the higher energy costs might mean reducing some leisure or luxury items in their household budget. But for the poor it could easily mean reducing their purchases of higher quality or more healthy foods or postponing the purchase of those needed new shoes for the kids.

Additional hidden costs are derived from the fact that people would reduce their use of electricity. What needs to be understood is that the only way to do this would be to forgo activities or basic human comforts. People use electricity for heat in the winter and cooling in the summer, for cooking, for bathing, and for lighting their homes in the evening. To the extent that people would be forced to cut back on electricity use because of higher taxes, they would to some extent be forced to cut back on these basic human comforts. Furthermore, these new taxes would have a negative impact on industry. Higher electricity costs would, everything equal, force them to reduce output and, therefore, employment. This would be especially pronounced with respect to energy-intensive industries such those found in the manufacturing sector. In examining these new electricity taxes, the Center for Climate Strategies has not analyzed any of these impacts and therefore CAPAG is not taking them into consideration when making their recommendations.

As noted, the purpose of the feebate tax is to "change the fleet mix." But changing the fleet mix to more fuel-efficient cars also means changing the fleet mix to smaller and lighter cars. For example, the weight difference between a Ford Explorer (14-19 miles per gallon) and a Honda Civic (22-31 miles per gallon) is about 500 lbs. The hidden costs of this could be the most serious of all. The National Highway Transportation Safety Administration has concluded that nationally, for each 100-pound decrease in the weight of new cars, 300 lives are lost[3] and there are 10,543 incapacitating injuries.[4] That is because smaller and lighter cars are less protective in either single-car accidents or in accidents with larger cars. Also, national level research published in the Journal of Law and Economics estimates that the federal Corporate Average Fuel Economy (CAFE) standards, which set minimum miles-per-gallon standards for cars sold in the United States, are responsible for between 2,500 and 4,500 additional traffic fatalities each year. That is due to the fact that the average car size has to be smaller in order to meet the required mileage standards.[5]

Ultimately the "feebate" tax would encourage North Carolina citizens to purchase smaller and lighter cars. If this tax were to be successful, it would also be encouraging North Carolinians to buy more dangerous cars.

It should be noted that none of these considerations were included in the analysis provided to CAPAG by the Center for Climate Strategies. In fact, none of the negatives associated with any of the polices discussed here were even mentioned in their assessments. This omission is consistent with what might be called "advocacy analysis" — analysis of a policy that places heavy emphasis on its positive impacts while either downplaying or completely ignoring any of its negative consequences.

Taxes that buy us nothing – except less freedom

One would think that for hundreds of millions of dollars a year in additional taxes and all the forgone opportunities and hidden costs that these taxes would generate, the citizens of North Carolina could expect quite a payoff in terms of reduced future global warming. But there is no evidence to suggest that if North Carolina — by itself or even with all the other states in the union and all the other nations of the world — enacted these taxes, there would be any noticeable difference in the climate over the next century.

Neither CAPAG and its hired consulting firm the Center for Climate Strategies, nor the Legislative Commission on Climate Change has bothered to attempt any analysis of the extent to which these policies will have an impact on temperatures. The reason is clear: all of the research on this issue acknowledges that there will be none. The most prominent and widely respected analysis in this area was actually commissioned by Al Gore in 1997. He hired the services of a well-known climate scientist and global warming alarmist named Thomas Wigley to analyze the impact of the Kyoto Protocol on climate change. That is the United Nations treaty that was endorsed by the Clinton-Gore Administration.

Wigley's response to Gore was not what the Vice President wanted to hear. His analysis showed that the carbon dioxide (CO_2) reductions brought about by Kyoto would slow the increase in global temperatures over the next 100 years by a mere 0.26 degrees Fahrenheit, a completely undetectable amount.[6] In other words, the difference between the warming that would occur if nothing were done and the warming that would occur under Kyoto would be so small it would be totally unnoticeable.

Nothing that North Carolina is looking at would even approach this level of CO_2 reduction, even if jointly implemented with the entire nation or world. The bottom line for the citizens of North Carolina is that these significant tax increases would impose significant explicit and implicit costs with absolutely no climate-change benefits. This is a conclusion for which the science truly is settled.[7] When the implications of these taxes are considered, it is quite clear that their primary accomplishment would be to curtail the pursuit of happiness and the American dream for the people of North Carolina.

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End Notes

1. "North Carolina State Energy Plan," North Carolina State Energy Office, p. 23, at www.energync.net/sep/docs/sep_12-04.pdf, p.75.
2. "Supplemental Responses to Senate Agricultural Committee Meeting and House Energy and Energy Efficiency Committee Meeting, March 15, 2007.
3. National Highway Transportation Safety Administration, "Relationship of Vehicle Weight to Fatality and Injury Risk in Model Year 1985-93 Passenger Cars and Light Trucks," April 1997.
4. NHTSA, "The Effect of Decreases in Vehicle Weight on Injury Crash Rates," January 1997, www.nhtsa.dot.gov/people/ncsa/sizerept.html.
5. Robert W. Crandall and John D. Graham, "The Effects of Fuel Economy Standards on Automobile Safety," *The Journal of Law and Economics*, Vol. XXXII, No. 1, April, 1989, p. 111.
6. Thomas Wigley, "The Kyoto Protocol: CO, CH and Climate Implications," *Geophysical Research Letters*, July 1, 1998.
7. See Roy Cordato, "The Science is Settled: North Carolina Can Have No Impact on Climate Change," John Locke Foundation *Spotlight* No. 304, December 10, 2006, www.johnlocke.org/spotlights/display_story.html?id=151.