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Climate Policy that Pays Short and Long-Term Dividends

December 2009

A growing number of researchers[i] and consumer groups[ii] have been examining the relative benefits of a greenhouse gas reduction policy that focuses on safeguarding and empowering consumers. A properly structured climate policy will put cash in consumers' pockets and provide the necessary capital to make America's homes and communities more efficient and less polluting.

On December 11, 2009, Senators Cantwell and Collins introduced the Carbon Limits and Energy for America's Renewal (CLEAR) Act. The CLEAR Act's monthly energy security dividend payment will distribute about $1,100 annually on average for a family of four[iii], or up to $21,000 through 2030. Because the CLEAR Act's dividend payments will be paid out in cash on an equal per capita basis, they allow individuals to decide for themselves whether to spend, save, or invest those dollars, but also offer a clear incentive for greater energy efficiency and lower carbon intensity. Consumers keep more money in their pockets as they use less fossil fuel.

How Dividends Work for the American Public

While the CLEAR Act does raise fossil fuel prices because energy producers will have to bid for a limited number of "carbon shares" to sell their fuel, by returning three-fourths of the auction revenue directly back to every Americans the bill keeps all low and middle class families whole. In fact, according a recently released report from the University of Massachusetts, all but the wealthiest 20 percent of Americans –because they use the most energy—will be fully compensated or result in net income gains for most low-income families. On an individual level, the gainers would be those Americans and families that consume (directly or indirectly) less than the average amount of fossil fuels and for whom dividends would consequently exceed what they pay in higher prices. Low-income families in particular would benefit from cap and dividend policies, as has been shown by the CBO and other studies. As a result of this income effect, monthly dividend payments will play a role in stimulating future economic growth.[iv]

Dividends Allow Price Signals to Boost Efficiency

Dividends also provide a clear incentive for households and businesses to become more energy efficient. Dividend payments offer a means of compensating the public for higher energy costs without shielding them from the price signal, which presents a potent incentive to drive the changes in energy use patterns necessary to reduce greenhouse gas emissions. In other words, while consumers see higher prices, they are compensated independently for the increases.

The CLEAR Act also creates an energy efficiency loan fund that allows consumers to borrow against future dividend payments, giving them the upfront capital they need to make energy efficiency improvements and carbon intensity reduction in their homes and businesses.

Dividend Clean Energy Investments Create Jobs and Improves National Security

Investments of dividends in energy efficiency, renewable energy, and other activities to reduce carbon intensity will also help to keep more money in the U.S. economy and send less overseas to foreign producers of fossil fuel. In this way, dividends can help to improve America's energy security and create new jobs and industries within the U.S. In fact, a recent study by the University of

Massachusetts found that clean energy investments lave a much larger positive impact than on jobs and economic growth than investment in other areas, such as in the fossil fuel industries. The study found that each $1 million invested in efficiency and renewable energy generated more than three times the number of jobs created by an equivalent investment in fossil fuel industries.[v]

Extending Dividends to All Legal U.S. Residents

At first blush, the task of reaching the American public in its entirety with monthly electronic dividend payments may appear daunting. Yet, federal and state government agencies already do this each month with impressive accuracy. The Government Accountability Office listed 34 federal benefit programs that use Electronic Funds Transfer (EFT) to disburse some $34.1 trillion. The Federal Government's Financial Management Service (FMS) administers 80 percent of all payments, including Social Security and payments and tax refunds. 80 percent of FMS payments in 2008 were made by direct deposit and with 100 percent accuracy. Similarly, state-level nutritional assistance programs now use electronic transfers to make 100 percent of payments and with approximately 95 percent accuracy.[vi]

Very Low Administrative Costs for Equal Per Capita Electronic Payments

The Treasury Department estimates that current electronic transfer payments each cost approximately 10.5 cents—one-tenth the cost of issuing paper checks. The actual cost of dividend payments under the CLEAR Act would be significantly lower because of the scale and frequency of the payments. Recent analysis conducted at New York University suggests that the administration of a monthly climate change policy dividend program such as that of the CLEAR Act would be less than one percent of the revenues generated by the policy.[vii] States have shown that this is possible, for example Nebraska State Treasurer Shane Osborn said in a recent article that it only "costs a penny to put money into an account linked to a card" based on that state's experience with electronic payment systems.[viii]

