

The Claim:

“[I]f the message is somehow we’re going to ignore jobs and growth simply to address climate change, I don’t think anybody is going to go for that. I won’t go for that...[W]e’re still trying to debate whether we can just make sure that middle-class families don’t get a tax hike.”¹

BARACK OBAMA**The Reality:**

President Obama’s climate agenda represents an enormous tax increase on low- and middle-income Americans, nearly tripling the federal tax burden on the poorest households.

OREN CASS

Senior Fellow, Manhattan Institute

**Reality Check**

President Obama’s policies for tackling climate change would impose heavy costs borne disproportionately by lower-income U.S. households. His Clean Power Plan (CPP) and proposal for a \$10.25-per-barrel oil tax are the equivalent of a \$25–\$30-per-ton carbon tax, which would cost America’s poorest families tens of billions of dollars per year. For households in the lowest-income quintile, such policies are the equivalent of a more than 160 percent federal tax increase.

Key Findings

- President Obama’s climate platform—built on the CPP and his budget proposal for a \$10.25-per-barrel tax on oil—is the equivalent of a \$30-per-ton carbon tax.
 - ◆ The Environmental Protection Agency’s (EPA) analysis of the CPP, as well as third-party projections for the level of carbon tax necessary to achieve the CPP’s goals, shows that the CPP is comparable with a \$30-per-ton tax on power-plant emissions.
 - ◆ The oil tax would add approximately 25 cents per gallon to the cost of gasoline, equal to a \$25-per-ton tax on oil-related emissions.
 - ◆ Together, these policies—which would cover four-fifths of U.S. emissions—are similar in scope to an economy-wide carbon tax.
- The cost of such policies would fall disproportionately on the lowest-income U.S. households, which spend more than 35 percent of their annual income on energy.
 - ◆ By comparison, households in the top 10 percent of the income distribution spend less than 3 percent of their income on energy.
 - ◆ Similarly, rural households spend 40 percent more on gas and electricity—and earn 26 percent less—than households in the largest cities.
- The Obama policies will cost households in the lowest quintile \$19 billion per year, equal to a 166 percent increase in their federal tax bills.
 - ◆ Households in the second-lowest quintile would pay an extra \$25 billion, equal to a 33 percent tax increase.

On the Record

“Supporters of President Obama’s climate agenda—which would impose hugely disproportionate costs on the poorest Americans—are backing one of the most regressive tax plans ever contemplated in U.S. history. Yet the policy pays only lip service to ‘action’ on climate change and will not affect the trajectory of global greenhouse-gas emissions or temperatures.”

Oren Cass, Senior Fellow, Manhattan Institute

Energy Taxes Hurt the Poor

American households vary relatively little in their energy consumption. Average before-tax income for households in the bottom 10 percent of the distribution is one-eighth that of the median household and one-fortieth that of a household in the top 10 percent. Yet electricity bills do not mirror these gaps: \$1,000 per year at the bottom; \$1,500 per year in the middle; and \$2,100 per year at the top. The same goes for gasoline, where annual bills run to \$1,100, \$2,400, and \$3,900, respectively. Thus, while a household in the bottom 10 percent spends more than 35 percent of its income on energy, one in the top 10 percent spends only 3 percent.²

Similarly, lower-income but more energy-intensive rural communities are far more sensitive to energy prices than their urban counterparts. The average household in a rural community earns 26 percent less than the average household in one of America's largest cities, yet spends 40 percent more on electricity and gasoline.³ As a result, policies that drive up energy prices are extremely regressive, landing disproportionately on lower-income and rural households. For instance, increasing the cost of gas and electricity by 20 percent from 2014 levels would have an effect comparable with a new income tax of 7.4 percent on the poorest Americans; for the richest Americans, such a price hike would be comparable with a new income tax of only 0.5 percent. That same 20 percent increase would hit the average rural family nearly twice as hard as the average family in a major city.

The Obama Carbon Tax

The regressive impact of rising energy prices helps explain why policies like a carbon tax—which aim to produce such increases—remain deeply unattractive to most policymakers. “We would never propose a carbon tax and have no intention of proposing one,” declared Jay Carney, then White House press secretary, just days after President Obama secured reelection.⁴ But the president's platform, embraced by environmentalists and largely mirrored in the campaign agenda of Hillary Clinton,⁵ represents a thinly disguised carbon tax that will have effects at least as costly.

The first plank is the CPP, designed to force the utility sector toward higher-cost sources of electricity that will drive prices up and carbon-dioxide emissions down.⁶ The effect is similar to a carbon tax, and, as David Bailey and David Bookbinder of the Niskanen Center note,⁷ the EPA conducted an analysis that equated the CPP to a carbon tax of approximately \$30 per ton.

The CPP's cost can also be compared with a carbon tax on the basis of its expected outcome. The EPA estimates that the CPP will reduce 2030 emissions from the utility sector by 32 percent below their 2005 level.⁸ In *Implementing a U.S. Carbon Tax*, a report from the International Monetary Fund, the Brookings Institution, and Resources for the Future, the EPA's chief climate economist and his co-authors estimate that a carbon tax would need to start at \$30 per ton and rise each year to achieve comparable emissions reductions.⁹

The second plank of the Obama platform, proposed in his 2017 budget, is a \$10.25-per-barrel tax on oil. Most of the tax's revenue would go toward infrastructure, and 15 percent would be rebated to households.¹⁰ A \$10.25-per-barrel tax translates into approximately 25 cents per gallon at the pump,¹¹ and each dollar of carbon tax translates to approximately one cent per gallon:¹² the tax is, therefore, no different from a \$25-per-ton tax on carbon-dioxide emissions from oil consumption.

