Part of a series on
CAP 2.0

Policy Brief

Why Cap and Invest is Better Than a Carbon Tax

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While there is widespread support for the goal of reducing our emission of global warming pollution by 80 percent by 2050, there is a vigorous debate about the best means for reaching that goal. Advocates for a carbon tax suggest that it would be simpler and more transparent than a cap and invest system, but such arguments often compare a "real-world" cap and invest design with an idealized carbon tax. When factoring in the pressure for special accommodations in the legislative process that will undoubtedly face either system, a cap and invest program is preferable to implementing a carbon tax. The following list offers five reasons, including greater certainty where it counts and more flexibility where it is needed, why a cap and invest system will best help us meet the urgent goal of reducing global warming pollution.

1. Guaranteeing Reduced Emission of Global Warming Pollution

A cap and invest program that gradually reduces the amount of CO_2 permits available to polluters over time will be more effective than a carbon tax at reducing greenhouse gas emissions by 80 percent or more. A pollution cap is designed to directly regulate the quantity of dangerous pollution emitted on an annual basis, creating more certainty that our environmental goals will be achieved. A carbon tax, on the other hand, can attempt to change polluters' behavior and encourage them to meet desired emission reductions targets within a specific time frame, but there is no guarantee that these efforts will achieve the targets set by the program.

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2. Creating Better Long-Term Economic Certainty to Spur Investment

Companies and investors need clear price signals to make the investments needed to achieve our global warming pollution reduction goals. A cap and invest system provides a 40-year economic framework that will allow investors to base their decisions on industry's own estimate of the long-term price of carbon. A carbon tax would only offer what government thinks the price of carbon should be on a year-by-year basis to meet desired emissions reduction targets. In addition, a low carbon cap makes clear that long-lived and highly polluting investments like coal plants that do not capture CO_2 do not make good economic sense in the long term and are not attractive investments.

3. Responding Appropriately to Economic Cycles

The price of carbon under a cap and invest system will respond to fluctuations in the economy in ways that reduce carbon emissions without creating an undue burden during difficult economic times. The price of carbon will fall as the CO_2 output from the economy slows and will rise as the CO_2 output from the economy accelerates. This responsive way of pricing carbon will make a cap and invest system more effective than a carbon tax, which would require the difficult calculation of whether significant progress had been made in reducing carbon pollution before deciding whether or not to provide economic relief during an economic slowdown.

4. Providing Better Protection from Political Intervention

Although the regulation of a cap and invest market for CO_2 is likely to be reviewed every five years, the program itself will be designed to last 40 years and will not be subject to the intense political pressure that a rolling carbon tax would be subject to—especially during periods of economic stress. Given the political advantages of underestimating the amount of tax needed to bring about a certain change in behavior, it is likely that a carbon tax program would be persistently behind on its reduction targets and frequently confronted with calls either to reform or abandon the program. Further, during periods of economic recovery, politicians will struggle to determine the level of carbon tax that best balances emissions reduction goals with sustaining economic growth.

5. Supporting and Advancing Complementary Emissions Reduction Standards

A cap and invest program is more effective at encouraging public support for complementary policies to increase efficiency and reduce global warming pollution. For example, all energy consumers have a stake in encouraging strong standards for appliances, minimum efficiency codes for buildings, and fuel economy standards for vehicles under a cap and invest program since all of these would help to reduce the long-term market price of carbon allowances.

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