Should Congress price greenhouse gas emissions differently for different parts of the economy?

Sens. John Kerry, D-Mass., Lindsey Graham, R-S.C., and Joe Lieberman, I/D-Conn., are working on climate change legislation that would create different pricing mechanisms for various industrial sectors, particularly electric utilities, manufacturing plants and vehicles. They might incorporate a bill co-sponsored by Sens. Maria Cantwell, D-Wash., and Susan Collins, R-Maine, that would send most of the revenue generated from a limited cap-and-trade system back to consumers to offset higher energy prices.

Would this method be fairer, simpler, or more politically viable than an economy-wide cap-and-trade system? Could this approach attract more support from Republicans and moderate Democrats? Could it cut emissions as much as President Obama wants? Should the Senate trio consider incorporating provisions of the Cantwell-Collins bill?

7 Responses

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MARCH 16, 2010 4:09 PM

Include a CLEAR-style refund

By Richard Revesz
Dean, New York University School of Law

The most important addition that Senators Kerry, Graham, and Lieberman can make to the climate bill is a refund provision similar to the Cantwell-Collins proposal. Without some mechanism to compensate Americans for rising energy prices, middle and lower income families will be stuck with the tab for our transition to cleaner energy, which is both bad policy and bad politics.

As I’ve noted in the answer to a previous panel question, under any carbon pricing plan we will see small price increases on our energy bills as the cost of making electricity goes up. Since those with lower incomes spend a larger percentage of their money on utilities, they are going to bear an outsize portion of the burden. As we begin to climb out of an economic downturn, it certainly does not seem fair for the cost of this policy to be greatest for those least able to afford it.
Beyond a question of fairness, a refund can ensure that consumers will not be burdened by the changes caused by climate legislation, undermining political resistance to the legislation. Compensating working families for price increases has the potential to appease many voters who are not convinced climate change is a priority.

Details of the Kerry-Graham-Lieberman plan have been scarce, but the centerpiece seems to be a sector-specific approach which treats different industries in different ways. Oil would get a tax, electricity a cap, and industry gets a pass for now. If the new setup has better prospects in the Senate, then it will represent important political progress. Including a rebate for consumers should increase the broad political appeal even further. Most importantly, the bill would put a price on at least some greenhouse gas emissions and get us on track to wean us off polluting fuels.

But besides better politics, it is not clear what the benefits are over an economy-wide carbon price. Businesses will not be able to take advantage of the cross-industry efficiencies that come from applying the same rule to everyone—ton for ton, a sector-by-sector approach will cost a little more to contain emissions. Some people will be paying too much to reduce their carbon pollution and others will not be paying enough—if the price on carbon is greater for coal than oil, then electricity generators will be taking more costly measure to control carbon, while lower cost opportunities would go unrealized in the auto industry.

The point of an economy-wide model is for everyone to face the same incentives, which ensures that we get the greatest reductions for the lowest price. In a sector-by-sector approach, money could be wasted like heat coming off an incandescent bulb—useless inefficiency. The greater the price differential, the worse the "heat loss" that will be passed on to consumers. Americans don't get anything in return for that extra price tag—the cost of reductions is just shifted around and increased overall.

But environmentalists have long learned the lesson of letting the perfect be the enemy of the good. With so much at stake, and so many details unknown, this bill could still shape up to be better than good enough.

A Tax By Any Other Name

By Marlo Lewis
Senior Fellow, Competitive Enterprise Institute

Differential carbon pricing would likely prevent manufacturers with relatively high emission-reduction costs from buying surplus permits from utilities with relatively low reduction costs. Thus, compared to an economy-wide cap-and-trade plan, such as that in the Waxman-Markey bill, differential pricing would lead to less efficient (higher priced) emission reductions.

Not that Waxman-Markey is any great shakes when it comes to efficiency. By dictating fuel choices, the bill's renewable electricity standard (RES) would limit utilities' flexibility to pursue least-cost emission reduction opportunities. Similarly, by maintaining and indeed strengthening fuel-economy standards, Waxman-Markey would partly dictate, regardless of market data, how the transport and petroleum sectors comply with the cap.

