

Karen Telleen-Lawton: Red Meets Blue with Pigou

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 12.25.2012 7:42 p.m.



When red meets blue in politics, your ears can't help but prick up. When a hundred major corporations — including [Royal Dutch Shell](#) and [Unilever](#) — call on lawmakers around the globe to impose a “clear, transparent and unambiguous price on carbon emissions,” you know something's brewing. When former Republican representative from South Carolina, [Bob Inglis](#), says about a Pigouvian tax on carbon, “I think the impossible may be moving to the inevitable without ever passing through the probable,” it's time to listen up.

Pigouvian taxes are named in honor of [Arthur Pigou](#), an early 20th-century British economist who highlighted the public costs that sometimes accompany private transactions. These include things like auto emissions. The oil company and the driver are made better off by the fuel transaction, but the public at large is made worse off — and is not compensated for — the pollution.

Cigarettes and other “bad” goods are other examples. The buyer and seller benefit in the private transaction (the buyer purchases momentary pleasure and the seller gets cash) while society is made worse off with increased costs of cancer, lung disease, asthma and other ailments. Not to mention laundry and other cleaning bills.

What to do about these external costs (“externalities”) is one of the thorny issues in a capitalist society. Externalities allow people and corporations to free ride on society. If we weren't allowed to pass along these costs to society, cleaner alternatives would be relatively less expensive and consumers would demand more of them. When all costs are incorporated into a product, there is a better alignment between what consumers choose and what is good for society. A tax on carbon doesn't perfectly capture all externalities, but it is a decent proxy.

In theory, reds, blues and all other hues of the political spectrum would want all costs to be incorporated into a purchase: to make the market the arbiter and to

make the market fair. But reds are allergic to taxes and blues fear higher costs for the poor. That is perhaps why Pigouvian taxes have suffered a century of languishing in economists' scholarly papers instead of benefiting from public discussion.

Now, with climate change having moved from the probable to the actual, both conservative and liberal economists have at last brought their discourse to the public. [Harvard professor Greg Mankiw](#), chair of the [Council of Economic Advisers](#) under [George W. Bush](#) and an adviser to [Mitt Romney](#), even founded a group called the [Pigou Club](#).

It's a puzzle that the [Obama administration](#) isn't cheerleading a Pigouvian tax. His [White House](#) spokesman, [Jay Carney](#), told reporters recently, "We would never propose a carbon tax, and have no intention of proposing one." Whether that means he's opposed to the tax or just wants someone else to suggest it isn't clear. Maybe he's too busy with the fiscal cliff.

One possible reason for [President Barack Obama's](#) reticence is that consumption taxes fall disproportionately on the poor. This would necessitate adding complicating subsidies, but it also might mean the poor would have relatively better access to better goods. For instance, a carbon tax on herbicides and pesticides would likely benefit organically grown food.

Researchers at [MIT](#) describe carbon taxes as a "possible win-win win response" to some of the country's most pressing problems. Those are good odds. Time to get on board, President Obama.

— Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com).