The Foundation for the Economics of Sustainability

For the public record

September 15 2021

To: California Air Resources Board

Re: Comments on the Draft Cap-and-Trade Auction Proceeds Fourth Investment Plan

Please accept these comments from the Foundation for the Economics of Sustainability (FEASTA) on the Draft Cap-and-Trade Auction Proceeds Fourth Investment Plan. Although FEASTA is based in Ireland, two members of FEASTA's Board of Trustees are in the U.S., and one, Mike Sandler, is from California and was active in California's climate movement for many years, having submitted comments on California's Cap & Trade program development since 2006. FEASTA has been promoting carbon pricing design for over 15 years, including being an originator of the Cap & Share concept, also referred to as Cap & Dividend in the US. FEASTA also initiated the CapGlobalCarbon project at COP-21 in Paris.[1]

California is right to be proud that it has one of the best carbon pricing programs in the world. Although most emissions trading systems give permits away for free to corporations, resulting in overallocation and a low price, California has in general avoided the low price due to its escalating price floor. Even so, the program can be improved in several ways, including moving the point of regulation further upstream, auctioning 100% of permits while getting rid of whatever free allocation remains, and lastly (and this is the main point of this letter), returning the revenues generated back to households as a carbon dividend.

We encourage ARB to change its strategy and return as much of the auction proceeds as possible to the public following the Cap & Dividend model. There is already precedent for dividends in California, with the California Climate Credit showing up twice a year on many electricity and natural gas bills. The Credit could be expanded, or a separate Dividend could be created from funds currently used for "investments."

Investments in renewables, infrastructure, efficiency, etc., are necessary. But they should be driven by and in line with market demand (from the rising carbon price generated by the declining carbon cap). If the investments are made based on some other criteria (like constituent wishes expressed in a public comment process), there is a risk of misalignment with demand, and waste and inefficiency or worse. Many of the investments could be made by the private sector. Some certainly could and should be made by the public sector (especially in the case of public goods, and failure of the market to serve underserved communities), with due precautions. But these public sector investments should not be financed by carbon pricing revenue. If they are sound public investments, they can and should be financed by standard means, like taxes and/or bonds. Introducing dedicated funding merely invites projects to slip through and get approved that would not be approved on their own merits.

Consider also that a large percentage of auction proceeds continues to be spent on projects with questionable individual emissions reductions. Tens of millions of dollars of Cap & Trade funds go to high-speed rail and transit-oriented development, and other transportation-related projects where net emission reductions are not expected to materialize for several decades.

It is important to recognize that **climate investments do not reduce overall emissions.** This may sound like a shocking statement, and most observers probably assume that the investments must result in emission reductions. However, due to the economics of Cap-and-Trade, the overall level of emissions is determined by the cap, not by the price of the permit. Emission reductions may reduce the price of the permit in the sector where the funds are spent, but this may only serve to create space under the cap that will be filled by emissions from other sectors[2]. The only State Agency that seems to acknowledge this is the California Legislative Analyst's Office[3]. The rebound effect is well established in the literature [4], and the CA LAO has shown that it applies in this case as well. ARB staff should research and report to the State Legislature on this problem with using permit revenues for projects, and include this information in the Investments Plan. If needed, ARB can request follow-on legislation to expand its options and allow it to use GGRF funds for dividends. We request that ARB include such educational information about this issue in all of its communications involving auction proceeds. Otherwise, the Governor, Legislature, and the public is likely being misled into thinking that these projects are actually reducing aggregate emissions. If they understood that these projects only shift emissions between sectors under the cap, they may be more open to using auction proceeds for climate dividends to households.

There are several reasons to support returning the funds back to people as a **climate dividend**. First, issuing carbon pricing revenue as dividends turns the regressive program into a progressive income recycler.[5] Second, by giving the poor and the middle classes the needed financial cushion, it allows the carbon price to rise on a truly ambitious schedule and be environmentally effective. Third, it will create a broad-based constituency that will support the carbon pricing program--like the dividend-issuing Alaska Permanent Fund, which is arguably the most popular state initiative in the history of the U.S., and unlike the imprudent French climate policies that spawned a Yellow Vest backlash. Fourth, it will encourage people to think of themselves, correctly, as co-trustees of the atmosphere and climate as shared inherited public resources.

We are glad that at least 35 percent of funding in California's program supports climate justice in disadvantaged communities (referred to in the Plan as "priority populations"). We encourage you to read the literature in the anti-poverty movement focusing on the concept of "basic income," and international development efforts promoting "unconditional cash transfers."[6] The Mayors of Oakland, Stockton, Alhambra, Long Beach, Compton, and others are part of a new group Mayors for a Guaranteed Income.[7] Those cities contain thousands if not millions of priority populations. Please include mention of climate dividends as an option in your communications with those priority populations (i.e. "Would you prefer this project, or a climate dividend of $XX?"). The climate dividend concept can help build support for (otherwise regressive) carbon pricing in rural and low income areas.

The California Climate Credit also provides a lesson to be learned for a future carbon dividend. A dividend buried deep inside a utility bill is not visible to most of the public. Few people read the line items of their electricity bills. By contrast, the recent stimulus checks from the Federal Government were highly visible. In a State where a minority of voters can initiate a recall of the Governor, one would think that the State leadership would want to win over the broadest possible constituency, and what better way than by wiring them money after each auction of carbon permits?

We encourage ARB staff to learn more about dividends generally. Our organization will be sponsoring a webinar in the Fall featuring California resident and author Peter Barnes, whose new book *Ours* features the concept of Universal Property. Climate dividends is a classic case where providing this Universal Property to everyone will save the climate, change the economic incentives of households and businesses, and adequately answer the question, "Who Owns the Sky?" We all do.

Dividends can also address the rise of authoritarianism in the U.S. by reducing economic inequality, as described in an excellent article in *Scientific American* about the Alaska Permanent Fund.[8] That article's author, Professor James K. Boyce of the University of Massachusetts Amherst, served on California's Economic and Allocations Advisory Committee (EAAC) in 2009-2010. The EAAC recommended in a 2010 report that the largest share (roughly 75%) of allowance value should be returned to California households as dividends[9]. Professor Boyce recently wrote the book *The Case for Carbon Dividends*.

Another FEASTA Trustee, Brent Ranalli, recently published a book titled *Common Wealth Dividends: History and Theory,* which lays out the historical basis for dividends policies, and describes how dividends can solve many issues of the Commons. California has been a leader in carbon pricing, and it still has the opportunity to be a leader on carbon dividends, by redirecting these investment funds to its population.

Thank you for your consideration.

Sincerely,

Mike Sandler

Vice-Chair of Feasta Board of Trustees and founder of CarbonShare.org

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References

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[4] https://thebreakthrough.org/issues/energy/faq-rebound-effects-and-the-energy-emergence-report-1

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