April 15, 2010

Will America Buy a New Climate Policy?

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Without much fanfare, U.S. legislators last December unveiled a new climate bill that just might succeed in breaking the political gridlock that has blocked action on global climate change. The bill, co-sponsored by Senator Maria Cantwell (D-WA) and Susan Collins (R-ME), is a sharp departure from the cap-and-trade bill that passed the House of Representatives last June but subsequently died in the Senate.

The Carbon Limits and Energy for America's Renewal (CLEAR) Act proposed by Cantwell and Collins is a "100-75-25-0" policy:

- 100 percent of the permits to bring fossil carbon into the U.S. economy will be auctioned. Polluters won't get any permit giveaways, and there will be no scope for speculation and market manipulation by Wall Street traders.
- 75 percent of the auction revenue is recycled directly to the public as equal per-person dividends. The majority of households will receive more in these monthly dividends than they pay in higher energy costs.
- 25 percent of the auction revenue is dedicated to investments in energy efficiency, clean energy, adaptation to climate change, and assistance for sectors hurt by the transition away from the fossil-fueled economy.
- Zero offsets are allowed. In other words, polluters can’t avoid curbing use of fossil fuels by paying someone else to clean up after them.

The bill's political prospects are uncertain. The coal and electric utility lobbies will fight for the permit giveaways of the moribund House bill. Wall Street and the financial sector — with about 130 lobbyists working the climate policy issue in Washington — want a carbon market as a new outlet for their creative talents. But the cap-and-dividend alternative has emerged from the political shadows as the leading candidate to replace cap-and-giveaway-and-trade.

International Implications

The design of national policies to curb fossil carbon emissions in many ways is distinct from the architecture of an international accord. National policies deal with how to cut emissions and allocate distributional impacts within countries. International accords deal with how to allocate emission rights across countries and raise funds for North-South financial transfers (aka climate debt service) for mitigation and adaptation. But the two policy arenas are not entirely disconnected.

Passage of the new bill could improve the prospects for an international deal in three ways.
First and foremost, CLEAR would remove a key impediment to an international agreement: the refusal of the U.S. government — in particular, the Senate — to act on climate change. CLEAR would not only establish the architecture for U.S. implementation of any international agreement on emission reductions, but also give the U.S. public an incentive to support more ambitious targets. A tighter cap would mean bigger dividends and hence bigger benefits to most families. Finally, CLEAR could inspire others to consider this approach. Studies of other countries, such as China and Hungary, show that a cap-and-dividend policy would benefit the majority of their people, too.

The bill doesn't address U.S. contributions to climate change mitigation and adaptation in other countries. Modest transfers could be financed from the bill’s investment fund. But such transfers would not meet either the need for assistance or the commitments required for an international accord. Ultimately, however, international transfers shouldn't be financed from carbon permit revenue, which is a regressive tax in the absence of dividends, instead of general government revenue.

A Part of the Whole

CLEAR can be one element of a comprehensive U.S. climate policy. Like anything that keeps "oil in the soil" and "coal in the hole," it will make fossil fuels more costly. The resulting price signals will drive firms and consumers to invest in energy efficiency and renewables. By recycling most of the carbon revenue back to households as dividends, CLEAR can head off a backlash against higher energy prices and win durable public support at a time of general economic difficulty.

Other elements of smart climate policy include public investment — notably in R&D, retrofitting buildings, mass transit, and a "smart grid" for electricity — and regulatory standards that work where price signals can't reach. If America clears the way for CLEAR, it will not be the last word. But it will be a big first step.