

Institute for Policy Integrity

New York University School of Law

Hon. Chris Van Hollen
Member of the House of Representatives
1707 Longworth H.O.B.
Washington, DC 20515

April 30, 2009

Re: H.R. 1862, Cap and Dividend Act of 2009

Dear Congressman Van Hollen:

Please find the enclosed letter from a group of economists supporting The Cap and Dividend Act of 2009 (HR 1862), as well as a separate letter from Professor Paul Milgrom offering support for the bill but urging revisions to the rules governing the market for allowances.

HR 1862 represents sound policy for addressing threats posed by greenhouse gas emissions. Most importantly, it places an annual cap on aggregate emissions, while giving emitters the flexibility to achieve emission reductions in the least costly manner. This cap-and-trade approach has been successful in other environmental contexts—like acid rain—in achieving steep reductions without imposing unnecessary costs on the economy.

The bill also has two key features that distinguish it from other proposals. First, it auctions 100% of greenhouse gas allowances, rather than distributing them for free to existing emitters. A give-away of allowances will not deliver a general benefit for consumers, and amounts to little more than a wealth transfer from energy consumers—who will pay higher prices no matter how allowances are distributed—to the shareholders of energy companies.

Second, the bill stipulates that all revenue from the auction of carbon allowances will be returned to the American public on a per-capita basis, and not used to fund government spending. Because carbon pricing will inevitably raise the prices of energy—including electricity and gasoline—it can have regressive consequences. However, if auction funds are returned to the public on a per capita basis, this regressive effect can be avoided.

The economists who have signed their names to these letters lend their support to the idea that, particularly in these difficult economic times, it is imperative that we not push off the negative affects of addressing climate change onto those that can least afford to pay. HR 1862 bill allows us to reduce our carbon emissions without passing the tab to America's low and middle income families.

We thank you for sponsoring this important legislation and we hope it becomes the law of the land.

Sincerely,



Richard L. Revesz
Lawrence King Professor of Law
Faculty Director, Institute for Policy Integrity
Dean, New York University School of Law



Michael A. Livermore
Executive Director
Institute for Policy Integrity
New York University School of Law

Hon. Chris Van Hollen
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1707 Longworth H.O.B.
Washington, DC 20515

April 30, 2009

Re: H.R. 1862, Cap and Dividend Act of 2009

Dear Congressman Van Hollen:

We write to express our strong support for your bill, H.R. 1862, the Cap and Dividend Act of 2009.

If enacted, this legislation would make America a leader in mitigating global warming, without placing undue burdens on low and middle income citizens. By auctioning carbon allowances and returning the proceeds on a per-capita basis, your bill will combat climate change while ensuring that consumers are protected from increased energy prices.

The key factors that set this legislation apart from other carbon pricing proposals are the 100% auctions of carbon allowances and the 100% refund of that revenue to Americans. Free allowances given to energy producers would result in an unearned windfall with little benefit for energy consumers. An auction and refund is an efficient means to compensate the public for increased energy prices, so that the carbon cap does not result in regressive wealth effects that will specifically impact middle and low-income Americans.

Because a very large percentage of the energy sector is based on the burning of fossil fuels, any mechanism to place a price on greenhouse gas emissions will also increase the price of energy. Because low-income Americans spend a greater percentage of their income on energy, a carbon pricing mechanism, acting alone, would have significant regressive effects.

However, the Cap and Dividend Act of 2009 mitigates this effect through a revenue neutral auction of allowances that raises funds and distributes them directly to the American public. Because the results of the refund are strongly progressive, it counteracts the regressive consequences of the carbon cap, ensuring that low and middle income Americans are shielded from increased energy prices.

We commend you on this proposal and we urge Congress to pass this legislation.

