The Foundation for the Economics of Sustainability

For the public record

February 16, 2020

Please accept these comments on the Transportation Climate Initiative (TCI) Framework for a Draft Regional Policy Proposal. We are submitting these comments on behalf of the Foundation for the Economics of Sustainability (FEASTA). Two members of FEASTA's Board of Trustees reside in Massachusetts and Virginia.

FEASTA has been promoting carbon pricing design for over 15 years, including being an originator of the Cap & Share concept, also referred to as Cap & Dividend in the US. FEASTA also initiated the CapGlobalCarbon project at COP-21 in Paris.[1]

We encourage the TCI to adopt the following design elements of a carbon pricing system:

1) **An upstream system:** The most comprehensive and easiest to administer point of regulation would be where only upstream companies - i.e. extractors/producers of fossil fuels - are required to hold permits. They would be the buyers at the permit auction. An upstream system would also encompass transportation fuels, an important source of emissions. We were pleased to see the permit system is proposed to be implemented at the Terminal Rack, which is relatively upstream for the transportation sector. We encourage the designers to look ahead to a time when the TCI and the Regional Greenhouse Gas Initiative (RGGI) could be merged in order to provide a single, cross-sectoral, economy-wide carbon price (and dividend, as described below).

2) **Auctioning permits:** Auctioning is important because we have seen in other "benchmarked" carbon trading programs the tendency to overallocate permits, leaving the price at the minimum. We are pleased to see that the Framework encourages 100% auctioning of permits. The Regional Greenhouse Gas Initiative (RGGI) and the European Emissions Trading System (ETS) have both had a problem with grandfathered (administratively allocated) permits. Industry will lobby for additional permits and exemptions. Politicians are tempted to delay turning the screw, and worried about causing "leakage" or an economic downturn, and so they provide most or all of the previous year's allocation for free. But ambitious goals are achievable, because the economy does innovate. In RGGI's case, power plants switched from coal to natural gas, leaving the program overallocated and the permit price at $2/ton. In the next ten years, we expect decreasing electric vehicle battery costs to undercut the business as usual case, and make current baselines obsolete. This can be partially remedied with an escalating floor on the permit price (and that is what California did), but auctioning 100% of permits is better because it lets the market determine the impact of innovation on the permit price.

3) **Return carbon price revenues to households as a "Climate Dividend" rather than using them to fund "investments"**

We are concerned that TCI is inclined to devote permit auction revenues to spending on state programs and initiatives ("cap and invest"). We think that it would be a much better policy to

[1] https://www.feasta.org/; http://www.capglobalcarbon.org

distribute revenues to the residents of participating states ("cap and dividend"), and there are a number of reasons why.

First, there is the simple economics of the carbon price. As fuel and energy suppliers build the costs of carbon into their prices, it will ultimately be end users—the residents of TCI states--who will bear the financial burden of the program. This is a good thing, in that it will provide the price signal that will get households to seek alternatives to carbon-intensive modes of transportation, and make it viable for the public and private sector to invest in alternatives. But it has a downside, which is that it drains resources from households just as they need to manage that transition. If states refund the auction money to residents, the program would retain the upside (price signals) while eliminating the downside.

Second, there is the issue of equity and climate justice. TCI is rightly concerned about how a carbon price will affect vulnerable populations, including rural populations. An equal per capita dividend addresses the regressive impacts of the carbon price on low-income households and helps ensure that vulnerable populations are not put at risk by the carbon pricing policy. A climate dividend could eventually become part of a basic income, addressing economic inequality, unemployment, and social justice. We encourage TCI to include mention of climate dividends as an option when conducting outreach with disadvantaged communities (i.e. "would you prefer this project, or an annual climate dividend of $X?"). It would also be possible to extend the program in such as way as to support international climate justice, for example by partnering with a low-GHG country of group of states of similar population to that of the region covered by TCI. In this way the program could form a stepping stone towards a more universal distribution of dividends, reflecting the fact that emissions affect everyone on the planet.

Third, and by no means the least important, there is the matter of principle. In his book of the same name, author Peter Barnes posed the question, "*who owns the sky?*" The answer is that we all do. If companies are going to purchase permits to pollute a resource that belongs to all of us in common, that money belongs to all of us. Though too infrequently applied in practice, this principle has deep and respectable roots in the work of thinkers like John Locke and Thomas Paine, and it deserves to be given consideration by policymakers today, as urged by writers like Barnes and economist David Ellerman. If it is objected that government needs the money for programs that benefit the public, the answer is that government has other ways of raising money, including the power of taxation (including taxing the dividend). But the public itself has a first claim on the revenue from exploitation of a common resource.

Fourth, there is the question of public support. Providing dividends can be a way of raising public awareness and support for carbon pricing. See, for example, how Alaska's decision to pay an annual dividend to residents out of a portion of invested Permanent Fund oil revenues—justified on a similar principle, the idea that Alaska's oil reserves belong to the public and the public should be compensated for their drawdown—has made the Permanent Fund the "third rail" of Alaska's politics for decades. (I.e., politicians do not dare suggest raiding it.) The Permanent Fund provides many significant benefits to all Alaskans. The dividend helps ensure that the Permanent Fund enjoys robust political support. TCI can learn a lesson from this. (Compare RGGI: relatively few residents of participating states are aware of or understand the program, let alone can be considered a political constituency for the program. And compare Ontario, Canada, where there has been an outright public backlash against carbon pricing.)

Finally, there is the question of the appropriateness of designating the carbon auction revenue as a fund specifically for investments. The experience in Alaska, when a windfall of state oil revenue first became available, was that much of it was invested in projects and programs that did not have lasting value. We can see today that in California, billions of dollars in Cap & Trade revenues are being used for a high-speed rail line and transit-oriented housing development. If an analog were to be proposed in Virginia, the equivalent would be to cover Metro's shortfall. Emission reductions from areas like these may take decades to materialize, if they materialize at all. If a transportation investment project is worthwhile—and undoubtedly there are many worthwhile projects that TCI states have under consideration—it should be evaluated and funded on its merits, like any other public project, and not be preferentially green-lighted simply because a ready source of funding is available. That would be a recipe for attracting second-tier project proposals. There are multiple sources of funding for transportation investment projects (e.g., general state revenue and the bond market), and project proposals that have real merit ought to have no trouble finding funding from such sources.

In sum: The goal of a carbon pricing program is not to build big capital projects or backfill billions in deferred infrastructure maintenance. The goal should be to provide an economic incentive to Americans to change their economic behavior. Behavior change is better accomplished with the highest politically acceptable carbon price, which can be achieved by returning the funds to American households through a dividend.

Please leave investments in low-carbon transportation to the regular budget process, and return funds from a carbon price on transportation fuels back to the people as a climate dividend.

Thank you for your consideration.

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More information on the Feasta climate group's work on per-capita dividends can be found at 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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