

Janet Yellen is wrong on carbon taxes

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The [FT reports this morning](#) that:

Janet Yellen has spoken out in support of a carbon tax as the most effective and efficient way to reduce US greenhouse gas emissions.

Ms Yellen, who chaired the US Federal Reserve until February, has joined the Climate Leadership Council, a bipartisan group pushing for the US to address the threat of global warming by introducing a carbon tax, with revenues returned to the public in dividend payments.

But you need to know:

The group is backed by large companies including ExxonMobil, BP, General Motors and Johnson & Johnson.

So maybe you might have your doubts. They're confirmed by this comment:

"Climate change is a very critical problem that we need to address," Ms Yellen told the Financial Times. "When the central problem is the damage caused by greenhouse gas emissions, the cleanest and most efficient way to address it is to tax those emissions."

That is glaringly obviously not true. The cleanest and most efficient way to address carbon emissions is to stop them. Tax does not stop them. It just treats them as an economic externality.

And in this case it will create a supposed dividend stream that people will not want to stop once it starts, meaning that in due course they will have no incentive whatsoever to cut carbon emissions at all, and will instead be aligned with business in a desire to pump pollution into the atmosphere.

I believe in tax. But I also know that there are things that tax cannot do. Tax cannot stop carbon emissions by itself. Regulation is far more effective as a way to do that. And in this case, perverse incentives entirely equivalent to moral hazard would be

created by the scheme that Yellen is backing. And that makes her proposal not just wrong. It makes it deeply cynical, and a threat to limiting the impact of climate change.