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Building Support for U.S. Climate Reforms with Universal Benefits

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No single reform strategy can reduce greenhouse gas emissions sufficiently to prevent dangerous climate change. To begin to reduce reliance on fossil fuels, America needs policy proposals that many civil society groups can rally around to build a powerful political movement to sustain progress. Recent advocacy undertakings have included work to stop the Keystone XL pipeline and efforts to encourage universities to divest from fossil fuel companies. Here I consider the many benefits – and some questions and concerns about – a proposed carbon fee and dividend policy. This is a broader and more ambitious proposal that could potentially garner support from many climate action advocates.

I am a member of the Maine chapter of one group that already supports this approach, the Citizens' Climate Lobby. As this group envisions, a carbon fee and dividend program would begin with a fee of $15 per ton of carbon dioxide equivalent emissions. The fee would be assessed at any mine, well, or port of entry where the carbon is introduced to the economy. Each year, the fee would ratchet up by $10 or more, as the Department of Energy judges necessary to meet the primary goal of reducing US emissions to ten percent of 1990 levels by 2050. But the fees collected would not go into government coffers. Instead, the program would be "revenue neutral" in that all fees collected, minus small amounts to cover administrative costs, would be returned to citizens as equal per capita dividends. As the prices of fossil fuels go up and carbon fees accumulate, dividend payments to Americans would increase.

The Political Advantages of a Universal Dividend

The dividend is key to the political success and durability of the entire carbon pricing effort. Americans in general dislike tax increases, and a tax in the form of carbon fee that raises energy prices could be doubly unpopular. For middle and low-income households, the increase in energy costs would be significant. For example, by year ten of the program gasoline prices would be $1 per gallon higher because of the fee. But if revenues are returned to people through dividends, the picture would change, because most households would see overall financial gains. And a dividend is better than promises of tax relief, because tax relief tends to be complicated and not very visible to most people. With dividend payments, Americans would know the pay-offs they are getting when they receive a check or monthly bank deposits.

The numbers are large for projected dividend payments. For example, if the Citizens' Climate Lobby proposal had been instituted in 2015, the annual dividend for a family of four would amount to $3,456 by 2025, and $4,752 by 2035. Only households – mostly wealthy households – that use significantly more energy than the average would end up paying more for increased energy costs than they would receive in dividends. Widespread, highly visible financial benefits from a fee and dividend program could help climate reformers build public acceptance and a winning political coalition that could enact this reform and sustain it over decades.

Some people who support dividends in principle argue for modifications of the universal, equal payments favored by the Citizens' Climate Lobby. One variant would target low-income people to get larger benefits than others, while another variant would distribute carbon revenues through tax breaks rather than payments to individuals. However, both of these approaches have problems that make universal dividends preferable.

- Research on earlier government programs has shown that universal benefits tend to be larger and more durable than benefits targeted or tilted toward the poor. When benefits are universal, the poor are not reluctant to claim their share, and lower and middle-income families support the program because they are net beneficiaries. Because of their wide appeal, universal benefits are set at higher levels (or grow to higher levels) than targeted benefits, even though in principle a targeted benefit could be more generous for the small group that receives it. This happens because benefits targeted on the poor, like welfare income supports or food stamps, often come under political assault. Their recipients are vilified and spending on these programs is often cut back, even though such assistance is a small percentage of the federal budget. Social Security and Medicare, by contrast, are very large parts of the federal budget, yet are relatively secure, because their near-universal benefits are widely popular.

- Using the tax code to distributing carbon revenues would also be problematic. Tax breaks tend to be invisible to citizens. A carbon dividend delivered through the tax code would have to be computed with other deductions and credits, and might not be recognized at all by recipients as a benefit linked to the carbon fee. And people who do not file tax returns might not get the benefit at all. In contrast to this convoluted approach, a separate check or monthly deposits to bank accounts would be highly visible to everyone, and people could compare those payments directly to their energy costs. The net gains for most households would be evident for all to see.

