

# TWO WAYS TO PRICE CARBON POLLUTION



**Waxman/Markey** | **Cap & Dividend**

# WHY CARBON PRICING — AND HOW IT'S DONE — MATTER GREATLY

- ▶ We can't stop climate change unless we raise the cost (currently zero) of dumping carbon into the air
- ▶ Raising the price of carbon dumping will spur conservation, innovation and clean technology
- ▶ Raising the price of carbon dumping will also create a huge new flow of money; who pays and where the money goes are trillion dollar questions
- ▶ Businesses will pass almost all new costs to consumers

# TWO WAYS TO PRICE CARBON POLLUTION

	Waxman/Markey*	Cap & Dividend
<i>Big picture:</i>	Caps carbon, gives over half of permits free to utilities and other corporations, returns 15% of revenue to the poor	Caps carbon, auctions 100% of permits, returns revenue to everyone equally
<i>How easy to understand?</i>	Complex	Simple
<i>Where does the money go?</i>	Hard to tell	Back to families
<i>Do polluters pay?</i>	Many get free ride	All pay
<i>Is it a middle class tax?</i>	Yes	No
<i>How bureaucratic?</i>	Requires over 50 state & federal agencies	One agency runs everything
<i>What role for Wall Street?</i>	Allowances and derivatives traded globally	No derivatives, minimal trading

\*Waxman/Markey contains many excellent provisions on energy efficiency and renewables. These slides are only about carbon pricing.



