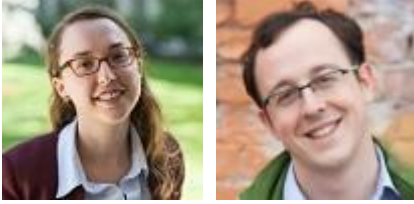




The Politics of Equitable Climate Policy



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Climate change will dramatically exacerbate social and economic inequalities across the globe – and climate change is also likely to impose disproportionate harm on low and middle-income Americans. These citizens will face climate-related damage with minimal safety net protections. For example, their households will find it hard to recover from storm damage, especially as insurers increasingly decline to cover housing assets against coastal flooding and other climate impacts.

Ironically, however, many policies intended to mitigate climate change could *also* exacerbate existing social inequalities. The reason is straightforward: Low and middle-income Americans depend on cheap energy, transport, food and consumer goods; yet, many of these goods are relatively inexpensive because their prices do not include the cost of ongoing damage unregulated carbon pollution imposes on the global environment. This creates a perverse dynamic: low *and* middle-income Americans are simultaneously the most at risk from climate change and the most sensitive to the climate policies that would protect them from these catastrophic risks. For instance, climate change is likely to impact food prices. Agricultural input costs will rise, especially fertilizers, with some climate policies, leading food prices to increase. This will occur while more frequent climate-linked droughts cause volatility in food prices. Household heating and cooling costs may also rise. And, of course, carbon pricing reforms might indirectly bring dislocations for workers in carbon-dependent industries. In sum, reforms to discourage carbon pollution may squeeze struggling American families that have already been squeezed by wage stagnation over recent decades.

As the country moves toward a greener, low-carbon economy, we will see a second wave of electrification as households install solar panels and energy storage devices, and as more people buy and drive electric cars. This trend could benefit poor communities, which are more likely to be located near polluting electricity plants. This also means that poor communities could see extra benefits over the long run as the country closes down polluting power plants and transitions to clean energy sources. Beneficial as these trends will be overall, adoption of new energy technologies could exacerbate inequalities if these policies are not structured with equality in mind. Wealthier households are more likely to invest in new energy-saving technologies because they need more electricity and have more capital to invest.

In this memo, we explore the challenge of designing climate reforms to reduce America's already large social and economic inequalities. We emphasize that strategies to increase the price of carbon pollution should include programs to raise living standards for low and middle-income households. Many reformers advocate doing this through rebating carbon taxes' revenue. We recognize the possible political value of that approach. However, we also emphasize the importance of directing a significant portion of carbon price revenues towards making it easier for all U.S. households, especially less privileged households, to access new kinds of low-carbon energy and new consumer products that rely on cleaner energy sources.

The Political Challenge

The fact that some policies to reduce carbon pollution could exacerbate inequalities complicates efforts to build climate reform coalitions. Even as proponents correctly argue that climate reforms will protect the economic position of working families in the medium and long-term, it provides an opening for opponents to frame climate reforms as harmful for working families in the short-term. We have seen this political drama again and again.

In early 1993, the Clinton Administration proposed a British Thermal Unit ("BTU") tax as part of an economic reform package. This tax was designed, in part, as a response to the emerging threat of climate change. Opponents quickly mobilized to highlight the higher prices it might spur, suggesting that the tax would disproportionately harm less privileged Americans. Utilities successfully pressed legislators to amend bills to allow the new tax as a separate line item on household energy bills – which would have shifted blame for higher electricity prices to the government and undermined public support for the policy.

Efforts to brand the BTU tax as anti-poor greatly frustrated the Clinton administration, which had deliberately coupled the BTU tax proposal with an expansion of the Earned Income Tax Credit, Food Stamps, and the Low Income Home Energy Assistance Program. This broader package ensured that low-income households would gain, not lose, economically from the policy reform. However, opponents were able to make policy costs selectively salient. In the face of fierce opposition, Clinton officials were not able to defend their approach, and Congress jettisoned the new energy tax, delaying any U.S. move toward discouraging carbon-intensive energy production.

This 1993 episode is not an isolated case. Opponents of climate reforms have continued to use similar arguments. The U.S. coal industry claims that efforts to impose costs on pollution-spewing coal-fired power plants will raise prices and reduce incomes for low and middle-income Americans. In addition, the uneven adoption of low-carbon technologies – because upper-income households usually move first to install improvements such as solar panels – gives extra political ammunition to utilities and other reform opponents. In many states, opponents claim that solar installations shift electricity costs from wealthier to poorer customers. Absent policies that promote solar adoption in multifamily and less privileged communities, these arguments may become increasingly persuasive.