Energy Security Dividends Can Harness Existing Distribution Programs

Existing administrative resources and databases will reduce the start-up costs of the dividend program. For example, a key administrative challenge to directly depositing dividends into American's bank accounts is the lack of a centralized government database that includes the name and address of all legal U.S. residents. While much of this information has already been gathered, it has not been consolidated into a single information resource. Consolidating information contained in databases maintained by the Internal Revenue Service, the Social Security Administration, the Veterans' Administration and state run nutrition assistance could facilitate the extension of monthly EFT dividend payments under the CLEAR Act.

Reaching Populations without Bank Accounts

Ensuring that dividends reach all Americans—especially low income individuals—will be a challenging but achievable administrative task. Almost all U.S. residents in the lowest income quintile already either receive federal benefits or file income taxes, and their information is on file. Outreach efforts would be necessary, however, to identify and deliver rebates to those not covered by existing government programs.

Finally, some Americans still prefer paper checks to EFT benefits, and at least 4.5 million recipients of federal benefits do not have bank accounts. Since paper checks are more expensive to administer, the Treasury Department has mounted a "Go Direct" campaign to encourage switching to EFT, and launched its "Direct Express" program, which provides an electronic debit card option for those without bank accounts. By continuing such efforts, a climate rebate program could increase the percent of EFT payments, keeping costs low.

Ensuring Privacy Protections

The CLEAR Act also explicitly requires that the privacy of every qualified individual be protected and any personal information must only be used for the accurate distribution of carbon refund payments. Several federal laws now in place set out strict guidelines for the government's handling and use of the personal information it gathers from the public, and for the procedures it must follow to notify individuals in the event of a breach of information security. These safeguards, such as those included in the 1974 Privacy Act, have proven highly effective in protecting citizens' personal information while facilitating its use for a variety of benefit distribution programs.[ix]

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[i] For example: For example: Peter Barnes (Tomales Bay Institute), Dallas Burtraw (Resources for the Future), Robert Reich (Former U.S. Secretary of Labor, University of California, Berkeley), Chad Stone (Center on Budget and Policy Priorities), Michael Livermore (Institute for Policy Integrity, New York University Law School), Gilbert Metcalf (Tufts University), James Boyce and Matthew Riddle (University of Massachusetts), George Lakoff (University of California, Berkeley).

[ii] For example: AARP; Center on Budget and Policy Priorities, Washington, DC; Public Citizen, Washington, DC.

[iii] Average individual dividend payments between the policy's inception in 2012 and 2030 are expected to grow from $196 to $331, as the average carbon share price rises. The exact allocation is dependent on how much money is raised at monthly auctions of "carbon shares" and the rate U.S. population growth.

[iv] Testimony of Peter Orszag to Senate Finance Committee, April 24, 2008. http://www.cbo.gov/ftpdocs/91xx/doc9134/04-24-Cap_Trade_Testimony.pdf; James K. Boyce and Matthew Riddle, *Cap and Dividend: How to Curb Global Warming While Protecting the Incomes of American Families,* University of Massachusetts/Amherst, Nov. 2007. http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_101-150/WP150.pdf

[v] Robert Pollin, Jeannette Wicks-Lim, and Heidi Garrett-Peltier, *Green Prosperity: How Clean-Energy Policies Can Fight Poverty and Raise Living Standards in the United States*, University of Massachusetts/Amherst, June 2009.

[vi] Government Accountability Office, *Electronic Payments,* GAO-08-645 http://www.gao.gov/new.items/d08645.pdf

[vii] Michael Livermore, Dividend *Mechanics: Moving Climate Auction Revenue into America's Wallets*, New York University, Institute for Policy Integrity, 2009, http://policyintegrity.org/projects/documents/DividendMechanics.pdf

[viii] Source: 'A plastic prop.' *The Economist*, August, 20th 2009.

[ix] 5 U.S.C. § 552a(a)(5).