



For the Public Record

November 22, 2019

To: House Select Committee on the Climate Crisis
ClimateCrisisRFI@mail.house.gov

Please accept these comments from the Feasta Climate Group in response to the Committee's Request for Information, focusing on Q4: Carbon Pricing, and Q13: International¹.

Feasta is an ecological economics think tank with a global focus². It is based in Ireland but it has international membership, and one of its trustees is a U.S. citizen and resident.

We encourage the Committee to consider the following design elements of a carbon pricing system:

1) An upstream system: Limiting fossil fuel supply at the point of import or production

The ultimate goal of any carbon pricing system is to help to reduce, and eventually eliminate, greenhouse gas emissions. Yet, as a recent international literature review states, "there is a lack of information on the correlation between...carbon pricing and its effect on emissions reduction"³.

¹ This submittal is adapted from a submission made by Feasta to the Irish government on the allocation of revenue from carbon taxes in June 2019: <http://www.feasta.org/2019/06/29/submission-on-the-options-for-the-use-of-revenues-raised-from-increases-in-carbon-tax-in-ireland/>

² 'Feasta' is the Irish word for 'in the future'.

³ "Review: Developing a just carbon tax for Ireland", ed. Dr. Cara Augustenborg, UCD, March 2019

Troublingly, such research as has been carried out indicates that a slump in the overall fossil fuel price can spur an increase in emissions even where there is a relatively high carbon tax; this occurred in British Columbia in recent years⁴.

One can attempt to offset the effects of a slump in fossil fuel price by increasing the carbon fee level, but this requires a certain amount of guesswork as to what level of price increase is likely to trigger the ‘correct’ emissions reduction, and would necessarily be reactive. Moreover, in a system that is purely price-based, wealthy climate change skeptics can continue to purchase and use as much fossil fuel as they wish, since they have the means to do so.

Some might argue that if all goes well, fossil fuel will eventually be priced out by renewables to the extent that, after a certain point, fossil fuel will simply no longer be in demand and there will therefore be no need to ‘formally’ eliminate its use. We are skeptical about this prediction because of the extremely important role that oil in particular plays in the U.S. and global economies. This is discussed further in section 5.

Given the degree of risk we are facing with regard to the climate and the relatively short time-frame which we have in which to act - and the noticeable failure of any country so far (even Sweden⁵) to actually achieve significant and lasting fossil-fuel-derived emissions reductions - we therefore believe it vital to introduce a more direct policy instrument, namely, imposing a firm limit or cap on the introduction of fossil fuels to the economy.

The inclusion of a limit or cap on fossil fuel production has some similarities with the European Emissions Trading Scheme, but our proposal would be far easier to administer as it would be applied ‘upstream’, at the production end, and would avoid

⁴ <https://www.nytimes.com/2016/03/02/business/does-a-carbon-tax-work-ask-british-columbia.html>
Note the reference, about halfway through the article, to the effects of the oil price slump. Emissions in British Columbia have been trending upwards, albeit at a modest rate, since 2010: <https://www.theglobeandmail.com/canada/british-columbia/article-bcs-emissions-rising-figures-show-as-activists-point-finger-at/>

⁵ While Sweden’s carbon tax appears to have contributed to a reduction in emissions, this seems to derive from ‘low hanging fruit’ in the Swedish economy and would therefore be hard both to scale up within Sweden and to replicate elsewhere, as can be discerned from a careful reading of this paper: <https://www.euki.de/wp-content/uploads/2018/09/fact-sheet-carbontax-se.pdf>. Note in particular the paragraph beginning “even a high carbon tax can be ineffective at reducing emissions when abatement opportunities are very expensive,” on pages 16-17. See also <https://www.thelocal.se/20190227/swedens-road-traffic-emissions-increased-in-2018-after-years-of-steady-decline> and an April 2019 Feasta podcast interview with Professor Clive Spash: <https://soundcloud.com/user-589284216/measuring-our-measurements>

many of the weaknesses of the ETS such as the latter's need to attempt to determine the 'correct' amounts of emissions that each sector can produce in ever-changing environmental and economic circumstances.