Dividend payments would be noticeable in the very first year of the implementation of a new carbon fee and dividend program. Over time, other positive effects would build support. Higher fossil fuel prices would make renewable energy more competitive, encouraging investments and job growth in solar, wind, and other green energy industries. Businesses and employees in these growing industries would support carbon fees and other reforms to further America's energy transition. A study by Regional Economic Models, Inc., found that a policy similar to that supported by Citizens' Climate Lobby would produce 2.8 million new jobs and improved air quality over twenty years. In turn, our country would avoid 230,000 premature deaths and reduce emissions by 50% below 1990 levels. In short, over time a transition to green energy promises widespread economic and social benefits. But to win the reforms needed to spur that transition, and for the initial years when the prices of fossil-fuel-based energy will rise, a program like universal dividends must be used to build public support and create the political will to propel change.

How the Alaska Permanent Fund Delivers Universal Benefits

An example of a dividend program that has proved self-reinforcing can be found in Alaska's Permanent Fund Dividend. In the 1970s, Alaskan policymakers faced a challenge. They needed to convince ordinary Alaskans to save for a future when oil would run out. To do so, they proposed depositing a significant percentage of state royalties from oil production into a permanent fund, and to pay citizens annual checks based on the interest earned by the fund. This dividend, averaging a little over $1,000 per person annually, is now extremely popular and has contributed to reducing poverty and inequality in Alaska. A benefit of substantial size is important. By contrast, when British Prime Minister Tony Blair's Labor government introduced a "baby bond" in 2001, the amount was so small that it was easily repealed by the subsequent Conservative government without much opposition.

Not only must dividends be sizeable; the fee on carbon must also be set at a substantial level to have an impact on energy prices and use and inspire environmental activists. Fees and dividends are linked, of course, so fees set too low would generate only miniscule dividends, which will fail to attract support from those looking for ways to increase the incomes of lower and middle-income households. And fees set too low would have little impact on the economy, or carbon-based industries in a strong position to stall the transition to new green jobs and industries. For all of these reasons, the policy that I believe has the potential to bring together a powerful, durable political coalition is a robust and steadily rising carbon fee (or robust and steadily falling carbon cap), with all or most of the revenue collected distributed as dividends to citizens.

Fee or Cap?

Apart from including sizeable universal dividends, how should policies to reduce carbon emissions be structured? Similar results can be obtained from either a carbon fee and dividend approach or the use of a carbon cap linked to dividends. Using a cap has advantages, as James Boyce has explained, because the cap for total carbon emissions to be allowed in the economy can be set at a definite level and gradually ratcheted down. The quantity of dangerous emissions allowed would be definite, and given that the primary objective is to reduce their quantity, that is a good reason to favor a cap over a fee. Others argue for a cap in order to create an American system that would harmonize with existing cap and trade schemes in Europe.

On the other hand, a carbon fee could be harmonized with existing carbon taxes that already exist in a small but growing number of nations. A border tariff on the carbon content of imports, which would be part of a U.S. carbon fee program, could serve as an inducement to other countries to impose their own carbon fees. Unlike a cap, a fee sends a clear, simple message to the market about prices, and consequently could accelerate the development of renewable energy alternatives. A carbon fee also would require little or no additional administrative regulation, whereas caps require the creation and administration of a carbon permit market or auction system.

Each of these approaches, in short, has strengths and weaknesses – and each can be subverted in various subtle ways. In the final analysis, I suspect that the policy choice between fees or caps is less important than the strength of the social movement that can be built for some form of carbon limits linked to universal dividends.

A policy that groups can rally around must be the goal. In my view, a clear and easy to explain plan, like the carbon fee and dividend proposed by Citizens' Climate Lobby, helps to draw attention and support. But it would be a pity if advocates became so committed to a carbon fee rather than a cap, that they could not throw their support behind a cap alternative that would achieve the same overall ends. A strong, universal benefit – the dividend – is more important than whether the dividend is funded by the annual sale of carbon permits or the administration of a carbon fee.

Why It is Time to Build a Broad Coalition

Congress is not about to pass any climate reform legislation tomorrow, but certain legislators are introducing bills for a carbon fee and dividend or a carbon cap and dividend. And back in 2009, a carbon cap and dividend bill, the CLEAR Act, had bipartisan co-sponsorship from Maine's Republican Senator Susan Collins and Washington's Democratic Senator Maria Cantwell. Before the next opening for national legislation appears, now is a time for environmental and other groups to meet and agree on long-term policy proposals like a carbon fee and dividend program. Strategists need to identify potential allies as well as reluctant constituencies like organized labor that might be won over. The failure of the 2009-10 Waxman-Markey cap and trade reform, which never reached a Senate vote, shows that purely inside-the-beltway deals between energy companies and national environmental organizations will fail. To avoid a similar failure next time, climate reformers must build broad popular support by investing resources in organizing, movement building, and education.

