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### **Using the Revenues from Cap-and-Trade or a Carbon Tax**

Although Congress's first effort to consider a law to reduce this nation's greenhouse gas emissions was stalled earlier in the month, other bills are working their way forward in Congress. Just last week, a bill entitled the "Climate MATTERS Act" was introduced in the US House of Representatives. The "MATTERS" in the bill's title is an acronym for "Market, Auction, Trust and Trade Emissions Reduction System."

As that acronym's translation makes clear, this new bill is also a "cap-and-trade" bill. Under that general approach major energy companies would have to have greenhouse gas emission permits before they produce and/or sell energy which emits such gasses. The number of such permits would, as the name suggests, be capped and then systematically lowered. That would make those emission permits increasingly valuable and those holding them would be allowed to sell the permits to the highest bidder, assumedly the energy uses with the highest economic productivity. Every one would have a growing incentive to reduce their emissions.

The big question and the source of much of the debate over this approach is how those emission permits will be distributed to energy producers and users each year? When this approach was used to control sulfur emissions and acid rain, the emission permits were simply given away to the current polluters in proportion to how much they were polluting.

The advantage of that approach is that it initially minimally disrupts the polluting companies. Only when the cap begins to be lowered and fewer permits are available does the value of the permit rise, putting pressure on the polluters.

The obvious disadvantage of that approach is that it rewards the largest polluters and, if they have relatively cheap technology available to reduce emissions, they can enjoy a windfall selling their permits. If their facilities are old and inefficient as well as dirty, they can sell their permits, pocket the value, and shut down, again reaping a windfall gain. Since in either case, emissions are reduced, economists would consider this not a flaw but a sign that the system was working and the increasingly scarce permits were moving to those parts of the economy that could best use them. The equity of large businesses profiting from their past pollution, however, bothers many others.

An obvious alternative would be for the government to auction off most or all of the emission permits. After all, these are permits to use our common atmosphere in a way that damages the world's climate and threatens most societies and living systems. It is not clear why private profit-making businesses should get this right for free. If most or all of the permits were auctioned off, there would be a substantial flow of revenue to the federal government. That, of course, is one of the reasons that many conservatives object to cap and trade or a carbon tax: It enriches the federal government at business's and citizens' expense and provides the means for major expansions of potentially wasteful government spending.

One simple way to keep Congress from going on a spending spree would be to simply rebate the revenues raised from the auction of the greenhouse gas permits back to citizens. One proposal is for the federal government to issue dividend checks each year to every man, woman, and child on an equal per capita basis. That would recycle those funds back into the American economy in a relatively progressive manner with

lower income households receiving a larger percentage boost to their incomes than upper income households. Alaska had done that with some of its North Slope oil revenues for decades

Another alternative would be to use the revenues to reduce the relatively steep payroll taxes that moderate income households pay to support Social Security and Medicare. Since both of these broad based programs need additional revenues to keep them solvent, use of these revenues could solve two problems at once: increase the purchasing power of almost all people's paychecks and ensure the viability of the nation's broadest based retirement programs.

One of the problems with looking at the revenues that would be generated by auctioning off greenhouse gas emission permits or, for that matter, a straight carbon tax, as a windfall to the Federal government that will lead to wasteful spending is that this nation faces a substantial backlog of public problems and a mounting federal deficit that will keep us from working on them. That includes doing something about assuring that all Americans have access to adequate health care, beginning to rebuild our basic public infrastructure of highways, bridges, and schools, and protecting access to college in the face of skyrocketing tuition.

Then there is the problem that motivates the cap-and-trade policy to begin with: The need to dramatically reduce greenhouse gas emissions by completely overhauling how we produce and use energy. That is going to take massive investments in developing and deploying new technologies. Some of that is going to have to be jump-started by federal investments and subsidies.

It may be fashionable to cynically focus on wasteful government spending, but given the fiscal crisis we face across the board for some of our most successful public programs, we have got to mobilize the support to begin to directly or indirectly tax dangerous and destructive behavior like the release of greenhouse gases and use the revenues to support more productive behaviors such as hard work, getting health care to children, improving the efficiency with which we use energy, and cutting our dependency on foreign and unstable as well as environmentally destructive energy sources. Our common purpose and vigilance can allow us to move through this impending energy crisis and come out of it with a more sustainable and equitable society and economy.