

SB 0076: Climate Crisis and Education Act

Budget and Taxation committee testimony

Favorable with amendments

Hello,

As an economist, it gives me great joy to see a carbon price in the legislature again this year. I am grateful to the senator and delegate who have been behind this for years, and also grateful to those that put Maryland into the RGGI for a carbon price in electricity generation and the TCI for a carbon price in transportation. Since carbon pollution is a social bad, not a social good, we could certainly raise the price on carbon much higher and still improve the wellbeing of all of our citizens.

A carbon price works in a variety of ways. Some mistakenly believe that carbon pricing only works if the revenue is spent on carbon reduction. This is totally false. Changing the relative prices of polluting vs. nonpolluting or lesser-polluting activities can change the amount of pollution very easily. For example, if using dirty electricity from an electric utility becomes more expensive, more customers may seek to secure solar power for their home or business, in addition to using electricity more efficiently. If gas becomes more expensive, people will drive fewer miles, combine errands into a single trip, carpool, commute at off-peak hours, or take transit or a bicycle. All of these things improve society, reduce pollution, and rely only on the change in relative prices. It is not necessary to spend any of the revenue to attain these reductions.

One point that is raised often about carbon prices is that they are regressive taxes. A regressive tax is one where the poor pay a higher percent of their income toward the tax than the rich do. A regressive tax does not mean that the poor spend more dollars on the tax than the rich. That is almost never the case, and it is certainly not the case for carbon. The rich have a much higher carbon footprint than the poor, so therefore, any carbon price that is passed onto consumers will have the rich paying more dollars in carbon price than the poor. If there is a per-capita rebate back to consumers, the poor can easily be made better off than they were before the tax. This is because the rich will pay much more than the poor for total carbon, but everybody receives the same slice back of the total in a check. This average will work out to more than the poor spent on carbon.

We economists like to say that a carbon price is the most efficient way to reduce carbon pollution. It may be that you don't like the distributional effect of a carbon price. That's certainly your right to believe. But you should grapple with the meaning of "most efficient"; if you don't use the most efficient policy, then whatever policy you do choose will cost society more. There is no way to address climate change without upsetting anybody. Why not pick the least costly way, and use the money to compensate people who you feel have been treated unfairly?

These points hint at my suggested amendment. As I stated, a carbon price works by making consumers think about their carbon footprint because it hits them in their wallet. This bill as written contains a "no pass-through" provision. This provision must be deleted for two reasons. One, the price will not force behavior change if it cannot be passed onto consumers. Two, prohibiting pass-through is economically impossible and completely unenforceable, and good state legislators should not lie to the

citizens of their state by passing language that they know cannot work. Ask yourself, if “no pass-through” will actually be effective, then why is there a need for other provisions in the bill to protect citizens and businesses who might be harmed? However, if it gives you the courage to vote in the affirmative, then go ahead and leave “no pass-through” in, knowing that it won’t work and that consumers will still face the higher prices. But I recommend you do the honest thing and strike it, and follow that up with passing this bill through both houses of the legislature.

Thank you for your time.

Daniel Marcin, PhD