

Domestic Climate Policy One-Pager

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Many economists (and others) from a wide range of political viewpoints are coming to support the idea of cap-and-dividend or tax-and-rebate as the most sensible way for the United States to address climate change.

It's important to note that the two approaches (cap or tax) are *functionally equivalent*. Both policies are intended (1) to raise the price of the carbon emissions that cause global warming, thereby discouraging those emissions and encouraging alternatives, and (2) to do so in a way that does not place the burden of adjustment disproportionately on the poor. The price of fossil energy would be raised equally under either system, and returning to citizens on an equal per capita basis the revenues from the tax or from government auction of the permits would leave *most people no worse off* than before the energy price increase.

An auctioned cap or a tax with 100% return of the proceeds to the people is the most *practical* policy for several reasons: (a) it would begin real carbon reductions quickly; (b) it would be an honest and transparent way of treating the American people; (c) it would attract the broadest attainable political coalition across party lines; (d) it would be administratively simple for both the government and the private sector (with the tax or auctioned permits collected at the first point of sale or import of the carbon-containing fuel); (e) it would be a non-regressive way of introducing the carbon price into the economy; and (f) it would avoid a fiasco such as the special interest feeding frenzy that surrounded the recently failed Boxer-Lieberman-Warner bill in Congress.

The cap or tax would have to start at a level sufficient to produce a meaningful price signal, but it would not need to be too high right away. It would be understood that the carbon price would increase in a measured way sufficient to keep the U.S. within our reasonable share of a global cumulative carbon budget stringent enough to hold the temperature increase below 2 degrees Centigrade. (Any higher temperature greatly increases the risks of global climate catastrophe.) However, it would not be necessary to specify the entire price path to 2050 because we don't know at this time what the actual cost of the carbon-replacement technologies will be. The plan can have an "escape clause" that would come into play if the rest of the world doesn't come on board within a suitable time frame, allowing for serious negotiations and something like a 10-year delay in the reduction path for the developing countries. International offsets could be negotiated as a positive incentive for developing countries to join the program.

Popular support for this plan would grow as people begin to receive their rebate checks. Once the nation is committed to action, the government and private sector could concentrate their thinking on whether very large-scale infrastructure investments would need to be supported with public funds – projects such as solarization of the grid, new coal power plants with carbon capture and sequestration, etc. It would be valuable to get some market feedback on the technological possibilities before undertaking such projects. The planning capabilities of the government and private sector might (or might not) be needed to sort out big investment alternatives once it is clear that de-carbonization is going to happen.