Imposing an absolute limit on fossil fuel imports and production would thus help to guarantee that the vital goal of reducing and eventually eliminating emissions from fossil fuel would be met⁶. It would not be administratively daunting, as most fossil fuel originates from a handful of producers and its production and/or importation is already well-monitored.

2. A fee-based permit system rather than a 'classic' tax

In line with point 1 above, we advocate the adoption of a fee system that is based on the sale of permits to fossil fuel producers and importers. The quantity of permits available would be limited and would gradually diminish from year to year. The cost of permits could be determined by auction or by some other means if that was considered more appropriate.

This system would therefore price carbon, but as explained above, it would also lock in the gradual elimination of fossil fuel consumption over the next few decades.

Introducing a permit fee would ensure that price would still play an important role in the energy transition, but would not bear the entire responsibility for it. Such a fee could have a set or maximum price so as to prevent abrupt increases in fuel prices triggering severe economic volatility. (There may be circumstances - for example if there is high demand for fossil fuel and its market price increases abruptly - whereby the scheme would need to be extended into a rationing programme. This would be easier to introduce if the fossil fuel supply was already being capped.)

3) Return carbon fee revenues to households as a "climate dividend"

Evidence from existing carbon tax programmes and economic modelling suggests that per-capita allocations of carbon fee revenues would be the most rigorous and efficient way to smooth the energy transition for households and businesses⁷. Such an

⁶ It would not prevent carbon leakage, but the aim would be to expand the programme to other countries so as to address this over time; scaling up would be relatively straightforward in comparison to most other carbon-reduction schemes.

⁷ "Review: Developing a just carbon tax for Ireland", ed. Dr. Cara Augustenborg, UCD, March 2019, p19

allocation would ensure, in a transparent manner, that those who use greater-than-average amounts of fossil fuels are systematically compensating everyone else and helping to relieve financial pressure on low-income households.

It should be noted that alternative uses for carbon fee revenues which are frequently proposed, such as infrastructure development, retrofitting and incentivising business to move towards sustainable production methods, while certainly vital, actually fall under the rubric of general economic development. We believe that their funding should therefore not depend on a carbon fee, which by nature has a 'sell-by date' and is variable. This is discussed further in section 5.

A per-capita carbon fee allocation program best reflects the fact that the atmosphere is a common pool resource. Distributing the revenue from a carbon fee or tax as 'carbon cheques' corresponds with the principle that a clean atmosphere is our collective responsibility and right.

4) Form a climate justice partnership with a Global South country or bloc of countries to share carbon fee revenues and eliminate emissions together

We would urge the U.S. government to look beyond the U.S.A. when considering issues of justice in the allocation of carbon tax funds.

A carefully-designed carbon tax allocation programme could have international climate justice and equity built into it right from the start.

As Mike Sandler argues in his submittal to the House Select Committee on Climate Change, the sky belongs either to all of us or to no one. A truly just allocation program would therefore actually distribute allocations from carbon fees to every single person on earth. However, if only one country (or a handful of countries) are imposing a cap and generating the fee from permit sales, and the proceeds are distributed worldwide, the funds will obviously be divided into very modest per-capita allocations and this seems both administratively unwieldy and unfair on those few countries which are submitting themselves to the cap. It would also take time to roll out a global program.

One approach that would take these factors into account while preparing the ground for a future global program would be to establish a "climate justice partnership"

between the U.S. and a Global South country or group of countries of similar population⁸.

Given the urgency involved and the fact that it would take time to set up such a partnership, the U.S. government could unilaterally initiate the programme but set aside a portion of the revenue generated until it finds an appropriate partner. Once a partner had been found (after consultation with development charities and other knowledgeable advisors), the partner's share of the funding would be distributed⁹; depending on the partner country's economic circumstances this may be better done in smaller installments at first, with some funds held aside for later (and U.S. citizens would also receive a modest top-up to their funds, deriving from their own share of the revenue from the partner country).

This system would take into account the fact that the atmosphere is our collective responsibility and would mean that the U.S, being an affluent country, would effectively be subsidising the energy transition of a low-income country. It could easily be scaled up to incorporate other pairs or groups of high- and low-income countries, and could eventually encompass all countries.

Since the low-income country would be using less fossil fuel than the U.S., this means that the 'carbon cheque' that U.S. residents receive would be significantly lower than would be the case if the programme was applied to the U.S. alone (though not so low as would be the case if the allocations were distributed globally but the cap only applied to the U.S.).

