

How to spend the revenues from an auction?

Revenues from an auction of emissions permits can be spent on public goods and consumer compensation. Everyone agrees that revenues can be used for the administration and enforcement of the cap. But not everyone agrees how the remainder should be divided between projects, research, and equity. Here are some arguments for and against each.

Energy/Environment



PRO

Revenues are used to fund additional energy and environmental projects such as:

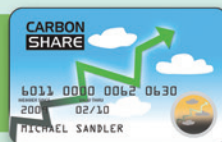
- Energy efficiency, solar incentives
- Public transit (trains, transit, infrastructure)
- Research and development for new technology
- Helps achieve climate protection goals
- Only government can fund large infrastructure projects such as transit.

CON

- Large government expenditures should follow the normal budget and appropriations process.
- Transit can be funded by diverting highway funds.
- Solar can be funded by diverting oil subsidies.
- Trillions can be invested in green jobs and efficiency by ending the War in Iraq, and diverting military and homeland security expenditures.
- Carbon fees and “feebates” are an additional source of funding.
- Government has a mixed history of choosing technology winners (ethanol? the “Supercar?”), and the process is often co-opted by politically powerful lobbies such as ethanol, nuclear, or “clean coal.”
- Government purchasing can drive down prices of existing technologies, without the need to spend auction revenue.

or

Consumer Compensation



PRO

Consumer compensation helps households deal with higher energy prices through a per capita dividend, rebate, or share.

- Protects consumers: Limiting carbon emissions will necessarily raise fossil fuel prices. These higher prices can be offset by distributing ‘dividends’ or ‘carbon shares.’
- Addresses regressivity: Failure to offset higher prices will harm the economy and low-income households particularly.
- Avoids the “pork barrel”: Returning money to consumers avoids funding pet projects, or questionable projects (nuclear, ethanol)
- Makes carbon cap politically feasible: A dividend could prevent a consumer backlash at high fuel and energy prices that would otherwise allow political opportunists to undermine the program.

CON

Q: What if people spend their Dividend on Hummers or vacations which increase emissions? Shouldn't all revenues go toward reducing emissions?
A: Once a cap is in place, it doesn't matter how people spend their money, because the cap means that the emissions target is still met.

Conclusion: Auction revenues should be used for consumer compensation. Investments in energy efficiency, transit, green jobs, R&D, renewable energy, and more may be funded by carbon fees and government budget priorities.