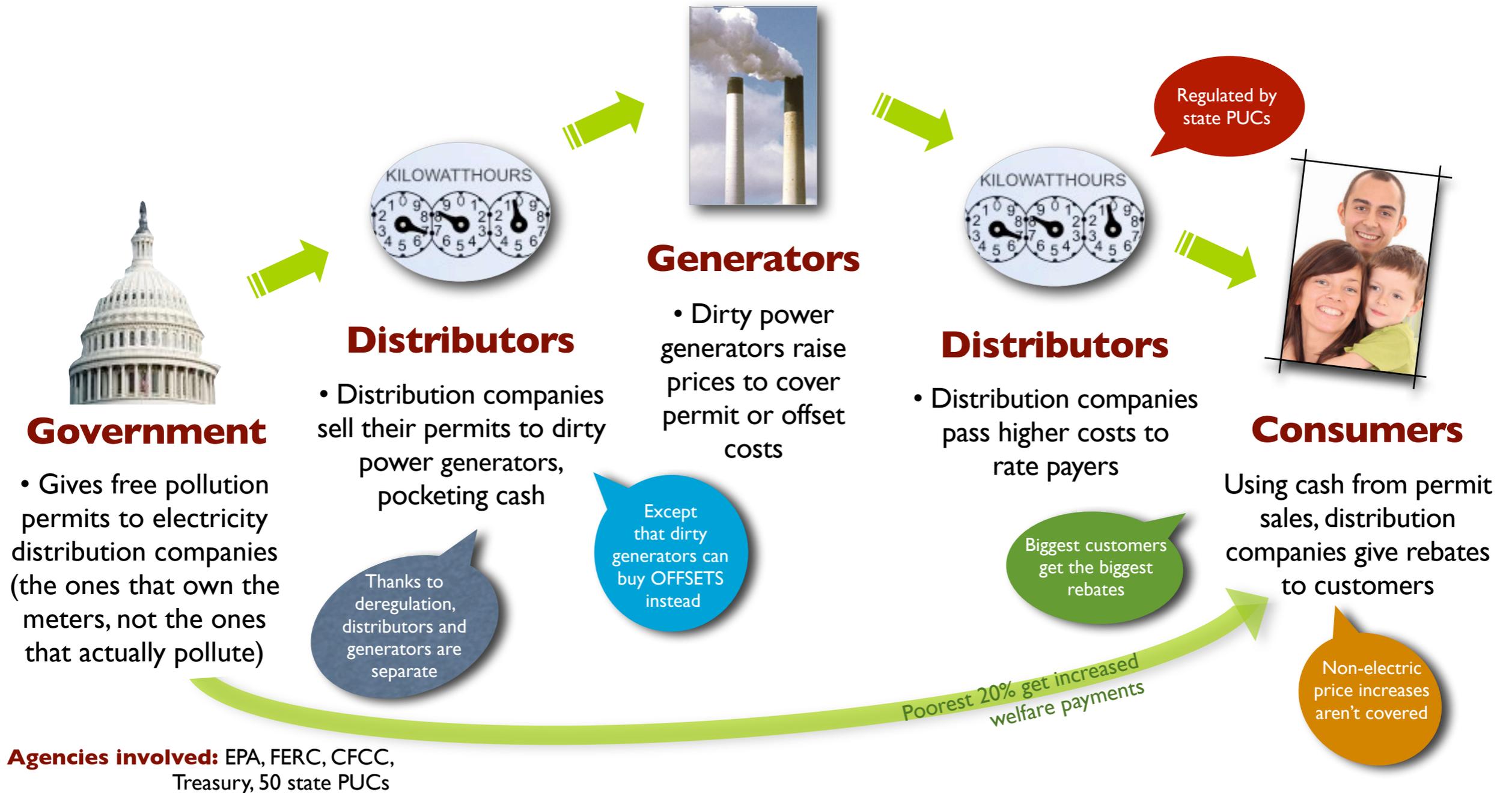
## **HOW ARE CONSUMERS PROTECTED?**

**Waxman/Markey and Cap & Dividend both  
take measures to protect consumers.**

**But the methods and results are quite different.**

# Waxman/Markey

## HOW CONSUMERS ARE PROTECTED



# Cap & Dividend

## HOW CONSUMERS ARE PROTECTED



### Government

- Sells permits to companies that bring polluting fuels into the economy

**Agency involved:** Treasury



### Families

Using permit revenue, government wires monthly cash to consumers

Everyone gets the same dividend

Higher prices of ALL fuels covered

As energy prices rise, so — automatically — do dividends

But there's more...

# Waxman/Markey

## HOW POLLUTION OFFSETS WORK



### Generators

- Dirty power generators can also buy privately issued 'offsets'



### Securities

- Offsets are securities that claim to avoid pollution somewhere in the world (for example, by protecting trees that otherwise would be cut)



### Traders

- Wall Street firms create a global market in these securities



### Money

- Lots of money is made trading carbon-based derivatives



### Pollution

- Because of offsets, total pollution might not decrease until after 2020<sup>2</sup>

Studies have found that up to 2/3 of offsets are bogus<sup>1</sup>

Capital and ingenuity go into trading, not technology

1. Analysis by Michael Wara and David Victor, Stanford Law School, [http://iis-db.stanford.edu/pubs/22157/WP74\\_final\\_final.pdf](http://iis-db.stanford.edu/pubs/22157/WP74_final_final.pdf)  
 2. Analysis by International Rivers, <http://www.internationalrivers.org/files/WaxmanIRAN.pdf>

