

CARBON TAX/CARBON DIVIDENDS - IS IT COMING?

SUMMARY OF THE PROPOSAL

The Climate Leadership Council (CLC) presented to President Trump in mid-February a proposal for a new climate strategy: “The Conservative Case for Carbon Dividends”. The proposal claims the approach would strengthen the economy, benefit working class Americans, anchor the strategy in a free market solution to reduce carbon emissions in lieu of command and control regulations (Obama’s Clean Energy Plan), and emphasize the Republican principle of limited government in addressing the challenge of climate change.

The report lists four pillars of the carbon dividend plan:

- A Gradually Increasing Carbon Tax, which the report suggests might begin at \$40/a ton, a high enough level to exceed the emissions reductions of current regulations;
- Carbon Dividends for All Americans, under which all the proceeds would be returned to the American people on an equal and quarterly basis;
- Border carbon adjustments for the carbon content of both imports and exports to protect American competitiveness and punish free-riding by other nations;
- Significant Regulatory Rollback which would phase out much of EPA’s regulatory authority over carbon emissions, including outright repeal of the Clean Energy Plan.

The Climate Leadership Council has presented a serious proposal from top level Republican leaders. Named on the cover of the report are: James Baker, III, former Secretary of State; Martin Feldstein, former Chairman of President Reagan’s Council of Economic Advisors; Ted Halstead, President & CEO of the Climate Leadership Council; N. Gregory Mankiw, Chairman of President George W, Bush’s Council of Economic Advisors; Henry M. Paulson JR., former Secretary of the Treasury; George R. Schultz, Former Secretary of Labor, Secretary of Labor, and Secretary of State; Thomas Stephenson, partner in Sequoia Capital and former US Ambassador to Portugal; and Rob Walton, former Chairman of the Board of Walmart.

A tax on Carbon is broadly favored by economists to send market pricing signals to the economy and include all externalities. A major advantage claimed by the report is that at the proposed level, it would significantly reduce emissions. This effort introduces a thoughtful Republican carbon tax alternative to the discussion about US actions to address climate change. President Obama’s administration is said to have reviewed the carbon tax approach, but it was abandoned as not considered salable to the Republicans in Congress.

See Annex I – ADDITIONAL RATIONAL AND DETAILS OF THE CLC PROPOSAL for further information on the CLC proposal.

QUESTIONS

Questions abound as to the reception of this proposal, in which a carbon tax carries with it major changes in energy pricing.

- For starters, what will be President Trump's position, yes, no, or maybe? President Trump prizes being unpredictable. Have organizations dedicated to addressing climate change considered and are prepared to respond if President Trump decides to endorse the Climate Leadership Council's proposal for a carbon tax and dividend?
- Will Mr. Pruitt, the new Administrator of EPA, who is considered a climate change denier, support the CLC approach or some variant thereof that is consistent with many of his expressed ideas, e.g. opposition to the Clean Energy Plan and relying upon market signals vis-à-vis regulations?
- Will Secretary of State Tillerson support the CLC concept with which he must be familiar from his years as CEO of Exxon?
- Will the fossil fuel companies support the CLC proposal (as is rumored because they advocate predictability in pricing)?
- If President Trump supports the idea, what will be the reaction in Congress among Republicans, few of whom are on record as supporting action to address climate change?
- What will be the position – for or against -- of the Democratic Party and representatives in Congress if President Trump advocates it?
- Major NGO's have been outspoken in their opposition to Republican and Trump campaign rhetoric to deny climate change and downplay any proposals to address it. What would be the position such organizations e.g. World Resources Institute, NRDC, Sierra Club, Nature Conservancy, Resources for the Future, if President Trump switches his position and urges Congress to pass a carbon tax proposal such as presented by the CLC?;
- The CLC proposal is tied to the concept of a revenue neutral action and is called a carbon dividend rather than a carbon tax to avoid confronting the Republican Party pledge of no tax increases. Is a revenue neutral dividend, which the proposers claim would be effective because of its popularity with the general public, different from a tax increase? How will Republicans react, if presented with this conundrum?
- If various parties support the concept of a tax on carbon, how will various interested parties accept or not accept the revenue neutral dividend dimension of the plan. A carbon tax implicitly carries with it the related controversy about what to do with the sizable proceeds from the tax. Other versions of a carbon tax proposal advocate allocating funds to further policy options. Suggestions include financing a coal fund to help those living in regions adjusting to the declining use of coal and the corollary loss of jobs, or using the proceeds to fund a Great Swap in which the proceeds would enhance the affordability of major tax reform.

The CLC proposal, which advocates a starting point for a price on carbon at a level high enough to affect carbon emissions, presents a difficult policy challenge for the Democratic Party and Environmental NGOs who have assumed President Trump would pursue his campaign rhetoric of climate change denial. But the CLC proposal includes a carbon tax approach which many economists and many of these groups support.

Mr. Pruitt, the new Administrator of the E.P.A. just recently said that the science is still unclear about the threat of carbon dioxide to climate change. This comment is a strong signal that the Trump administration will continue climate change denial. Nonetheless, the strong and overwhelming opposition from scientists, some politicians, and nations around the world will continue to make the case that climate change is real and is linked to the heightened levels of carbon dioxide in the atmosphere.

Extreme weather such as massive flooding, intensive and prolonged droughts or even the submerging of low lying countries at risk of sea level rise could trigger a significant change in public opinion in the coming years, especially when such events create huge economic loss. If such events were to occur, President Trump's administration and Republicans in Congress may be forced to concede some threat from climate change and move to support a republican oriented approach to addressing climate change, such as advocated by the CLC proposal. It could provide the basis at some point for an acceptable political compromise.

Stephen Klein 10 March 2017

RATIONALE AND ADDITIONAL DETAILS OF THE CLC PROPOSAL

The report argues for several advantages to the Carbon Dividends Plan:

- Helping Working-Class Americans, thru relieving economic anxiety. The Treasury estimates that the bottom 70% of Americans would come out ahead, increasing disposable income to help people struggling to make ends meet. It would also redirect populism to counter the belief that the system is rigged against the little guy;
- Strengthening our Economy, by incentivizing growth and innovation. A price on carbon will send strong market signals that will encourage technological innovation and large scale substitution of existing energy and transportation infrastructure, thereby stimulating new investment. A well-designed carbon dividends plan, with its predictability, would have an immediate impact on future policy by helping investors make dynamic effects on consumption and investment, especially for projects with long-term payout such as infrastructure and utility projects;
- Shrinking the Size of Government, by eliminating or phasing out energy-related regulations which would free up people otherwise occupied with administering the regulations. Linking the carbon tax revenue and dividends would guarantee the longevity of the plan, and obviate the need for more regulatory intervention;
- Stabilizing an Unstable World, by accelerating the transition to a low carbon intensive global economy and US domestic independence. It would also reduce the need for the US to protect oil-producing regions, and reduce the vulnerability to cyber attacks;
- Consolidating Conservative Leadership, by establishing a popular solution to a widely shared concern about climate change. It also would provide Republicans with a response to concerns of younger voters, Latinos and Asians;
- A carbon tax should increase steadily and predictably over time to insure companies and consumers can plan effectively while assuring achievement of projected economic benefits. The dividend income should be tax free and a mechanism worked out for everyone to receive quarterly dividend checks in timely and efficient fashion.