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Carbon tax: Challenging neoliberal solutions to climate change

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ABSTRACT

Public policy over the last 25 years has been dominated by neoliberal ideology which has driven solutions to emerging social, political and economic problems. Given this, it is not surprising that emissions trading schemes founded on the core tenets of neoliberalism have emerged as the prevailing response to climate change by developed countries. There have been mounting challenges to the marketization of climate policy and we join this to argue that carbon taxes are alternate policy instruments that are more likely to orient social and economic activity towards carbon pollution mitigation. A carbon tax does not require radical social or political transformation of the economy. However, it does place the state at the centre of regulating and governing solutions to climate change. This presents a challenge to the free market orientation of current neoliberal solutions to climate change.

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1. Introduction

There seems to be a consensus that urgent action is required to curb the build-up of greenhouse gases (GHG) (also referred to as carbon emissions) in the atmosphere in order to minimize the negative effects of climate change. The need for urgent action by government, firms and individuals cannot be underestimated. The Intergovernmental Panel on Climate Change (IPCC) in their Fourth Assessment Report includes an argument for energy conservation as the easiest and most economical way to move forward in the short run (IPCC, 2008). McKinsey & Company (2009) have published a report on climate change mitigation arguing that 47b tonnes of the 70b tonnes predicted to be emitted by 2030 could be cut if governments took immediate action which also supports other evidence (see Diesendorf, 2007). However, “(i)t is one thing to have the potential to make deep cuts in GHG emissions; it is another for policy makers to agree on and implement effective emission reduction policies, and for companies, consumers and the public sector to take action to make this reduction a reality” (McKinsey & Company, 2009, p. 10). The proposals for Emissions Trading Schemes (ETS) and the emergence of ETS in a number of developed countries indicate that many governments have made decisions about what their action should be. “Twenty seven European countries have had an emissions trading scheme in place since 2005. Twenty-three US states and four Canadian provinces currently participate in regional trading schemes” (Commonwealth of Australia, 2009, p. 14). This trend alone seems to be a compelling reason for the Australian government to propose its own ETS (Commonwealth of Australia, 2009). However, Brook and Kelly (2009) in their submission to the Australian Senate Standing Committee on Economics claimed that the argument carbon taxes versus ETS is a ‘debate we never had’ and some of the modelling of a carbon tax requested by the Australian Senate was not done by the government (Access Economics, 2009).

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The imperative for action has been underscored by business leaders of over 500 global companies with the issue of the Copenhagen Communiqué on Climate Change (the Communiqué) in which they stress that “developed countries need to take on immediate and deep emission reduction commitments” (Corporate Leaders Group on Climate Change, 2009, p. 1). The Communiqué also identifies the need for “credible measurement, reporting and verification of emissions” which would be essential to enable “a robust global greenhouse gas emissions market” (Corporate Leaders Group on Climate Change, 2009, p. 2). This corporate response is consistent with both recognition of the problem and the global impact of neoliberalism, which favors market solutions to environmental problems

According to Sydee and Beder (2006) “(t)he neoconservative think tanks that promoted this neoliberal formula sought to apply it to every avenue of society, including environmental issues. They, together with big business, have been actively attempting to defuse or obfuscate critical debate and discussion while promulgating the position of the new right: the language of markets, property rights and individualism” (p. 83).

The environmental policy instrument choice reflects which instruments “caught the attention of the government decision maker” (Richards, 2003, p. 61) as well as reflecting the challenge of the competing goals of government and the priority it places on the environmental results (Friedman et al., 2005). Behavioral change at the level of the firm requires a change in the relative cost of the various types of energy technology if we are to abate pollution. The driver for such change needs to be government, since firms are not likely to incur costs willingly even if they can pass them on. Therefore government “action to begin a progressive transition away from a greenhouse gas intensive economy is to be welcomed” (Parry and Pizer, 2007, p. 22).

There are several environmental policy choices and Friedman et al. (2005) refer to a ‘toolbox’ of policies which can be categorized by “the extent to which particular behavior is mandated by regulation” (p. 274). These include harm-based standards, design standards, technology specifications, product bans and limitations, tradable emissions . . . challenge regulation and pollution charges (see Table 1 of Friedman et al. 2005, pp. 274–277). This paper focuses on the choice between tradable emissions under an ETS and pollution charges levied against business under a carbon tax, especially since they both would result in an increase in the cost of polluting activities over time.

This paper starts from the premise that carbon pollution mitigation is necessary and that governments have a critical role to play. Despite there being a number of policy instruments, emissions trading schemes (ETS) have been favored globally as the instrument of choice. In this paper we wish to consider another abatement mechanism, namely the taxing of polluting entities (hereafter referred to as a carbon tax). Neoliberal ideology has dominated public policy over the last 25 years, given this we compare and contrast ETS and carbon tax as policy devices. The relegation of carbon taxes to a subsidiary position has occurred without full consideration or debate. This paper addresses this oversight by challenging neoliberal solutions to climate change and argues for consideration of a carbon tax as a plausible alternative to an ETS.

We compare and contrast ETS and carbon tax and start with their similarities. Briefly both systems force firms to internalize the cost of pollution to some extent (cost of carbon), and thus provide a price signal in the economy. Under both systems firms could elect to introduce new technology for carbon abatement but this would be highly dependent on the cost of abatement being less than the cost of participating in an ETS or incurring carbon tax. The infrastructure to implement an ETS is new, is complex and has more uncertainty, while the infrastructure for a carbon tax exists in developed countries, is less complex and provides more certainty. “The majority of political and business leaders, as well as ordinary people, do not understand the complexities of an emissions trading scheme. But a carbon tax – like the GST (or VAT¹) or an alcohol or tobacco tax – is readily understood” (Porter, 2009, p. 26). Each system requires a certain level of government intervention, and would have a different impact on costs distributed in an economy. Finally, both instruments are a response to the failure of markets to address climate change. Each of these issues will be considered in the context of neoliberalism since this ideology has dominated the political landscape in most modern democracies over the last 25 years. Consequently, we begin with a discussion of neoliberalism.

2. Neoliberalism

Neoliberalism has been largely characterized by a belief in unfettered free markets with small governments to oversee them. The market apparatus or infrastructure needs to be established by government where “(t)he role of the state is to create and preserve an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey, 2005, p. 2). Schneider and Tenbuecken (2002, p. 15) have argued that under the tenets of neoliberalism governments have become ‘capitalist referees’. According to this argument the main task of government has been to ensure that the fundamentals that enable capital accumulation, such as a working legal system and basic infrastructure are established and maintained (Schneider and Tenbuecken, 2002). In support of this, Cahill (2009) has argued that neoliberalism is essentially a form of managed capitalism and that throughout history, “the capitalist mode of production has been nurtured, reproduced, and its reach expanded by the active involvement of the state in the economy and society” (p. 36). Although there is some disagreement about the operation of neoliberalism in practice (Harvey, 2005; Cahill, 2009) there has been a prevalence of neoliberal influences on environmental solutions. We take a closer look at an ETS and compare it with another possible government instrument of choice, carbon tax to better understand the

¹ GST is a goods and services tax and is equivalent to a VAT, or a value added tax.

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