With electricity generation and oil consumption each accounting for approximately 40 percent of U.S. emissions,¹³ President Obama's policies together represent a carbon tax of \$25–\$30 per ton across the vast majority of energy consumption that might fall within any carbon tax's scope. In-depth studies of carbon taxes in this range already exist and provide a clear view of the huge costs that such taxes impose.

Scoring the Obama Tax

At the household level, President Obama would impose an enormous new tax on lower- and middle-income households. In the chapter of *Implementing a U.S. Carbon Tax* focused on distributional impacts, Adele Morris of the Brookings Institution and Aparna Mathur of the American Enterprise Institute estimate that—after taking into account direct energy price increases and indirect price increases for other goods and services—a \$15-per-ton carbon tax in 2010 would have cost the bottom 20 percent of households \$11.9 billion that year and would have cost the second-lowest quintile \$15.7 billion.¹⁴ For Obama’s policies, these estimates should be doubled, to account for the approximately \$30-per-ton cost, and then reduced by 20 percent, to account for their coverage of only oil- and electricity-related emissions.

Annual effective taxes on the bottom two quintiles of approximately \$19 billion and \$25 billion are massive, when compared with the \$11 billion and \$77 billion that those quintiles paid in federal taxes in 2011.¹⁵ For the lowest-income U.S. households, such policies would represent a more than 160 percent tax increase; and for the second-lowest quintile, an increase of more than 30 percent.

Income Quintile	Federal Taxes, 2011 (2011 USD, Billions) ¹⁶	Annual Burden of \$15-per-Ton Carbon Tax, 2010 (2011 USD, Billions) ¹⁷	Estimated Impact of Obama Climate Policies (2011 USD, Billions)	Increase in Total Federal Tax Burden (%)
Lowest	11.4	11.9	19.0	166
Second	76.6	15.7	25.1	33
Middle	180.0	19.9	31.9	18
Fourth	354.2	24.0	38.5	11
Highest	1,379.9	34.0	54.5	4

Many carbon-tax proposals attempt to mitigate this effect by “recycling” the revenue back to households; but the Obama policies cannot do this because there is no money available. The CPP generates no revenue, and the oil-tax revenue is earmarked primarily for infrastructure investment. Estimates based on carbon-tax analyses also underestimate the full impact of Obama’s climate agenda: a straight-forward, broad-based carbon tax would likely reduce emissions more efficiently than would Obama’s web of taxes and regulations. The president has acknowledged that a carbon tax would be “most elegant.”¹⁸ Yet his determination to act in direct conflict with the will of Congress has forced him, instead, to pursue costlier policies that he believes the EPA can implement unilaterally.

Endnotes

- ¹ See <https://www.whitehouse.gov/the-press-office/2012/11/14/remarks-president-news-conference>.
- ² See <http://www.bls.gov/cex/2014/combined/decile.pdf>.
- ³ See <http://www.bls.gov/cex/2014/combined/population.pdf>.
- ⁴ See <https://www.whitehouse.gov/the-press-office/2012/11/15/press-gaggle-press-secretary-jay-carney-en-route-new-york-ny-11152012>.
- ⁵ Clinton has expressed strong support for the CPP and has promised to “go further”; see <https://www.hillaryclinton.com/briefing/statements/2015/08/02/obama-clean-power-plan>. Sanders has proposed an aggressive carbon tax but would rebate much of the revenue to low-income households, which greatly alters the distributional effects; see <http://www.sanders.senate.gov/download/climate-protection-and-justice-act>. Neither has commented on President Obama’s oil-tax proposal; see <http://www.politico.com/story/2016/02/obama-oil-tax-gop-reaction-218774>.
- ⁶ See <http://www.epa.gov/cleanpowerplan/clean-power-plan-existing-power-plants>.
- ⁷ See <https://niskanencenter.org/blog/how-high-would-a-carbon-tax-need-to-be-to-hit-cpp-emission-reductions>.
- ⁸ See <http://www.epa.gov/cleanpowerplan/fact-sheet-overview-clean-power-plan>.
- ⁹ See <https://www.aei.org/events/carbon-taxes-practicalities-and-prospects>.
- ¹⁰ See <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/budget.pdf>.
- ¹¹ See <http://www.eia.gov/todayinenergy/detail.cfm?id=18651>.
- ¹² See https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44223_Carbon_0.pdf.
- ¹³ See <http://www.eia.gov/beta/MER/index.cfm?tbl=T12.01#/?f=A&start=1973&end=2014&charted=0-1-13>; table 12.1 for oil and table 12.6 for electricity.
- ¹⁴ See <https://www.aei.org/events/carbon-taxes-practicalities-and-prospects>; figures inflated from 2010 dollars to 2011 dollars using a CPI increase of 3.16 percent.
- ¹⁵ See <https://www.cbo.gov/publication/49440>; supplemental data.
- ¹⁶ Ibid.
- ¹⁷ See <https://www.aei.org/events/carbon-taxes-practicalities-and-prospects>; figures inflated from 2010 dollars to 2011 dollars using a CPI increase of 3.16 percent.
- ¹⁸ See <https://www.whitehouse.gov/the-press-office/2015/12/01/press-conference-president-obama>.