

# OPTIONS FOR US CLIMATE POLICY

*By Pete Nelson and Kristin Hayes*

Climate policy was largely absent from the 2012 presidential campaign, making its most notable appearance when Hurricane Sandy prompted New York City Mayor Michael Bloomberg to endorse President Obama based on his climate positions. If nothing else, the election results provide some clarity about the near-term political landscape. Against the backdrop of the failed attempt to pass national cap-and-trade legislation for greenhouse gas emissions, what are the viable options for federal climate policy?

There are three major tracks, and RFF has robust research programs in all of them.

## **The Clean Air Act**

It is easy to forget that we currently do have a federal climate policy, thanks to the Supreme Court's ruling in *Massachusetts v. EPA* that greenhouse gas emissions are covered under the Clean Air Act. Although not the ideal instrument for curbing emissions cost-effectively from an economist's point of view, the act remains a tool that

can be employed to make reasonable progress on emissions reductions.

In fact, as our colleagues Dallas Burtraw and Matt Woerman show in an October 2012 RFF discussion paper, the United States is largely on track to meet its pledge at the Copenhagen climate meetings to reduce emissions by 17 percent from 2005 levels—provided EPA regulates emissions from existing power plants. Burtraw discusses some of the surprising ways the act may have advantages over a national cap-and-trade regime on pages 30–35 of this issue.

## **Carbon Tax**

With the political campaigns of 2012 behind them, the president and Congress have now turned to addressing a very real threat to the United States: massive existing and future federal budget deficits. Current US fiscal policy is characterized by projected levels of spending that far outstrip expected revenue streams. One often-proposed path forward is a package of entitlement and tax reforms of sufficient scale to meaningfully

address the looming deficits and set the US economy on a more positive trajectory.

In this context, deficit reduction, economic growth, tax reform, and climate change intersect in the consideration of a carbon tax: a fee levied on every ton of carbon dioxide emitted into the atmosphere. A \$20 per-ton carbon dioxide tax has the potential to raise more than \$100 billion annually that could be applied toward deficit reduction, refunded to consumers to offset higher energy costs, or used in “revenue-neutral” tax swaps to reduce other taxes.

Since mid-2012, scholars at RFF’s Center for Climate and Electricity Policy have been developing and executing a research agenda related to carbon tax policy design, considering critical issues:

- » How would various uses of carbon tax revenue affect households and the broader economy?

- » How would a potential federal carbon tax interact with existing state and regional climate and renewable energy programs?

- » How would such a tax affect people in different income quintiles and regions of the country?

- » How might the government deal with competitiveness issues for energy-intensive, trade-exposed industries in the United States, whose international competitors do not face a carbon price in other countries?

Tackling this last question, Carolyn Fischer, Dick Morgenstern, and Nathan Richardson describe several options in the next article in this issue.

One centerpiece of this research is the development of a new, overlapping-generations, computable general equilibrium (CGE) model that will let RFF researchers look at alternative uses of carbon tax revenue—and the impact those uses would have on deficit reduction and economic growth. For example, one potential use of carbon tax revenue would be to lower distortion-

ary taxes (payroll and corporate income taxes), which in turn is predicted to accelerate economic growth and job creation. This new CGE model and a preview of early results are described in Rob Williams’s piece on pages 26–29.

## Clean Energy Standard

In the 2011 State of the Union address, President Obama discussed moving the country toward a goal of 80 percent clean electricity by 2035. One approach that has been proposed to meet this goal—as well as help reduce emissions from the electricity sector—is a clean energy standard (CES). A CES sets a minimum threshold on the share of generation that must come from clean sources, and that threshold grows over time.

Senator Bingaman (D-NM) proposed a CES policy in the Clean Energy Standard Act of 2012, or S. 2146. The bill sets the nominal clean electricity requirement at 24 percent in 2015, rising by 3 percent per year to 84 percent in 2035. Senator Bingaman retired from the Senate in January, and it remains to be seen how aggressively the incoming Senate Energy and Commerce chairman (and bill co-sponsor), Senator Ron Wyden (D-OR), will pursue the proposal.

RFF’s Anthony Paul reviews the ins and outs of a CES in this issue’s Q&A, beginning on page 13.

It is difficult to predict the specifics of US climate policy over the next few years, but a menu of options has emerged. Ensuring that policymakers have the research they need to make informed choices means that RFF will continue its energetic research program in these and other areas. ●

### FURTHER READING

Burtraw, Dallas, and Matt Woerman. 2012. [US Status on Climate Change Mitigation](#). Discussion paper 12-48. Washington, DC: Resources for the Future.