

REVENUE RECYCLING ALTERNATIVES

1. Assumptions

This memo assumes an Obama Administration will cap carbon emissions, auction 100% of the permits, and recycle a substantial portion of auction revenue to the American people to offset higher energy costs. It compares two revenue recycling methods: tax credits and dividends. The key differences between the methods are:

	TAX CREDITS	DIVIDENDS
Frequency of distribution	Yearly	Monthly
How paid	Tax reduction or refund	Electronic transfer
Tax status of distributions	Tax-exempt	Taxed as ordinary income
How amount calculated	Cong. or IRS calcs	Equal shares
% of Americans covered	60%+*	100
Means-tested?	Yes	No
% of revenue recycled	> 55*	100
% of revenue for US Treas.	< 45*	20-25**

• Percentages depend on credit amounts and income cut-offs chosen

** Reflects income tax revenue on dividends

This memo further assumes that the price rises caused by carbon capping will have the regressive distributional impacts projected by the CBO, and that these impacts will increase as the cap declines:

ANNUAL INCREASE IN HOUSEHOLDS' COSTS FROM A 15% CUT IN CO₂ EMISSIONS

QUINTILE	COST INCREASE	AS % OF INCOME
Poorest	\$677	3.3%
Second	\$883	2.9%
Middle	\$1,161	2.8%
Fourth	\$1,500	2.7%
Richest	\$2,171	1.7%

Peter Orszag, testimony before House Budget Committee, Nov. 1, 2007, p.8.

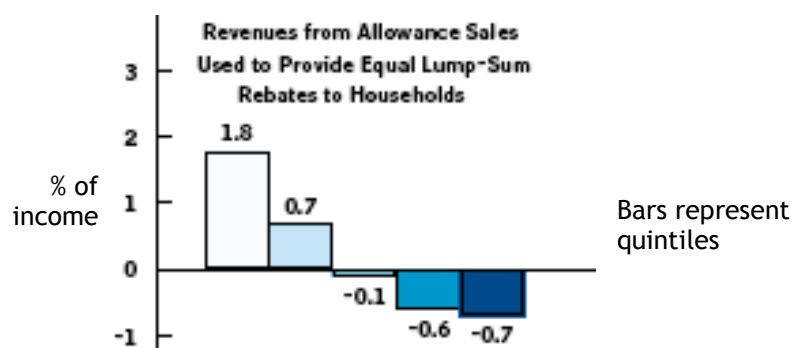
2. Macro-economic impacts

- 100% dividends pumps more cash into the economy more frequently than tax credits, and thus better sustains consumer purchasing power

3. Distributional impacts

- Both systems protect low- and moderate-income households from loss of purchasing power due to higher carbon prices. However, there are differences:

- With tax credits keyed to income level, few households would come out ahead
- With equal dividends, the poorest and second quintiles (on average) would gain in income and spending power (that is, their dividends would exceed their higher carbon costs)



Orszag testimony. op. cit., p.10

- With equal dividends, all households have the potential to gain if they conserve on fossil fuels (that is, since those who use more carbon pay more, and everyone gets back the same, those who use less carbon than average will come out ahead)
- Monthly rather than yearly payments are needed by many households to make ends meet. Administrative costs can be kept low through electronic transfers.

4. Political considerations

- Any politically viable carbon cap must provide pocketbook protection to a substantial majority of US households. 100% dividends provides the most protection for the most people and locks that protection in no matter how high carbon prices go (as carbon prices rise, so do dividends).
- 100% dividends is simple to understand and fair to all. It raises the price of carbon and gives the money back in a transparent, equitable and trustworthy way. It rests on the common-sense notion that the atmosphere is a shared resource that belongs to all (one person, one share, like the Alaska Permanent Fund).
- 100% dividends is *ipso facto* revenue-neutral. It cannot be characterized as a tax. Nor can it be characterized as an 'entitlement' program: the government is simply returning higher carbon prices to the people.
- 100% dividends can be a signature Obama program that demonstrates his commitment to putting the good of all ahead of special interests.
- Because of its simplicity and revenue-neutrality, 100% dividends could get bipartisan support and pass early in 2009, perhaps in the first 100 days.