Making Fossil Fuels Pay for Their Damage | 1

Production and combustion of fossil fuels imposes enormous costs on society, which the industry doesn’t pay for. I want to talk about some options for using the tax system to change that. One option, a tax on carbon dioxide emissions, gets the most attention but seems politically impossible. The closest we’ve ever come to a carbon tax is a limited fee on methane emissions under the new IRA law. A more promising alternative might be a clean-up tax on the fossil fuel industry.

If a carbon tax were politically feasible, there would be a lot to be said in its favor. Economists like carbon taxes better than regulations, and environmental justice advocates like them better than cap and trade. A carbon tax could cover the economy without the need for scores of regulations tailored to each industry. It wouldn’t require placing bets on what zero carbon technologies will win out. It would provide an incentive for cutting carbon emissions, with the byproduct of cutting air pollution everywhere. Unlike emission trading system, they don’t require designing and operating new markets. It could be designed to avoid regressive impacts on the poor.

The problem is that a carbon tax seems out of the question politically. Americans just don’t buy the idea. Promises to return the money to the public (“tax and dividend”) or use it to offset other taxes don’t seem to be effective in changing people’s minds. Maybe people just don’t trust those promises. It’s possible this anti-tax reflex will abate, but politicians don’t seem to think that’s likely.

If we can’t make the fossil fuel industry pay for all its harm to the climate, maybe we can at least make it pay for some of the other harm it does to the environment. Just as chemical production led to the creation of scores of hazardous waste sites, fossil fuel production has left its own bitter legacy. Oil and gas production has left thousands of uncapped, leaking wells. Abandoned coal mines leach pollutants into surface and ground water, while also leaking methane into the air. State law and federal bonding requirements have not proved equal to the task of clean up.

The coal mine part of the problem was addressed in part by a 1977 law, which imposes a fee on coal production to help pay for clean-ups. But the tax is hopelessly inadequate, merely pennies per ton of coal. It produces only about $700 million per year. Yet Congress had to appropriate $11 billion for cleaning up old mines in the Infrastructure bill, and there’s no reason to think that will be enough to solve the problem. The industry should be paying a much higher share of those costs.

There’s also a tax on oil to pay for environmental harm — but it’s limited to oil spills. The IRA adds a small tax on oil to help support Superfund cleanups. Neither takes does anything
to pay for abandoned wells. The infrastructure bill allocated $4 billion to pay for this problem. That won’t be enough, not by an order of magnitude. And besides, why should taxpayers rather than the industry cover the cost? To do this, we would need a new tax on oil and gas production to pay for capping abandoned wells. Considering the amount of money they’re making right now, this seems only fair.

Yes, I realize that Joe Manchin won’t vote for any of this, making it a nonstarter this year. And the GOP is likely to be able to block such a bill until the 2024 elections. But depending on how things go in 2024, it might be well worth considering.