

RFF Scholars Testify before Senate Finance Committee

Bringing their analysis to bear on current energy issues before Congress, two RFF researchers recently presented testimony to the Senate Finance Committee.

President Obama's budget for the fiscal year 2010 calls for the elimination of a number of tax breaks for domestic oil and gas production, raising federal revenue by \$31.5 billion over the following nine years. Stephen P.A. Brown, an RFF nonresident fellow, in ► testimony before the Subcommittee on Energy, Natural Resources and Infrastructure, pointed out that most projections show oil and gas prices rising to near-record levels in those years, and the loss of the tax breaks would amount to less than one percent of the value of the oil and gas produced.

"Tax preferences are instruments of policy," he wrote. "Their use should be limited to activities that need more encouragement than is provided by free market forces." In this case, he said, free markets are likely to provide "sufficient encouragement."

The impact on production would be small, he told the committee, and the impact on consumer prices would be even smaller. Ending the tax breaks would cost the average consumer about \$1.40 a year more for oil products and natural gas, Brown concluded, compared with increased revenue to the government that would be about \$10.70 per consumer.

"The change in consumer prices is very small," he noted, "because oil prices are determined on an international market in which

the United States accounts for less than 10 percent of production."

Dallas Burtraw, a senior fellow at RFF, ► addressed the provisions for distribution of emissions allowances and revenue under the climate legislation pending before the committee. The purpose of the legislation is to reduce the amounts of greenhouse gases emitted into the atmosphere, where they contribute to warming. The most common of those gases is carbon dioxide, most of which is generated by burning fossil fuels.

The bill that the House of Representatives passed in June 2009 would require every major energy producer—for example, an electric power generating plant—to have a government-issued allowance for every ton of carbon that it emits into the air. To protect consumers from the impact of the resulting price increases, the bill would require the government to allocate a large share of those allowances—initially, more than half—to local electric power distributing companies for the benefit of electricity consumers.

The formula is complex and yet, Burtraw warned the committee, it leaves the outcome vague. "State public utility commissions," he said, "will play the determining role in how households are affected, not Congress, and this will be done in 50 different ways. In fact, there is great uncertainty about how the allowance value directed to local distribution companies will flow back to consumers."

There's a simpler and better way to do it, Burtraw suggested: the federal government could itself auction off the allowances and re-

bate the resulting funds, in cash, directly to households.

Allocating free allowances to electric companies raises another issue as well. To the extent that companies use the allowances to reduce consumer prices, they will encourage consumers to use more electricity. That runs counter to the whole purpose of the bill, to push the economy to use less energy through greater efficiency.

Some free allocation to electric companies may be justified, Burtraw argued, to offset regional disparities that arise because some regions are much more heavily dependent on coal than others. But, in his view, it is best limited to that narrow purpose.

He also observed that the allowance allocation provisions in the House bill do not deal equally with all levels of family income. They lead to "an inverted 'U' with respect to the distribution of costs across household income groups, doing a good job of protecting the bottom 20 percent of households and the top 10 percent. The increase in costs associated with the inefficient allocation to local distribution companies falls hardest on the middle range of household incomes. In contrast, direct dividends to households allocate the value of allowances in a way that does not disadvantage the middle class, is less costly and administratively simpler. Furthermore, in a profound way, direct dividends avoid the appearance of favoritism, by distributing to households an equal share of the value of a new property right that is created under a cap-and-trade program."

Burtraw also told the committee that the phaseout schedules for the free allocations to benefit consumers were too long. Households will need some time to adjust to rising electricity costs, he said, but the schedules in the House bill continue for decades. ■

RFF Research Ranks Bolstered by New Personnel Additions

Senior-level staffing changes have augmented RFF research programs in recent months—bringing new talent to bear on a wide range of policy issues, including expertise in such areas as consumer behavior, industrial organization, environmental economics, water quality, and tax policies.

New researchers recently affiliated with or in residence at RFF include Visiting Scholar Sheila M. Olmstead, Fellows Carolyn Kousky and Shanjun Li, Senior Fellow Roberton C. Williams III, and Nonresident Fellows John List, Stephen W. Salant, and James Sanchirico.