Sincerely,

Lawrence Ausubel, Professor of Economics, University of Maryland, Department of Economics

Charles M. Becker, Research Professor, Duke University, Department of Economics

John H. Bishop, Associate Professor of Human Resource Studies, Cornell University, School of Industrial and Labor Relations

Heski Bar-Isaac, Assistant Professor, New York University, Stern School of Business, Department of Economics

Peter Cramton, Professor of Economics, University of Maryland, Department of Economics

Jonathan Eaton, Professor of Economics, New York University, Department of Economics

Hillard G. Huntington, Executive Director, Energy Modeling Forum, Stanford University,
Department of Management Science and Engineering

David D. Kane, Associate of the Institute for Quantitative Social Science, Harvard University

Larry S. Karp, Professor of Agriculture and Economics, University of California - Berkeley,
Department of Agricultural and Resource Economics

Peter B. Kenen, Walker Professor of Economics and International Finance Emeritus, Princeton
University, Department of Economics

Anton Korinek, Assistant Professor, University of Maryland, Department of Economics

Charles E. McLure, Jr., Senior Fellow (Emeritus), Hoover Institution, Stanford University

Roger G. Noll, Professor of Economics, Emeritus, Stanford University, Department of Economics

Brendan O'Flaherty, Professor, Columbia University, Department of Economics

Richard E. Quandt, Hughes-Rogers Professor of Economics, Emeritus, and Senior Research
Economist, Princeton University, Department of Economics

Stijn Van Nieuwerburgh, Assistant Professor, New York University, Stern School of Business

Lawrence J. White, Arthur E. Imperatore Professor of Economics, New York University, Stern School
of Business, Department of Economics

STANFORD UNIVERSITY, STANFORD, CALIFORNIA 94305-6072

PAUL MILGROM
SHIRLEY AND LEONARD ELY, JR. PROFESSOR
OF HUMANITIES AND SCIENCES
DEPARTMENT OF ECONOMICS

TEL: (650) 723-3397
FAX: (650) 725-5702
E-MAIL: MILGROM@STANFORD.EDU

Hon. Christopher Van Hollen
Member of the House of Representatives
1707 Longworth H.O.B.
Washington, DC 20515

April 28, 2009

Re: H.R. 1862, Cap and Dividend Act of 2009

Dear Congressman Van Hollen:

I write to join NYU Dean Richard Revesz and the other signors of his letter to offer my support for your bill, H.R. 1862, the Cap and Dividend Act of 2009. I am a member of the National Academy of Sciences, winner of the Nemmers prize in economics, and professor of economics at Stanford University.

Most of this letter echoes Dean Revesz's views. I have written separately in order to urge revisions in the sections 9903, 9907 and 9908 of your proposed legislation that would make the system of emissions permits work better and make markets for permits both more efficient and more immune from manipulation. Please feel free to contact me when you review this letter so we can set up a time to discuss my suggested improvements.

If enacted, this legislation would make America a leader in mitigating global warming, without placing undue burdens on low- and middle-income citizens. An effective system of carbon allowances that returns auction proceeds on a per-capita basis would combat climate change while ensuring that consumers are protected from increased energy prices.

The key factors that set your proposed legislation apart from other carbon pricing proposals are the 100% auctions of carbon allowances and the 100% refund of that revenue to Americans. Free allowances given to energy producers would result in an unearned windfall with little benefit for energy consumers. An auction and refund is an efficient means to compensate the public for increased energy prices, so that the carbon cap does not result in regressive wealth effects that will specifically impact middle and low-income Americans.

Because a very large percentage of the energy sector is based on the burning of fossil fuels, any mechanism to place a price on greenhouse gas emissions will also increase the price of energy. Because low-income Americans spend a greater percentage of their income on energy, a carbon pricing mechanism, acting alone, would have significant regressive effects.

However, the Cap and Dividend Act of 2009 mitigates this effect through a revenue neutral auction of allowances that raises funds and distributes them directly to the American public. Because the results of the refund are strongly progressive, it counteracts the regressive consequences of the carbon cap, ensuring that low and middle income Americans are shielded from increased energy prices.

The legislation has set a proper objective of preventing manipulation in the market for permits, but the proposed means can be considerably improved. I hope to be in contact with your office to explain the proper lessons to learn from past market manipulations and to suggest means that are less cumbersome, more flexible, and more effective at preventing market manipulations, without comprising the integrity of the program.

I commend you on this proposal and look forward to working with you to improve it to bring about effective and fair climate policy for the United States of America.

Sincerely,

Paul Milgrom
Shirley and Leonard Ely Professor of Humanities and Sciences
Department of Economics
Stanford University