

DIVIDEND MECHANICS

Moving Climate Auction Revenue into America's Wallets

Capping the emission of heat-trapping pollutants is the most straightforward, most efficient strategy for Congress to combat global warming. Such a cap—by itself—will increase prices for consumers of energy and energy-intensive goods: indeed, only when prices reflect the true cost of climate change will businesses and individuals be motivated to take action and reduce emissions.

Fortunately, Congress can design a climate policy to protect consumers from unfair burdens. A cap will affect prices whether emissions allowances are freely allocated to polluters or auctioned off. But by auctioning, Congress could raise billions per year and distribute revenue back to the public. Without an auction, a cap will disproportionately affect lower-income households and the elderly, since they spend a high percent of income on energy-intensive items; yet *with an auction and distribution, lower-income households could see net financial benefits under a climate policy.*¹

Fair and efficient distribution of auction revenue is an achievable goal. In fact, Congress can choose from a variety of available mechanisms, including a monthly, lump sum rebate delivered to every American. The cheapest, safest, and most effective way to issue these payments is through Electronic Funds Transfer (EFT). EFT, such as direct deposit, increases the accuracy and timeliness of payments, protects against fraud and identity theft, and saves the government money.

Distributing hundreds of millions of EFT payments each month may seem daunting, but federal and state agencies already do just that, and do it well. In 2008, the Government Accountability Office counted 34 federal benefit programs using EFT to disburse \$34.1 trillion.² The Financial Management Service (FMS), which administers four-fifths of all federal payments, including Social Security checks and tax refunds, made 80% of its payments by direct deposit last year and boasted an accuracy/on-time rating of 100%.³ State-run nutritional assistance programs (formerly called food stamps) report 100% use of EFT, with an accuracy rating of nearly 95%.⁴

The Treasury Department estimates that, *on average, EFT costs only 10.5 cents* (a tenth the cost of paper checks).⁵ The actual cost per EFT for a climate rebate could be substantially lower, since monthly distribution to every American would increase both the economies of scale and the opportunities to learn to be more cost-efficient. But applying that estimate to population projections, we can make conservative cost predictions for distributing monthly climate rebates to each American. Based on the number of emissions allowances available under the House-passed climate legislation (H.R. 2454) and EPA's conservative estimate for the value of those allowances, we can also predict annual revenues from a 100% auction of allowances.⁶

EFT costs would be a slightly greater percent of total revenues from a partial climate auction, like that currently proposed by H.R. 2454, since the revenue pool is smaller: but even under such a partial auction and dividend scheme, costs would average only around 1% of revenue.⁷

| YEAR | POPULATION | ANNUAL EFT COSTS | ANNUAL REVENUE FROM 100% AUCTION | ANNUAL REBATE | COSTS |
|------|-------------|------------------|----------------------------------|---------------|--------------|
| 2020 | 348 million | \$438 million | \$86 billion | \$248 | 0.51% |
| 2030 | 382 million | \$482 million | \$98 billion | \$257 | 0.49% |
| 2040 | 414 million | \$522 million | \$103 billion | \$249 | 0.51% |
| 2050 | 446 million | \$562 million | \$76 billion | \$171 | 0.74% |

The administrative costs of a climate rebate program can also be roughly predicted by analogy. FMS currently spends less than \$300 million each year to issue \$1.8 trillion in federal payments like Social Security checks and tax refunds.⁸ Of course, FMS is supported by the administrative resources and budgets of other agencies, like the Social Security Administration and the IRS. But many of these agencies' administrative functions (and therefore, costs) would not apply to a lump sum climate rebate: for example,

there is no need to determine eligibility or calculate appropriate benefit size, since every American would be entitled to the same climate rebate.⁹

Existing administrative resources would also help reduce the start-up costs of a climate rebate program. For example, a key administrative challenge to directly depositing climate rebates into American's bank accounts is the lack of a centralized federal database with everyone's name, address, and bank information. *Much of the necessary information is already collected*, just not by a single federal agency: IRS has information on 155 million tax filers (and their dependents), many of whom already sign up to get tax refunds through EFT; similarly, but separately, programs like the Social Security Administration and state-run nutrition assistance already have the information necessary to make EFT payments to millions of additional Americans (over 55 million EFT recipients in those two programs combined).¹⁰

Pooling those existing information resources could help construct most of the database for a climate rebate program. *Some of the necessary work has already begun*: FMS is already investing several million dollars to combine its thirty separate computer payment applications into a single process.¹¹ Additional interagency coordination would not only help get a climate rebate program up and running, but will also lower the administrative costs of existing federal programs.

Ensuring the climate rebate reaches all Americans—especially those who will be hardest hit by increased energy costs—will be a difficult but achievable administrative task. About 95% of Americans in the lowest income quintile already either receive federal benefits, file income taxes, or have earnings, and their information should be on file; the estimate rises to 98% for the next two lowest income quintiles.¹² 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.¹³ Paper checks are more expensive. The Treasury Department has achieved considerable success in recent years with its “Go Direct” campaign to encourage switching to EFT, and with its “Direct Express” program, which provides an electronic debit card option for those without bank accounts.¹⁴ By continuing such efforts, a climate rebate program could increase the percent of EFT payments, keeping costs low.

Clearly some administrative challenges do exist, but the revenue from a climate auction can be rebated to Americans cheaply, safely, and fairly using an electronic payment system. *Congress should carefully consider its options, but ultimately must not pass up the opportunity to advance climate goals while protecting American consumers at the same time.*

¹ Cong. Budget Office, *Distribution of Revenues from a Cap-and-Trade Program for CO₂ Emissions* (2009).

² Gov't Accountability Office, GAO-08-645, *Electronic Payments* 9, 14 (2008).

³ Dep't of Treasury Budget Documents, FY2010 Cong. Justification: Financial Management Service 3-4, 14 (2009).

⁴ GAO, *supra* note 2, at 17; Dep't of Agriculture, FY2010 Budget Summary and Annual Performance Plan 63 (2009).

⁵ FMS, *Electronic Transfer Fund Overview*, <http://www.fms.treas.gov/eft/>.

⁶ Raw data drawn from the Data Annex for EPA's analysis of H.R. 2454.

⁷ H.R. 2454 auctions 15% of allowances for low-income family rebates, and starting in 2026 auctions over 50% for general rebates.

⁸ Dep't of Treasury, *supra* note 3, at 12.

⁹ Memo. from Cong. Res. Serv., to Sen. Maria Cantwell, May 4, 2009 (on “Administering Rebates Through a GHG Reduction Program”).

¹⁰ *Id.*; Dep't of Treasury, *supra* note 3, at 4 (on tax refund EFT); GAO, *supra* note 2, at 17, 49 (on program participants and EFT rates).

¹¹ FMS, SF Newsletter 4 (2009), <http://www.fms.treas.gov/sfc/sfcnewslettersept%202009.pdf> (on Payment Application Modernization).

¹² Ctr. on Budget & Policy Priorities, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2790>.

¹³ FMS & Federal Reserve Bank of St. Louis, *Understanding the Dependence on Paper Checks* 8 (2004).

¹⁴ Dep't of Treasury, *supra* note 3, at 12-13.

The Institute for Policy Integrity at New York University School of Law is a non-partisan advocacy organization and think-tank dedicated to improving the quality of governmental decisionmaking. IPI promotes sound cost-benefit analysis of environmental, health and safety policy at the state, national, and global levels. Founded by the coauthors of *Retaking Rationality: How Cost-Benefit Analysis Can Better Protect the Environment and Our Health*—Richard L. Revesz and Michael A. Livermore—IPI strives for smarter policy through balanced economic analysis.