This may seem a challenging idea to sell to the American public. Were it to be implemented there would clearly be a strong need for additional measures to support low-income Americans, particularly those suffering from fuel poverty.

One source of additional revenue could be a levy on 'luxury' uses of carbon (e.g. on first class flight tickets and high-emissions luxury vehicle sales and rentals). This

⁸ An outline of a possible partnership between Ireland and a Global South country to eliminate fossil fuel consumption and promote climate justice can be read here: <http://www.capglobalcarbon.org/2017/08/11/submission-to-the-citizens-assembly/> Obviously this model can be applied to other countries as well, taking into account differences in population size and per-capita emissions.

⁹ Distributing this revenue in the low-income country would not be as daunting as one might imagine, as many Global South countries now have extensive experience with cash transfer programmes. See <http://www.capglobalcarbon.org/2016/06/05/tackling-climate-poverty-and-inequality-together-managing-the-share-in-capglobalcarbon-on-a-global-level/>

would be introduced so as to complement the ‘core’ carbon fee, in order to help address fuel poverty within U.S. and, in more general terms, provide extra support for those who will be most adversely affected by rising fuel prices.

We urge policymakers to bear in mind that if a climate justice partnership or similar programme is not implemented using a portion of carbon tax revenue, the relatively high per-capita carbon tax revenue in the U.S. would effectively be ring-fenced (or ‘enclosed’) for the use of U.S. residents alone. This could lay the U.S. open to charges of economic (and atmospheric) imperialism.

Conversely, a climate justice partnership that enabled a low-income country or group of countries to completely eliminate their emissions over time while also increasing their per capita prosperity could significantly reduce poverty and suffering in the short to medium term and would ease the pressure on vulnerable groups in the included countries to engage in risky and/or violent behavior.

5) The temporary nature of carbon revenues

We wish to draw attention to the fact that any carbon tax (or indeed, any program for reducing emissions) ought always to be considered as *temporary* in nature - i.e., at a certain point the revenue from the carbon tax should fall to zero as there should no longer be any emissions¹⁰. This may seem self-evident, but often appears to be overlooked by analysts.

If emissions are eliminated then it follows that a carbon tax will be *completely eliminated in absolute terms*, within a relatively short time span. As mentioned above, it is therefore very important not to lock in any kind of long-term dependency on revenue from this tax (for example, using it to maintain infrastructure projects).

Any ‘basic income’ that derives from the allocation of permit fees will also need to be supplemented with funds from other sources (e.g. a land value tax and/or a tax on financial transactions) if it is to remain viable, and these other sources will need to eventually take over altogether.

¹⁰ If there is sufficient innovation in carbon storage then some emissions may still be possible, but this innovation cannot be counted on, and in any case, the emissions would need to be very modest compared to current levels. See for example https://www.washingtonpost.com/news/theworldpost/wp/2018/05/31/carbon-capture/?utm_term=.bc83ed9ba317

Indeed, if all goes well, the revenue from carbon fees will rapidly diminish, sooner rather than later.

6) Taking into account the role played by energy in the economy

A final factor which we believe to be vital to bear in mind when considering carbon pricing is the role of energy in the economy. Simply raising the carbon price and/or imposing a cap on the fossil fuel supply without taking this into account could trigger an economic collapse by choking off various economic sectors' ability to function.

For example, transportation is still highly dependent on oil, and we believe it will be impossible for renewables to fulfil the U.S. economy's transport requirements - as they will need to do in the relatively near future - without major structural changes to the economy that enable a significant decrease in overall energy use¹¹.

We therefore urge policymakers to take into consideration the fact that to become viable, the future U.S. economy will need to include significantly less (and less frenetic) transportation, shorter supply chains (particularly for essential goods), more concentrated housing and workplaces, and working schedules that can adjust to the requirements of renewable energy¹². To prevent any rebound towards an increase in biofuel production that could happen in reaction to a decrease in fossil fuel supply (with potential adverse effects on emissions and on food production) we also recommend a cap on artificial nitrogen supply for agriculture¹³.

More broadly, we believe a much clearer vision of what we actually wish the economy to achieve is necessary. What is an economy really for?

