SCHOLARS STRATEGY NETWORK

**KEY FINDINGS**

# CAP CARBON EMISSIONS AND PAY DIVIDENDS TO CITIZENS – A STRATEGY TO UNITE AMERICANS AGAINST GLOBAL WARMING

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Global climate change – caused by warming of the earth's atmosphere – is a threat to people's livelihoods around the world. Scientists overwhelmingly agree that warming is spurred by greenhouse gas emissions that occur when coal, oil, and gas are burned to produce electricity and power vehicles. Every nation, including the United States, must find ways to reduce emissions. Legislation is needed, because a solution requires rules and taxes that apply to everyone.

A key step must be to raise the price of carbon fuels, to reduce use and make alternative sources of energy competitive. ***Carbon taxes*** are one way to proceed. Another approach sets a ***carbon cap*** and gradually ratchets it down – creating a descending ceiling for overall carbon energy use. Companies are issued permits to produce or use carbon energy within the cap. Permits can be given away, sold, or some combination (and companies can be allowed to trade permits). No matter how the price of carbon fuels is raised, we still need to ask who pays the extra costs and who benefits – and we need to consider the implications for American democracy.

## Failed Insider Bargains

Legislators in Washington DC have already discovered how hard it is to pass either carbon taxes or a carbon cap system through both houses of the U.S. Congress.

- During the administration of Bill Clinton, the House of Representatives passed a levy on gasoline. This was a tiny carbon tax and would not have affected big sources of dirty energy, such as coal-fired electricity plants. But the Senate refused to go along and many Representatives who voted for the new tax were criticized and defeated in the next election, causing Congress to shy away from carbon taxes in the future.

- In 2009, the Waxman-Markey "American Clean Energy and Security" bill passed the House of Representatives. This aimed to create a kind of carbon cap system for the whole economy, setting gradually declining limits on greenhouse gas emissions. According to the bill, the federal government would create permits for emissions-producing companies. At first, 85% of them would be given away and the remaining 15% would be auctioned off (and emitters could also buy and sell them). The idea was to encourage a gradual transition to cleaner energy sources while allowing electric companies, for example, to keep prices down for their customers. Even though this approach would have been very generous to industry, many business lobbies and ideological conservatives rallied to keep a similar bill from passing in the Senate.

The 2009 Waxman-Markey bill relied on a politics of insider bargains. Supporters tried to give just enough pay-offs to different industries to cobble together and pass legislation. Most

Americans heard little about what was going on – unless they saw TV ads claiming that the bill would impose big new taxes. A May 2009 Rasmussen survey revealed that only 24% of respondents had a grasp of the legislation's core features. Something complex was being debated in Congress, but Americans did not understand how it would work or affect their families.

## A Better Approach Involves Everyone

There is a better, more democratic alternative – called ***cap-and-dividend.*** This approach to reducing greenhouse emissions defines environmental improvement as a shared good in which all of us have a stake. It puts a price on burning carbon sources, known to degrade our shared environment. During the transition to a greener economy, polluting industries pay for permits – and each year the proceeds are divided up and given in equal dividends to every American.

Here is how cap-and-dividend would work in detail:

- A national carbon cap is set, based on targets for steady reductions in greenhouse gases. Each year permits are auctioned among utilities, energy companies, and other major users of carbon fuels – permits are not given away, but sold to the highest bidders.

- Companies buying the permits have an incentive to use more efficient technologies and move toward investing in and selling cleaner sources of energy. Companies would also pass along much of the cost of the permits to their consumers.

- Consumers – businesses and families – will spend less on energy if they use less carbon energy and switch to cleaner or green sources. But there still would be an issue of fairness, because low-income households have to spend more of their limited incomes on energy.

- To correct the unfairness and give all Americans a stake in the tax on polluters, the U.S. government would divide the money raised in permit auctions into equal annual "dividend" payments sent to each and every citizen.

Permits auctions would bring in a lot of money. For example, if the permit price were $200 per ton of carbon, the revenue would be about $200 billion per year – enough to give each American a dividend of $678. Even if permit prices were set lower – and some of the money raised was used to invest in green technologies – a family of four could still get around $1200 a year.

Cap and dividend legislation has been introduced for debate in Congress by Representative Chris van Hollen of Maryland and by Senators Susan Collins of Maine and Maria Cantwell of Washington. This approach is easy for all citizens to understand. All Americans would get help to pay energy costs – and the help would mean the most to low-income families. Seventy percent of families would get a net economic benefit, a majority in every state. And people would do better if they saved energy or switched to green sources.

The silver lining in the failure of earlier carbon-reduction legislation is that America can now find a better way forward. With the cap-and-dividend approach, we can reduce greenhouse gas emissions, distribute the costs and benefits fairly, and build widespread understanding and popular support for the fight against global warming and the transition to a green economy.

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Read more in Michael W. Howard, "A Cap on Carbon and a Basic Income: A Defensible Combination in the United States?" in *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for Reform around the World*, edited by Karl Widerquist and Michael W. Howard (Palgrave Macmillan, 2012).