MACRO PULSE™

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## Carbon Taxes: 21-Century Bloodletting Therapy?

Difficult as it may be to imagine today, bloodletting was used well into the 19th century as the "go-to" treatment for hysteria, heart disease and just about every other imaginable malady. In fact, bloodletting for treatment of a still-undiagnosed ailment likely contributed to the untimely passing of the first U.S. president, George Washington.

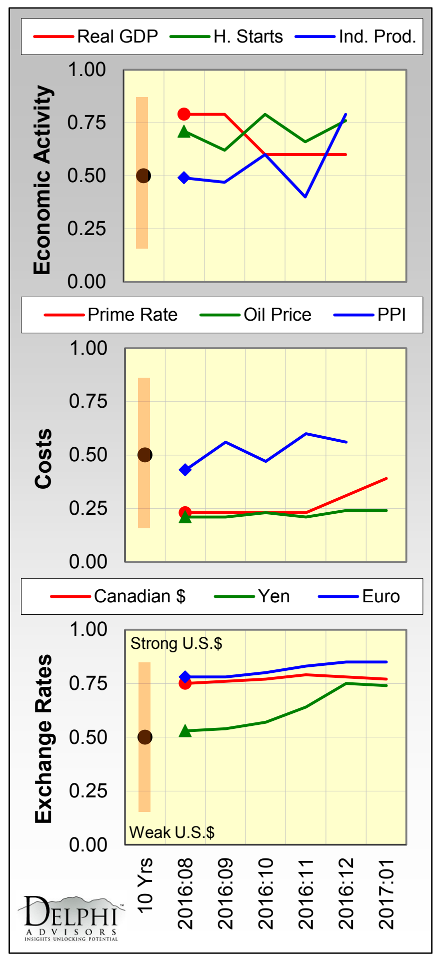
Today, we are told, a malady is upon us – one that, unless dealt with quickly and decisively, will result in the interrelated calamities of drought, flooding, famine, rising sea levels, and world war. That malady is the crisis of anthropogenic (i.e., human-caused) climate change (ACC) – more commonly called global warming – in which the average temperature of the Earth's climate system is increasing as the result of greenhouse gases, including carbon dioxide, being released into the atmosphere, mainly by burning fossil fuels. Debating whether or not the ACC "science is settled" – or the existence of ulterior motives associated with suggested remedies – is beyond the scope of this publication (although, see here, here and here); rather, our focus here is on a method being proposed in the United States to address the crisis.

In early February, "a group of prominent Republicans and business leaders pitched a tax on carbon dioxide to top White House aides," a Bloomberg.com article reported, "selling the plan as an economic win that could drive job growth and yield environmental dividends too." Supporters say the projected \$200 billion to \$300 billion in annual revenue generated by the tax scheme constitute a "conservative, free-market approach" to addressing climate change that would replace the existing regulatory regime.

Describing a tax as a "free-market approach" stretches credulity, in our opinion. Regardless, the adage "if you want less of something, tax it" seems apropos in this case. Because energy use is involved in every step from production to consumption, economic activity in the United States would almost certainly be adversely affected if this proposal is implemented.

Canada serves as a cautionary tale of why this tax proposal should be viewed with considerable skepticism. In an open letter to the proposal's senior backers, *Financial Post* writer Kevin Libin described the situation Canadians face today and Americans might in the future – i.e., one in which carbon taxes have been imposed, but without the promised relief from environmental regulation: "The future of American carbon taxes has arrived, in Canada, and it's bigger government, distorted markets, slower growth and competitiveness, and burdensome taxes and energy costs for consumers and businesses." Libin advised Americans to "kill this 'conservative' carbon tax idea before you...make the mistake Canadians did."

Our economic dashboard compares recent economic performance relative to that of the past 10 years. Although GDP growth during the past six months is near the upper end of the prior 10-year range, it is very anemic when viewed in the broader context of post-WWII performance – even though key "costs" (again refer to dashboard) tended toward the lower end of the spectrum. In our opinion, imposing a tax on carbon would only serve to drain needed vitality from a U.S. economy already struggling to recuperate from the Great Recession. ■




**Previous six months' behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)**

*This report is typically a compilation of articles posted on our website; those articles relate in greater detail recent economic developments to the U.S. forest products sector.*