Carbon pricing alone may not be sufficient to meet the challenge of climate change, but it is the single policy most likely to further substantial reductions in greenhouse gas emissions across the entire economy. Environmentalists can join in support of this step without abandoning other important reform efforts. More challenging is to sell climate reforms to groups that place a priority on other challenges. For this task, a proposed program that marries carbon fees to universal dividends has many merits.

Reaching Out to Labor

Environmentalists neglect workers at their peril. The labor movement can be a powerful ally, able to mobilize millions of members, despite recent union declines in the private sector. If the stakes workers have in any energy transition are ignored, unions can become powerful opponents of climate reforms, as fossil fuel companies have long realized. From this perspective, carbon dividends could have a disadvantage, because workers are likely to be more enthusiastic about jobs programs than about programs to hand out cash to everyone, whether or not they are members of unions. This makes ongoing alliances between environmentalists and labor groups even more important. Labor groups already committed to addressing climate change, such as the Labor Network for Sustainability, should be part of the discussion to fashion reform proposals. This group has devoted years of work to bringing together environmentalists and workers, and has a wealth of knowledge about how to work with unions.

Whether workers are unionized or not, resistance to carbon pricing is likely to be especially strong in the mining, drilling, and fossil fuel processing industries that would be hurt by higher prices for their products. Some revenues could be used to help employees in these industries find new employment or bolster retirement funds. But if those funds come at the expense of generous universal dividends, the appeal of that program would be weakened.

Funding for renewable energy, including green jobs programs, has benefits. Even with a carbon fee, price signals will be insufficient to bring about the transition to a fossil fuel free economy with the speed necessary to avert significant climate change. Basic fairness argues that the cost of the transition should be borne equally, not unfairly loaded onto workers in the fossil fuel industry. But such funding need not come from the carbon fee. It can come from current general tax revenue or bonds, or from specific borrowing against the future savings that investment in low-carbon, energy efficient technologies will bring. Nevertheless, because it may not be possible to enact two separate bills for carbon pricing and programs to further a just transition to a green economy, some balance may need to be struck between fully revenue-neutral uses of carbon fees and devoting some of the revenue to programs compensating those who would bear extra costs during the transition away from the production and consumption of fossil fuels.

Towards a Basic Income for All

Overlapping with workers who happen to be in unions are those that Guy Standing and others have called “the precariat,” – workers whose employment is uncertain because it is temporary, part-time, or subject to outsourcing or technological displacement. Many in the precariat are also poor, but others are skilled people who cannot count on a steady paycheck. For all workers in the precariat, an unconditional basic income would bring many benefits, giving them something to rely and fall back on. This policy has recently been endorsed by former Secretary of Labor Robert Reich and Nobel economist Joseph Stiglitz, not just because of the increasing numbers of people with precarious employment, but also because more and more employees are being displaced by automation.

In recent decades U.S. income inequality has increased, with owners of capital taking an increasing share of national income compared to those who work for a living. Universal dividends from carbon revenues would be an excellent way to supplement the declining share of all U.S. income going to labor. Carbon dividends should therefore not be considered merely an “environmental” policy or a climate change remedy. A substantial carbon tax could be an important reform for environmentalists and egalitarians alike, because it not only would cut demand for fossil fuels across the U.S. economy, it would make it possible to boost basic incomes for all Americans.

Incremental Progress

While national politics remains stalemated, can progress toward the reforms I have discussed be made at the local, state, or regional level? I can only touch on the issues and possibilities here, but it is worth noting that the Obama administration's Clean Power Plan, although limited to the electricity-generating sector, has implications for states and regions as they develop compliance plans. As this happens, environmental and other groups could converge to support regional cap and trade agreements such as the Regional Greenhouse Gas Initiative in the Northeast; or they could rally behind proposals to institute a carbon tax similar to the one in British Columbia. To be sure, any state or regional cap or carbon tax is going to be far short of what is needed to push the entire U.S. economy into a new energy era. But incremental victories can create momentum for reform movements. Arguably, even a small dividend program at the state level could help pave the way for a federal fee and dividend policy. What is more, regional cooperation between environmental groups and unions to insure a just transition for workers and communities adversely affected by the Clean Power Plan could forge alliances to support broader national reforms when they become possible.

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