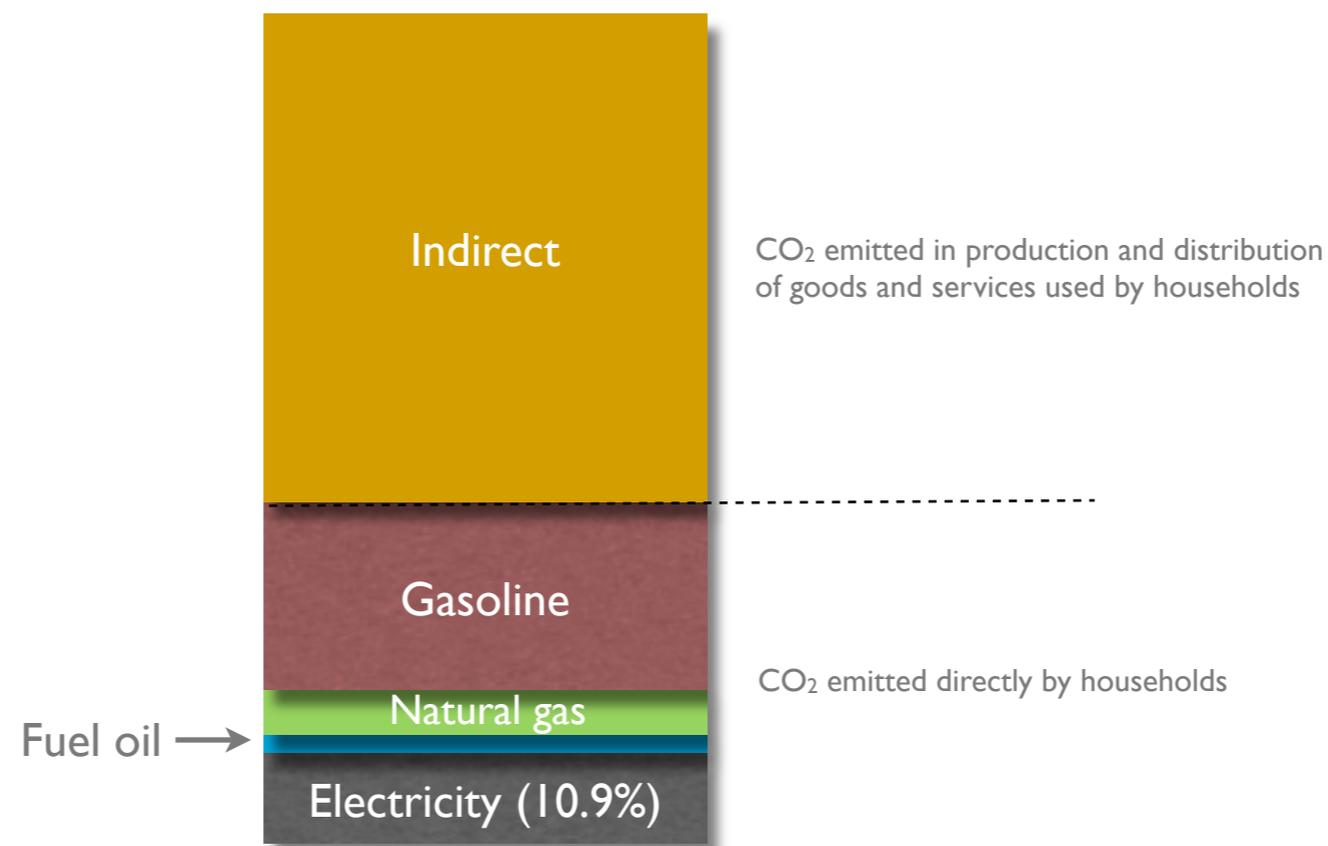
Why utility rebates aren't enough

## Waxman/Markey

# ELECTRICITY IS ONLY A FRACTION OF HOUSEHOLD CARBON COSTS

## U.S. per capita CO<sub>2</sub> emissions

Average: 20.2 tons per person per year (2006)





# Cap & Dividend

## IMPACT ON FAMILIES OF FOUR



Assumes 5.5 billion tons of CO<sub>2</sub> permits sold at \$55/ton, auction revenue of \$302 billion and per capita dividends of \$678 (with 33% of auction revenue used for non-dividend purposes)

Source: James Boyce and Matt Riddle, *Cap and Dividend: How to Curb Global Warming While Protecting the Incomes Of American Families*, University of Massachusetts/ Amherst, 2007. Data taken from Table 7 on page 11. The low, middle and high income figures represent the 2nd, 5th and 9th deciles in the table respectively.

# THE BOTTOM LINE



## Waxman/Markey

- Complex financial shell game
- A tax on the middle class
- More coal burned



## Cap & Dividend

- Families get cash every month
- Middle class incomes protected
- Faster pollution cuts