

Cap and dividend: What about climate justice?

The following are frequently asked questions and answers about the cap and dividend approach and issues of fairness, prepared by Professor James K. Boyce of the Political Economy Research Institute at the University of Massachusetts, Amherst (July 2014).

1. *How will putting a price on carbon impact existing or future federal regulations of pollution?*

Nothing in cap-and-dividend rules out regulation. SO₂ emissions from power plants are capped under the 1990 Clean Air Act amendments (in this case via a cap-and-giveaway-and-trade system); at the same time we have regulations such as mandated scrubbers. It's not an either-or choice. The same is true for carbon policy. For example, Congressman Van Hollen is a strong supporter of the President's rules for power plants.

2. *Is pricing carbon an effective way to change energy use?*

An important advantage of a cap, compared to a carbon tax, is that it assures that the targeted emissions reductions will be achieved regardless of the relationship between quantity and price. Prices do matter: that's why electricity producers are switching from coal to natural gas. But the cap makes the price-quantity relation a non-issue in terms of the amount of reductions achieved.

3. *Is it fair that everyone receives the same dividend (for example, whether she commutes to work by foot, bicycle or Hummer)?*

Cap-and-dividend is founded on the premise that everyone owns the air (as the piece says, "The air and water belong to all of us"). Even people that other people don't like. Even people who drive Hummers. Under this policy, lower- and middle-income families will receive the greatest net benefit from the quarterly dividends.

4. *Should people in all states receive the same dividend? For those living in states with more coal-based electricity generation - like Kentucky, Indiana and West Virginia – will the dividend still outweigh increases in cost?*

The majority of households in every state will receive dividends greater than what they pay in higher prices (for details, see Boyce & Riddle, "CLEAR Economics"¹), although the percentage who will come out ahead varies from state to state. If some carbon revenue were retained for public investment and allocated to assist the energy transition in coal-reliant states, as in the Cantwell-Collins proposal, this could ease inter-state differences. If 100% of the revenue is returned to the public as dividends, as in Congressman Van Hollen's proposal, this increases the size of the majorities who come out ahead in every state.

5. *But should anybody be allowed to pay for the right to pollute? If the air and water belong to all of us, why should anybody have the right to despoil it for profit?*

Just because something is legal doesn't mean it should be free. The use of fossil fuels is regulated (e.g., via power plant rules and fuel-economy standards), but not illegal. No one should be allowed to pollute for free - even when their pollution is legal.

1. Boyce, James and Matthew Riddle. "Clear Economics." Department of Economics and Political Economy Research Institute – University of Massachusetts, Amherst. Revised July 2011. Available at: http://www.peri.umass.edu/fileadmin/pdf/published_study/CLEAR_Boyce_Revised_July2011.pdf