"We are gratified that such exceptional academicians have joined RFF's research program," said Mark Cohen, RFF vice president for research. "Not only are they distinguished by their academic accomplishments but they will offer a wealth of collaborative potential to our current research agenda."

Most of the new staff members will divide their research agendas between work at RFF and ongoing activities at their home institutions.

Sheila M. Olmstead is associate professor of environmental economics at Yale University's School of Forestry and Environmental Studies. Her research focuses on natural resource management and pollution control, and current work centers on the economics of water supply and demand, particularly in urban settings. She seeks to measure the effectiveness of policy instruments that deal with urban water scarcity, as well as determinants



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of access to clean drinking water among low-income populations in the United States and developing countries.

A 1992 graduate of the University of Virginia, she received her master's in public affairs from the University of Texas and her Ph.D. in public policy from Harvard University.

Carolyn Kousky's research focuses on natural resource management, decisionmaking under uncertainty, and individual and societal responses to natural disaster risk. She has examined how individuals learn about extreme event risk, the demand for natural disaster insurance, and policy responses to potential changes in extreme events with climate change. She is also interested in ecosystem services policy and has examined the design of incentive-based mechanisms to supply ecosystem services and the use of natural capital to reduce vulnerability to weather-related disasters.

She earned her B.A. from Stanford University in 2002 and her Ph.D. in public policy from Harvard University in 2008. She is co-

author with Roger Cooke of "Are Catastrophes Insurable?" in the summer 2009 issue of *Resources*.

Shanjun Li, an assistant professor of economics at the State University of New York at Stony Brook from 2007 to 2009, examines practices that influence consumer behavior. Much of his recent study has explored how some factors—such as vehicle safety, gasoline prices, tax incentives, and obesity—have affected demand for automobiles. He has conducted research on a set of diverse microeconomic topics including the impact of gasoline price changes on fleet fuel economy, peer effects in group lending in developing countries, and the consequences of free antibiotics on antibiotics usage.

Li earned his B.A. in international economics from Nankai University in Tianjin, China; his master's in agricultural economics at Michigan State University; and his doctorate in economics from Duke University.

Roberton Williams is on leave from the University of Texas at Austin and is a visiting associate professor at the University of Maryland, College Park. His research examines the impact of taxes on environmental policy. He has served as coeditor of the *Journal of Environmental Economics and Management* and is currently coeditor of the *Journal of Public Economics*. He is a member of the editorial board of the *B.E. Journal of Analysis & Policy*.

He received his A.B. in economics from Harvard in 1994 and his Ph.D. in economics from Stanford University in 1999.

New Nonresident Fellows

John List is a professor of economics at the University of Chicago. Known for his innovative use of field experiments in economics, he seeks insights into such areas as social preferences, prospect theory, environmental economics, marketplace effects on corporate and government policy decisions, and multi-unit auctions.

Stephen Salant, a professor of economics at the University of Michigan, is an applied microtheorist with a specialization in the fields of industrial organization and natural resource economics. Among the subjects he has addressed in his research are the appropriate interpretation of government statistics on the duration of unemployment, the effects of anticipated and actual government policies on the price of gold, and the economic aftermath



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of decisions by such groups as agricultural marketing boards, cartels, and international commodity organizations.

James Sanchirico is a professor in the Department of Environmental Science and Policy at the University of California at Davis, who primarily focuses on the economic analysis of marine policies, especially the effects of individual transferable quotas and marine protected areas. His other research interests include spatial and intertemporal management of biological resources, the interface between land use and biodiversity conservation, and the economics of invasive species management. He was an RFF fellow for nine years before joining the Davis faculty in 2007.

In addition, over the past year, several RFF researchers have taken positions within the federal government. They include the following:

- Joseph E. Aldy, special assistant to the president for energy and the environment in the White House, working with both Carol Browner and Lawrence Summers.
- Richard G. Newell, administrator of the federal Energy Information Agency (EIA), part of the Department of Energy. He replaced acting administrator Howard Gruenspecht, also a former RFF senior researcher.
- William A. (Billy) Pizer, deputy assistant secretary for environment and energy at the Department of the Treasury, where he has responsibility for work on creating markets for emissions trading and related policies.
- Shalini Vajjhala, deputy assistant administrator for international affairs at EPA, where she will be play an important role in adaptation efforts for the U.S. government and participate in international negotiations.