No matter what climate reforms are proposed, it would be naïve to assume that opponents will ever stop framing them as harmful to low- and middle-income Americans. This reality means that proponents of new policies to slow climate change and mitigate its effects must be prepared. Programs must be included in all proposed climate reforms that offset adverse effects on low and moderate income households. And proponents must be prepared to explain those offsetting programs loud and clear in ongoing public debates.

Why a Simple Cap and Dividend Approach is Insufficient

It is tempting to channel all revenues collected from carbon taxes or fees into straightforward cash rebates designed to give proportionally more to low and middle-income Americans. This approach would certainly provide ammunition against claims that climate policies are bound to hurt the less privileged, and in principle this kind of proposal could help reformers pull together a broad-based, grassroots coalition to push legislators to enact climate reforms.

But dividend proposals typically have at least two design weaknesses. In the first place, even if carbon revenues are rebated in ways that give proportionately more to lower income people and even if the dividends are distributed uniformly across the country, they risk exacerbating regional economic inequalities. States with more carbon-intensive economies could end up paying higher taxes or fees. Even if many of their residents would still, on balance, come out ahead after the rebates are distributed, this regional imbalance could be exploited by opponents to generate politically explosive resentments. Opponents in carbon-intensive

states could argue that the entire national system is unfair, amounting to a geographic wealth transfer.

A second difficulty may be even more important. In itself, simply rebating dividends to all citizens will not directly mitigate the inequalities that climate reforms could exacerbate. Using carbon-intensive energy is not a lifestyle choice for low and middle-income families, who have to buy gas to get to work and use electricity from whatever sources their state and community make available. As wealthier households move rapidly to adopt low-carbon forms of transport and home energy, America's less privileged households may find themselves stuck paying more for continued use of carbon-intensive energy that is the only energy option available to them. Rebates from carbon taxes or fees would not entirely make up for that extra economic burden.

A Two-Pronged Approach

In our view, new revenues raised from reforms that hike carbon energy prices to spur America's transition to clean energy and account for carbon pollution must be deployed in ways that further two purposes at the same time.

First, any proposal for using carbon revenues must be politically savvy. It must be designed to improve public understanding and support for climate reforms, which are not worth much if they cannot be made politically viable. New taxes or fees must go hand in hand with a distribution of the revenues that reformers can use to counter predictable claims from opponents that climate policies will hurt low and middle-income Americans. In addition, carbon revenues should be allocated in ways that improve the quality of life for low and middle-income communities during a rapid U.S. transition to a low-carbon economy.

We believe that a carbon revenue rebate program can address the first of these goals – and should be included in any ambitious climate reform proposed to the American public. Rebates could be delivered either through tax breaks or dividend payments but, whichever policy instrument is selected must be highly visible and high profile. Citizens need to understand that their dividend payments or tax breaks are specifically linked to new climate change reforms.

But meeting the second goal we have outlined – ensuring equitable access to low-carbon technologies – requires more than rebates alone. Portions of the newly raised carbon revenues should be invested in to bring down costs of low-carbon technologies. This includes aggressive investment in energy storage, demand-side management, and techniques to balance intermittent energy resources through transmission. Revenues should also be invested in programs to deploy these technologies in vulnerable communities and expand technology access to lower-income households. Unless we take these further steps, new tax breaks or rebate payments alone could leave less privileged Americans still struggling with higher energy costs during a national transition to a clean-energy economy. Climate reforms that raise the price of dirty energy need to distribute new electricity and energy technologies to low and middle-income households. That is the only way to protect and enhance these households' standards of living during the energy transition.

How to Do It

The government will play a key role carrying through the second prong of our plan – equalizing access to low-carbon technologies. Public investment in research and development is necessary to ensure that all Americans get quick access to the resulting breakthroughs. The federal government has taken on this role before. The New Deal's Rural Electrification Act brought electricity to parts of America that utilities had neglected, including poor rural areas with homes and farms. As a side benefit, the program also created a considerable number of jobs.

