

Combine carbon consensus with income tax cuts: study

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A carbon pricing proposal can find consensus and would allow income tax cuts, as long as industry handouts can be kept in check, according to a new report from The Australian National University.

Dr. Frank Jotzo, Director of the Center for [Climate](#) Economics and Policy at ANU Crawford School, says that a fixed price on carbon shifting to emissions trading later is the best approach given international uncertainties and the interests of different groups in [Australia](#). His paper on the subject, 'Carbon pricing that builds consensus and reduces Australia's emissions,' is released by the Center today.

“Phased carbon pricing means we can be confident the economic

impacts on introduction are manageable. And once Australia's emissions target is resolved and international carbon markets more developed, we can shift to market-based [emissions trading](#) which is the efficient long-term approach.”

He added that the carbon price needs to start turning Australia's emissions trajectory downward, even in the face of strong underlying growth in the economy. So what matters for low-carbon investment is not the price in the first year of the scheme, but the expectation of medium-term prices.

“To turn the trend around, the carbon price will need to rise, and reach perhaps double the starting levels that people talk about now,” said Dr. Jotzo. “A relatively low starting price gives confidence and will show that no [economic](#) catastrophe happens. Then it can ramp up.”

Dr. Jotzo says that over the coming months big emitters will be making loud claims for compensation under the scheme, but it's consumers that deserve assistance.

“The most legitimate claim for assistance is with consumers, who will be facing higher bills. The increase may be only one per cent or so across the board, but that matters at the lower income scale,” he said.

“The answer is to cut [income tax](#), especially at the low-income end. The GST, for example, wasn't just a new tax, but a new tax system, reducing existing taxes in return for the GST. The same can be done under carbon pricing. It's time to stop looking at only one side of the carbon tax ledger.”

He added that under the scheme, industry claims for assistance were less valid than previously.

“Starting the scheme with a fixed price takes away much of the carbon price risk, and there is more climate policy action around the world, including in developing countries. Payments should be limited and phased out over time, and what payments there are should be structured so that the businesses still have the full incentive to cut their emissions,” said Dr. Jotzo.

More information: ccep.anu.edu.au/

Provided by Australian National University

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