Addressing Climate Change Using A Carbon Tax & Dividend Plan Within A Global Compact

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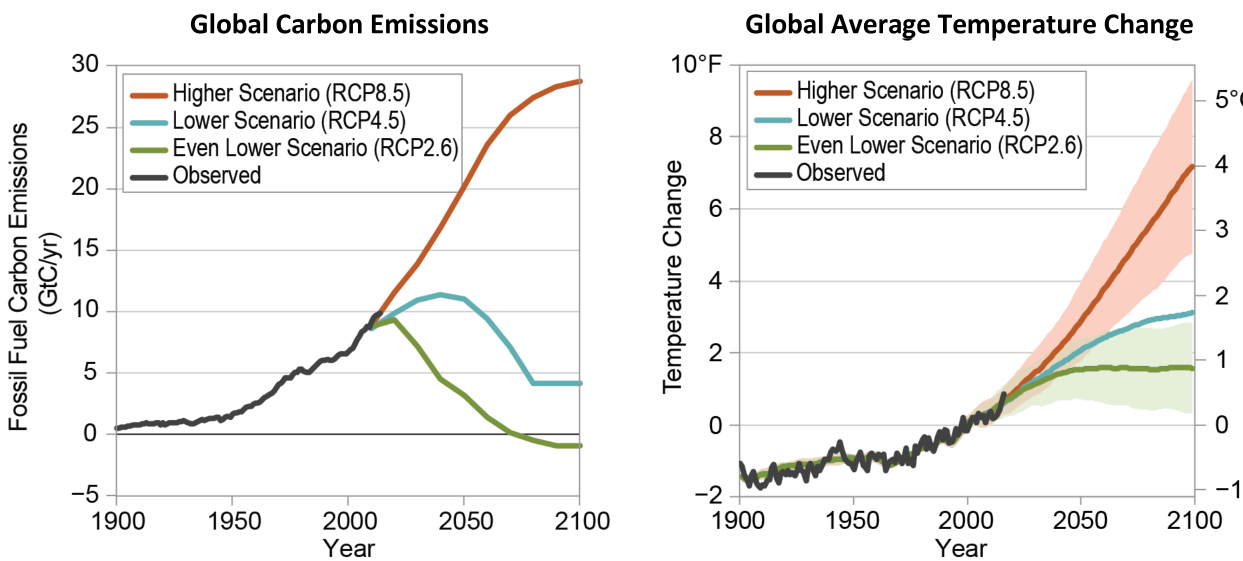
The existential challenge of a rapidly changing climate requires America's leadership, vision and innovation to bring on decisive and unifying national and global climate policies. The adoption of a **Carbon Tax and Dividend** approach is a necessary component of U.S. policy to reduce carbon emissions in line with internationally accepted targets. It can be launched quickly with bipartisan support and ensure a fair transition towards a clean energy economy. Additionally, the U.S. could lead a **Global Climate Compact** to enlist major nations to join in carbon reduction.



Pathways for future emissions of carbon dioxide (left) are linked to scenarios for increases in global average temperatures (right).

Source: Hayhoe, Wuebbles et al. (2018) Our Changing Climate. *Fourth National Climate Assessment*

The Carbon Tax and Dividend Plan. To fend off the worst climate change impacts, global CO_2 emissions must decline by 50% by 2030 and nearly 100% by 2050. The most expeditious way to meet emission targets is via a carbon tax and dividend plan as the central component of U.S. climate policy. The carbon tax revenue is collected at the source of energy production by the Treasury and all revenue is returned to citizens in equal portions as dividends. The tax discourages consumption of carbon-intensive products while encouraging production of clean energy substitutes. Regulations will also be needed but cannot do the job alone. The increasing price differential between a rising carbon tax and the decreasing cost of renewables is the profit lure that makes businesses the prime catalyzers of the energy transition. Dividends to citizens help the economy grow. Analysis shows the transition will create more jobs than it displaces and with better pay, aiding economic recovery (see Addendum: Employment Effects of the Energy Transition).

Three design elements are important:

1) start quickly;
2) make money flows fully transparent; and
3) collect carbon taxes at the source of production.

There are no exceptions, all consumers and businesses pay the carbon tax. The plan is a bipartisan solution. Public trust is paramount.

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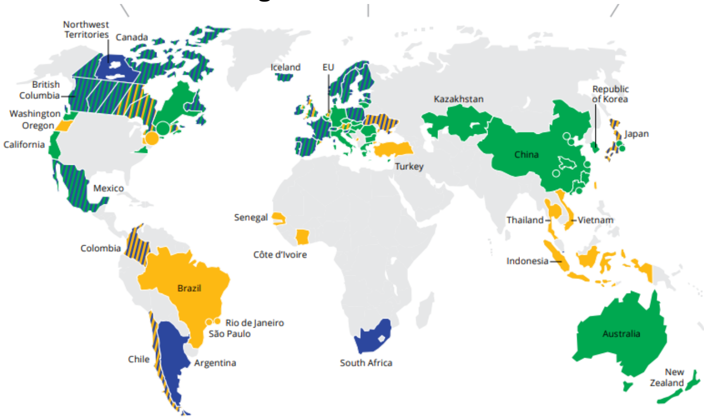
Dividends Enable A Fair Transition. Major economic transitions inevitably lead to disruptions and often disproportionally hurt those most vulnerable. Quarterly dividends paid in equal amounts to all adult citizens will more than offset the cost of carbon taxes embedded in products for 60 to 70% of U.S. citizens, including all lower income levels.

US-led Global Climate Policy. Although the plan described above will drastically reduce U.S. carbon emissions to forestall the worst effects of climate change other major economies must put an effective price on carbon as well. Such a global endeavor will not happen without U.S. leadership as argued by Professor William Nordhaus in "The Climate Club." Nordhaus describes the failure of international climate efforts: "At the end of this long string of conferences, the world in 2020 is no further along than it was […] in 1995: there is no binding international agreement on climate change" (Nordhaus 2020). Carbon emissions are still increasing. Nordhaus suggests a new approach through the "club model", which we call the global climate compact.

The Global Climate Compact. The Compact combines domestic climate policy through a carbon tax or Cap and Trade with international trade policy. This overcomes the lack of authority in prior international agreements by uniting countries striving to reduce emissions into a collaborative sovereignty that pressures all countries to reduce global emissions. Members joining the Compact must implement a similar domestic carbon tax and place tariffs on all imports from non-Compact countries. Incentives are designed to induce all countries to join the Compact. The more countries involved, the greater the chances of reducing emissions and lowering the burden on members. Modeling results show that most countries and regions would join the Climate Compact if the carbon price is not excessive and tariffs are sufficiently high. With a \$25/ton of CO_2 carbon price, a 3% tariff is needed to have at least 12 members. With a \$50 carbon price, tariffs must be 5% to obtain similar results.

Carbon Pricing Initiatives Worldwide 2020



Areas in blue are carbon tax initiatives implemented/scheduled, areas in green are Cap and Trade initiatives implemented/ scheduled and areas in yellow are considering either option.

Source: World Bank (2020). *State and Trends of Carbon Pricing.*

This Plan creates the centerpiece for a new foreign policy that positions the U.S. to lead a coalition of nations that unifies global action to protect all people by transitioning to a low-carbon and just future. We join Nordhaus and other economists and climate scientists in support of decisive global climate action. **The time for action is now.**

Inquiries and Media:

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For the full report and supporting materials, please visit greenleafcommunities.org/climate-policy/

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