¹¹ See section 1 of Feasta's recent submission on the 2019 draft (Irish) national risk assessment: <http://www.feasta.org/wp-content/uploads/2019/06/Feasta-submission-on-strategic-risk-assessment-in-Ireland-June-2019.pdf> . An extra layer of complexity is added by the fact that oil is becoming steadily harder to extract, but this does not detract from the argument for phasing it out gradually.

¹² Renewable energy has a lower energy return on investment than fossil fuel - sometimes significantly lower - and is only intermittently available. Storage options for renewable energy exist, but are limited, and despite claims to the contrary there is little likelihood that new technology will improve storage. The economy therefore needs to adapt to a renewables-based pace of activity, and this will result in significant economic contraction during the transition period, hopefully followed by the establishment of a 'steady state' economy. See for example <https://www.resilience.org/stories/2018-11-21/the-limits-of-renewable-energy-and-the-case-for-degrowth/> and <https://www.lowtechmagazine.com/2017/09/how-to-run-the-economy-on-the-weather.html#more>

¹³ This is explained further here: <http://www.feasta.org/2019/10/28/submission-on-the-irish-agri-food-2030-strategy/>

Historically, links between fossil fuel energy use and GDP growth are extremely strong; claims of existing decoupling of growth from emissions either refer solely to relative (i.e. not nearly sufficient) decoupling or use dubious accounting to come up with their figures¹⁴. The reality is that despite a great many widely-broadcast claims by various governments and international agencies, the feasibility of decoupling economic growth from greenhouse gas emissions is highly questionable.

We would strongly challenge the widespread emphasis on GDP growth as the ultimate goal for the economy for a great many reasons, environmental but also social¹⁵. We believe growth actually needs to be set aside as an ultimate goal for the U.S. economy and society, and genuine progress indicators, which include wellbeing, should take its place.

One sector which is particularly dependent on GDP growth in order to be able to function at present is finance, because of way in which most money is currently introduced into the economy¹⁶. Freeing the financial system from its dependency on economic growth would be relatively straightforward¹⁷ and far more advisable and feasible than any attempt to decouple greenhouse gas emissions from growth. It is a ‘behind-the-scenes’ policy that might appear tangential or even irrelevant to the environmental crisis, but that could actually have significant positive social and environmental effects. We would therefore urge financial policymakers to bring

¹⁴ See for example <https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1598964> , https://olis.leg.senate.gov/record/114/congress/1st_session/2019/record/164466 and <https://eeb.org/decoupling-debunked1/>
See also an interview with Professor Clive Spash in the April 2019 Feasta podcast: <http://www.feasta.org/2019/03/15/beyond-the-obvious-novel-podcasts-for-enquirers/>

¹⁵ <https://www.theguardian.com/politics/2018/sep/16/the-eu-needs-a-stability-and-wellbeing-pact-not-more-growth>

¹⁶ We are referring here to the financial system’s dependency on credit demand in order for new money to be introduced into the economy. Studies have indicated that credit demand is closely linked to economic growth (see for example <https://voxeu.org/article/credit-demand-supply-and-conditions-tale-three-crises>).

¹⁷ This dependency on growth could be eliminated by allocating the responsibility for introducing new money into the economy to publicly accountable institutions, and ensuring that this money is debt-free. The approach is discussed here: <https://www.ft.com/content/d27b000e-6810-11e8-8cf3-0c230fa67aec> , <https://sovereignmoney.eu> , <https://www.greattransition.org/publication/money-for-the-people> , and <https://www.monetaryalliance.org>

democratised, growth-neutral finance into the ‘Overton window’ of financial policy debate.

A climate-friendly economy has the potential to make U.S.A. a happier and more socially stable place to live in than at present - provided substantial reforms are made, judiciously and promptly.

Thank you for your attention.

More information on the Feasta climate group’s work on per-capita dividends can be found at <http://www.capandshare.org>, <http://www.capglobalcarbon.org> and <http://www.sharingforsurvival.org> .

Feasta (the Foundation for the Economics of Sustainability) is an open-membership think tank. Its aims are to identify the characteristics (economic, cultural and environmental) of a truly sustainable society, articulate how the necessary transition can be effected and promote the implementation of the measures required for this purpose.

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