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For the Public Record

September 2, 2018

To: California Air Resources Board

Re: Comments on the California Cap and Trade Auction Proceeds Third Investment Plan

Since 2006 my comments have consistently encouraged the California Air Resources Board (ARB) to return most or all of the auction proceeds to the public following the Cap & Dividend model.¹ Back in 2010, California's Economic and Allocations Advisory Committee (EAAC) recommended returning 75% of permit revenues back to the people.² However, in its market design, the State has chosen to follow the "Cap & Spend" approach instead of Cap & Dividend. The Cap & Spend approach chooses projects to fund with the proceeds. California should reconsider its choice of model, and reorient toward Dividends for All.³

Washington State will be considering a ballot measure in November 2018 that seeks to follow California's Cap & Spend model. Proponents in Washington State believe this is superior to the 2016 ballot measure that was more of a Cap & Dividend approach. They believe that their coalition, in which they specify certain amounts to interest groups, will withstand political pressure as prices for electricity and petroleum increase. This is wishful thinking. No coalition can be broad enough to cover everyone, except for a policy that specifically covers everyone. And the policy that literally covers everyone is called Dividends for All!

The worry of a backlash to a carbon pricing plan that lacks dividends is not purely academic. In 2018, Ontario, Canada elected a new Premier Doug Ford. He proudly proclaimed his first order of business was to scrap their cap and trade program.⁴ Residents of coastal California should be wary of thinking it

¹ Related articles on Huffington Post "Five Ways to Improve California's Cap and Trade System" at http://www.huffingtonpost.com/mike-sandler/five-ways-to-improve-cali_b_7869250.html; "For California's Post-2020 Cap And Trade, Give Money To People" at http://www.huffingtonpost.com/mike-sandler/for-californias-post2020_b_11501416.html; "Ten Years of California Climate Dividends Advocacy Leading to SB775" at https://www.huffingtonpost.com/entry/ten-years-of-california-climate-dividends-advocacy_us_590fcd4be4b056aa2363d68a

² <http://www.climatechange.ca.gov/eaac/>

³ <http://peter-barnes.org/book/with-liberty-dividends-for-all/>

⁴ <https://www.cbc.ca/news/canada/toronto/doug-ford-cap-and-trade-1.4707728>

could never happen in California; remember the 2016 elections. The electorate is aggrieved by bailouts to the 1%, while they still struggle. Increases in fuel and electricity prices are regressive. Targeted expenditures to low-income or disadvantaged communities are well-intentioned, but the same result could be achieved from a universal dividend that covers everyone, including the aggrieved people “on the bubble” (just outside income limitations or geographic boundaries) who will not need much encouragement to take out their political frustration at the ballot box.

The State’s current plan is to devote hundreds of millions of dollars from Cap & Trade funds towards high-speed rail and transit-oriented development, as well as other projects. These may be fine projects in and of themselves, but by what metrics are they the best uses of Cap-and-Trade funds? One reason for skepticism is that due to the economics of Cap and Trade, using permit revenues for projects that reduce emissions may only shift emissions between sectors under the cap. Emission reduction projects in certain sectors may reduce the price of the permit in that sector, but this only serves to create space under the cap that will be filled by emissions from other sectors. The overall level of emissions is determined by the cap, not by the price of the permit. Certainly collective action is required to meet long-term climate goals, but returning a majority of permit value back to households, and making those dividends taxable would boost tax revenues, allowing the State to still put forth projects. I request ARB respond to this issue in its communications regarding the post-2020 Scoping Plan and other documents. I also request ARB staff inform the Governor, the Legislature, and the public about the Cap & Dividend model as an alternative (and simpler) solution to implementing a carbon price to meet the goals of AB32 and SB32.

Climate dividends are similar to anti-poverty movements focusing on the concept of “[basic income](#),” and international development efforts promoting “[unconditional cash transfers](#).” It would be congruent with the State’s efforts at establishing a [State Earned Income Tax Credit](#) (EITC).⁵

Reduce giveaway of permits to industry: The fear of “leakage” has led to the program’s subsidies to the fossil fuel industry, which receives millions of permits for free (even though they mostly oppose the program). The Petroleum Refining, Natural Gas Extraction, and Cement sectors received over 49 million free allowances in 2016. At \$12.73 [per allowance](#), that subsidy is [worth](#) over **\$629 million per year**. Reducing or eliminating this subsidy would help bolster demand which has been lagging in recent permit auctions.

Move the Climate Credit Off-bill: The California Public Utilities Commission has mandated utilities return the revenues from their “consigned allowances” back to the ratepayers through a [California Climate Credit](#) that appears twice a year on electricity bills. Post-2020 the State could expand that to an off-bill per-capita dividend that would be simple, transparent, and be inclusive of disadvantaged communities not just coastal cities. Please see my comment on the 2013 Investment Plan for additional

⁵ <http://calbudgetcenter.org/blog/proposed-state-eitc-would-significantly-boost-the-incomes-of-californias-lowest-earning-workers/>
http://www.mercurynews.com/california/ci_28114306/california-budget-brown-set-release-revised-spending-proposal

information on suggestions for how to include a Household Dividend and a Transportation Dividend as steps toward a more general Climate Dividend.⁶

Many people do not understand climate dividends. It is about transforming the economic system, not about funding specific projects. I urge ARB staff to read Peter Barnes' books, including *Who Owns the Sky?*, *Capitalism 3.0*, and *With Liberty and Dividends for All*.

California has shown leadership on climate change by creating a price on carbon. It can improve the program in its next phase, and perhaps gain supporters for the program's extension, by decreasing subsidies to the fossil fuel industry, and depoliticizing the way funds are used by moving the funding for environmental programs into the regular budget process and returning Cap & Trade revenues back to people as climate dividends.

Thank you for your consideration.

Sincerely,

Mike Sandler

⁶ <http://www.arb.ca.gov/lists/com-attach/209-ghgreductfund13-VDdQOQNvU20AY1c5.pdf>