

Offsets Key To Devising Climate Package

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by Darren Goode

President Obama's request in his initial budget blueprint for Congress to provide hundreds of billions in middle- and low-income tax credits through an economywide climate change plan reflects not just increasing pressure to combat global warming but to mitigate inevitably higher costs to consumers.

"We need to make it very clear that revenues from capping carbon are returned to consumers to pay for increased costs they will face," Rep. **Chris Van Hollen**, D-Md., said.

Van Hollen last week proposed the idea of a cap-and-dividend plan wherein businesses through an auction have to purchase all their credits to release greenhouse gases and send about 90 percent of the revenue directly back to the public through monthly rebates to "every American with a Social Security number."

It is one of the latest variations or alternatives emerging to limiting greenhouse gas emissions through a market-based cap-and-trade program that Obama and congressional Democratic leaders have rallied behind. "It's putting another idea on the table," Van Hollen said. "If one doesn't get traction, it's more like an alternative, plan B."

Proponents of another, more age-old idea -- instituting a direct tax on carbon emissions -- say there is growing interest among Democrats and that even the White House privately is not objecting to the idea being batted around.

"This kind of debate is largely within the Democratic Party, and it is evolving rather quickly, frankly," said Robert Shapiro, former Commerce undersecretary for economic affairs in the Clinton administration.

Shapiro co-founded the Climate Task Force last year with another former Clinton administration official, Elaine Kamarck, to advocate reducing payroll taxes as a means of offsetting costs that businesses would likely shift to consumers as a result of a carbon tax.

"I think right now it's being talked about in a lot of circles as a fall-back position," said Kamarck, who created and ran Clinton's National Performance Review.

Carbon tax backers say it is more transparent and less confusing than a cap-and-trade program. "The public doesn't understand it and members of Congress haven't wrapped their arms around this," Democratic Caucus Vice Chairman John Larson of Connecticut said of cap-and-trade. A direct tax also avoids a middleman approach in filtering money back to consumers, he said. "I think it's pretty obvious to me you're better off with a pass-through and not creating a new federal bureaucracy in order to achieve that," said Larson.

Larson Thursday introduced a modified version of a bill he offered last Congress which would put a \$15 per metric ton tax on carbon at mines, refineries and other such sources in the first year and increasing \$10 annually after that. Revenue would go to giving payroll rebates to consumers as well as fostering alternative energy sources, including cleaner uses of coal. This resembles at least the general concept of Obama's budget outline last week. OMB directed nearly \$526 billion by 2019 in revenue assumed through a cap-and-trade emission credit auction toward Obama's "make work pay" tax rebate that goes to all but the top 5 percent of taxpayers and \$120 billion for "clean energy" technologies.

Tax advocates say cap-and-trade was born when people had more faith in the markets. "The profound dysfunctions in the financial markets raise very serious operational and political questions," Shapiro said.

House Financial Services Chairman **Barney Frank** does not buy the argument that problems in the financial markets means other market-based ideas are doomed. "I don't think that means markets are never any good for anything," Frank said.

The United States devised the cap-and-trade idea as part of EPA's acid rain program in 1990. "The track record is excellent," said Rep. **Rick Boucher**, D-Va., chairman of the House Energy and Commerce Energy and Air Quality Subcommittee in the last Congress. It also presents the most cost-effective means of reducing carbon emissions, he said. "I do not see another alternative," Boucher said.

Even if a cap-and-trade program ends up being the mechanism Congress adopts, there is increasing emphasis on ensuring that revenue gets directly funneled back to consumers.

House Energy and Commerce Chairman **Henry Waxman** -- who is developing an energy and climate change package with a cap-and-trade program -- expects money to be used "to help consumers who will have a hard time affording any increases" in their electricity and other bills, as well as help industries develop technology to meet requirements. "We need to be mindful of the consequences of the impact of the cap and trade," he said. Waxman is planning to release a draft bill this month and wants a bill through his panel by Memorial Day.

Critics of Obama's budget plan question whether the revenue will really go back to taxpayers.

Sen. **Bob Corker**, R-Tenn., said upper income taxes already will pay for Obama's tax credit. "And so what they're doing in essence is casting a huge energy tax and keeping the money inside government," Corker said.

Sen. **Sherrod Brown**, D-Ohio, worries his and other manufacturing states will bear the brunt of a cap-and-trade program and not get enough in return. "My concerns [are] when a small number of states absorb most of the costs and then the benefits are disbursed to sort of the whole country," Brown said. "I'm troubled what it means to the individual people's electric bills and I'm troubled what it means to a lot of our manufacturers."

Aides for Brown and about 15 other senators have been meeting to develop pieces of a cap-and-trade plan, including mitigating costs to consumers, front-loading money for carbon-cutting technologies and allowing for an unlimited amount of suitable offsets for businesses to use to meet the emission reduction targets.

With most Republicans opposed to a cap-and-trade system, the success of getting Rust Belt and other skeptical Democrats on board will be crucial to giving Obama the early climate victory he is seeking. "I'm not convinced yet," Brown said.