

A Sustainable Environment: Our Obligation to Protect God's Gift

by
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A Better System to Pay for Carbon Emissions

In my last article, I discussed the implications of the Bali (Indonesia) Conference and stated that the only way any country will be able to reduce the carbon dioxide emissions is make it mandatory and not voluntary, which is the case in the U.S. – the only developed country taking this position. For those countries that have made carbon emissions mandatory, the two most popular methods of paying for the emissions is imposing a tax or a system of cap-and-trade, with the latter system being recommended most often for the U.S. Either way, we will all pay more.

Under the cap-and-trade scenario, every organization that emits carbon dioxide, the main pollutant causing global warming, will be permitted to emit a certain quantity of carbon dioxide. This quantity will be based on the extent to which Congress decides to reduce the emissions. This will certainly require the company to make a significant investment to implement the necessary process changes. Of course, this capital investment will be passed on to the consumer regardless of income class. Estimates of this cost are in the \$1200 to \$1600 per year for each household for an emissions reduction of only 15%. Hardest hit will be the low-income families, but the middle class will also feel it.

If the company can reduce its emissions to some level below the cap, it will receive credit for that difference. This will allow the company to sell the carbon credits through a monetary exchange to companies that cannot reduce their emissions to the allowable levels. The value of carbon credits in Europe is in the range of \$20 to \$30 per ton, while in the U.S. their value is about \$2 per ton. The difference is because of the mandatory program in Europe and a voluntary program in the U.S.

A better proposal is needed to make this system work. One recommendation is a tax rebate to offset the higher energy prices. However, this will again hurt the low-income people as they may not have any taxable wages. It is important to implement a system that would give equal rebates to all income levels, particularly the lower ones. Two professors from the University of Massachusetts, James Boyce and Matt Riddle, suggested a plan called Cap and Dividend. The government would auction emission permits to the various companies allowing a certain quantity of carbon dioxide emissions. This, of course, would increase the cost of the energy delivered to the consumer. The money collected from these permits would then be distributed equally in the form of a dividend and it would be wired monthly into people's bank accounts much like senior citizens receive Social Security payments.. This would also be similar to the plan in Alaska where every resident receives an equal dividend from revenue on state oil leases.

This Cap-and-Dividend plan has a number of nice features. It is automatic, and as energy prices rise, so do the dividends. Another and better feature depends on how much energy you conserve. The less you use, the less you pay, but the dividend is the same no matter how much or how little energy you consume. This system really helps the low income class as it increases their annual income by a higher percentage.

The most attractive feature of this system, however, is based on the premise that the atmosphere is a commons (no one owns it) that belongs to everyone. Anyone who pollutes the commons must pay for it. And the income from the polluters should go to the commons' owners – you, me and everyone else.