So why are Sens. Kerry (D-MA), Graham (R-SC), and Lieberman (I-CT) exploring this approach? Not for economic or environmental reasons. Apparently, they think differential pricing is new and strange enough to fool the public.

Last week (Mar. 9), ...
Is there a Legislative Commons?

By Jon A. Anda
Executive-in-Residence Fuqua School of Business, Visiting Fellow Nicholas Institute

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CLEAR is all about accepting a legislative commons to manage risk to the climate commons. By legislative commons, I mean that instead of corporates and NGO's holding out for what THEY want in a bill (e.g. 1400+ pages of Waxman-Markey), they all agree on a simple (funded) carbon cap as a fair collective solution. The challenge is that no one wants to advocate for CLEAR unless everyone else does - because you risk losing your "goodies" if another bill succeeds. That is why the crowd followed the first Boxer bill, Waxman-Markey, and now the potential of a Kerry-Graham-Lieberman "kitchen sink for 60 votes".

CLEAR is a far better bill than many believe. Passage of CLEAR would massively mobilize U.S. investment in low carbon technologies. Consider this soundbite in the FT last week about U.S. venture capital: "But VC-backed IPOs, which numbered 270 in 1999 and 264 in 2000, are an endangered species. There were six in 2008 and 12 last year." As John...

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MARCH 15, 2010 7:36 AM

Carbon Tax Simpler, More Transparent

By William O'Keefe
CEO, George C. Marshall Institute

In the 14th century, a Franciscan monk developed what is known as Occam’s Razor -- a principle for solving problems which states "entities must not be multiplied beyond necessity." In the 20th century, Albert Einstein validated this maxim with the observation that we should "make everything as simple as possible, but no simpler."

The Senate and, in particular, Senators Kerry, Graham, and Lieberman clearly do not subscribe to Occam’s Razor or perhaps just don’t understand the virtue of simplicity. Their approach to climate legislation is as arrogant as it is unnecessarily complicated. The notion that Congress understands sectors of the economy well enough to design a differential carbon pricing system to move the economy to a lower level of emissions is another example of the fatal conceit.

A ton of carbon is a ton of carbon regardless of where it originates, so what is the purpose of dealing with emission sources differentially? Applying different c...

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MARCH 15, 2010 7:35 AM

Bill Must Avoid ‘Mitigation Lite’

By Robert Socolow
Professor, Princeton University’s Carbon Mitigation Initiative

In reporting the many alternative bills, I note a reluctance to discuss the trajectory for the cap. From a climate perspective, how hard we work is what matters most. The answers to these questions for Waxman-Markey were impressive: The signal that we are serious is embedded in the trajectory of the Waxman-Markey cap, and seriousness is what we need to use this window of attention to convey to ourselves and the rest of the world. Mitigation Lite, where we have the right words but the wrong numbers, is not where we should end up after all this effort. I hope the discussion this week can be about how to make each and every one of these plans lead to serious investments in low-carbon technology, because the price signals are credible and the objectives are ambitious.

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MARCH 15, 2010 7:34 AM
Making Consumers Part Of The Equation

By Dave McCurdy
President and CEO, Alliance of Automobile Manufacturers

Energy security and environmental protection have converged at the center of the national political agenda. The Alliance supports an economy-wide approach to reducing greenhouse gas emissions that includes every sector of the economy and all consumers to achieve desired emission reductions at the lowest cost with the least economic disruption.

For motor vehicles, the soon to be final National Program for GHG emissions and Corporate Average Fuel Economy (CAFE) announced last May by President Obama will reduce emissions by at least 30% by 2016. For fuels, policies like RFS 2 and a national Low Carbon Fuel Standard (LCFS) will result in significant additional reductions in CO2 emissions from motor vehicles. Beyond vehicles and fuels, consumers and governments have responsibilities as well – all of which will combine to foster an integrated approach of shared responsibility.

Success in implementing the National Program hinges on consumers and their purchasing decisions. The current national energy policy as it pertains to vehicle fuel economy sends consumers conflic...
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