Today, the federal government should undertake a similar effort using revenues from a carbon tax to bring new energy technologies to low and middle-income households. These technologies include household solar

panels, electric vehicles, and home energy storage systems. Widespread deployment of these technologies will be necessary to reduce low and middle-income families' dependence on fossil fuels without compromising their quality of life. Each of these technologies supports a reduction in household-level fossil fuel dependence. Each buffers individuals from the increased costs of energy and transport associated with pricing carbon pollution. Each comes with significant health benefits. Each supports improved household-level economic autonomy. And in the case of solar power, using this technology can directly provide new revenues for low-income households, because solar installations allow households to become electricity producers who can sell their power into the national electricity grid.

Government intervention has been necessary in every U.S. energy transition since the 19th century. This time, new energy policy must include at least two components. First, it must fund aggressive investments in clean energy research and development. Second, it must include significant government incentives to deploy low-carbon technologies, especially in disadvantaged communities.

For example, the current federal solar investment tax credit, which is slated to expire at the end of 2016, provides an opportunity for action. The law now provides for a 30 percent tax credit for solar systems on residential and commercial properties. A "Clean Electrification Act" would extend this tax credit with revenues from a carbon price. Rather than extending the policy in its existing form, the program should couple a basic credit, perhaps 20 percent, for most solar projects, with an additional tax credit of 10% for projects that benefit poor and low-income communities. Overall, this would deploy carbon tax revenues to leverage private sector investment within low-income communities. Further, this policy could be designed to ensure benefits reach both homeowners and renters. For example, if projects are built on low-income housing, the tax credit could require 50% of the benefits go to renters, with 50% to the project developer and building owner.

Here are several other examples of spending initiatives that would use carbon revenues to promote the emergence of sustainable low-income communities:

- When funding for low-carbon technology projects is limited, prioritize projects in disadvantaged communities.
- Electrify public transportation systems in urban areas, and support the development of affordable housing near clean transit.
- Build electric vehicle and energy storage infrastructure within low-income communities to ensure they can access new technologies as costs come down.
- Following the example of California's cap-and-trade program, allocate a portion of carbon price revenues to municipal or county-level governments to spend on local projects to reduce greenhouse gas emissions.
- Additional spending initiatives should be designed that are tailored to the specific needs and investment communities of local communities.

The Political Benefits of Subsidizing New Technologies

Efforts to deploy revenues from carbon pricing to support an equitable transition to a clean energy future can be politically beneficial. In the first place, such efforts can strengthen the long-term political power of climate policy supporters. Consider the case of household solar energy, which is primarily facilitated by investment tax credits and net metering policies that compensate solar customers for the electricity they provide to the grid from their household panels. Relying on these programs, new businesses, called solar leasing companies, have grown quickly and installed significant solar projects over a very short period. When opponents try to reduce net metering programs, these new companies mobilize to protect and advance clean energy policies in

the states, increasing the clout of the climate reform coalition over time.

Using carbon tax revenues to encourage technology deployment also spurs clean energy jobs. Some of the new jobs will expand the U.S. manufacturing sector. Others will be community-level jobs for workers, including low-skilled workers, who install clean-energy technologies. Like solar companies, workers in these newly expanding occupations may become active proponents for the continuation and expansion of the relevant government programs, further bolstering “green energy” coalitions.

Finally, delivering local benefits to disadvantaged communities can make it harder for opponents of climate reforms to get a hearing in those places. That could be vital for climate reformers, because low-income households are highly sensitive to changes in their cost of living. If energy costs for low-income households go up too much as the price of carbon energy rises, then those households could swing against climate reforms. These households will be more sensitive to opponents’ arguments about the short-term costs of climate policy than proponents’ arguments about the long-term catastrophic risks of climate policy inaction. Helping them take advantage of green technologies can guard against this possibility.

Of course, various federal and state programs have already been in place for the past two decades to subsidize renewable energy and alternative transportation technologies, and some programs already target low-income Americans. However, such efforts must be quickly and substantially expanded to support the broadest climate coalition.

In short, we should recognize that subsidies for low-carbon technologies can be a powerful social policy. Such subsidies are more than a way to reduce the risks of climate change. They also have the potential to equalize access to new technologies and reduce economic inequality. For that reason, part of the new revenues raised from a carbon price should be channeled into these valuable programs – to ensure that economically disadvantaged Americans gain the same access to new green technologies as all others, and are not left behind in the emerging low-carbon economy.

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Click [here](#) to read the next contribution to our forum from Peter Dorman, “A Citizens’ Approach to Carbon Equity: Voting on Rebates and Collective Investments.”