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WATCHING OUR ASSETS: CLIMATE POLICY SHOULD NOT BE CORPORATE WELFARE

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OUTSIDE OF THE UNITED STATES, INDUSTRIALIZED countries have reached a consensus that they need to take action to reduce the greenhouse gas emissions that are responsible for global climate change.

The rest of the world is in the process of ratifying the Kyoto Protocol to the United Nations Framework on Climate Change. The United States, however, has walked away from Kyoto.

Despite President Bush's reluctance to lead on this issue, and his preference for voluntary measures and delay in mitigating climate change impacts, most policymakers realize that without U.S. leadership in reducing carbon dioxide (CO_2) emissions, the global situation cannot improve.

Redefining Progress believes that our political leaders will eventually heed scientists' warnings and require reductions in the greenhouse gas emissions that are disrupting the global climate.

When U.S. policymakers do act on climate change, they should institute a domestic greenhouse gas permit trading system, a familiar mechanism favored by many economists, legislators, industry groups, and nongovernmental organizations.

Emissions trading systems have developed an encouraging track record of success in reducing pollution more quickly and more efficiently than anticipated. Experience in reduction programs for chlorofluorocarbons (CFCs) and acid rain (sulfur dioxide) have shown that tradable permit programs can enhance market qualities like competition, flexibility, and innovation.

In fact, President Bush calls for such "cap-and-trade" emissions programs for three major pollutants—nitrogen oxides, sulfur dioxide, and mercury. One is left to wonder, given the overwhelming scientific consensus that has emerged on global climate change, why planetary health should be any less important than individual health.

As the damaging impacts of climate change begin to be felt around the globe, concern about mitigating the cardiovascular, respiratory, and other health effects of pollution may become a luxury unaffordable to many.

In 1997, prior to the Kyoto Protocol negotiations, 2,500 economists—including eight Nobel laureates—endorsed the cap-and-trade approach for carbon dioxide emissions. The "Economists' Statement on Climate Change" *(www.RedefiningProgress.org/publications/econstatement.html)* argues that "the United States and other nations can most efficiently implement their climate policies through market mechanisms, such as the auction of emissions permits."

EMISSIONS AUCTIONS VS. GIVEAWAYS

UNFORTUNATELY, HISTORY SUGGESTS THAT THE government is more likely to give away emissions permits instead of auctioning them to emitters. However, auctions are a better idea, for several reasons:

1. Giving away the rights to emit carbon would be a national gift given only to a few private corporations. Meanwhile American taxpayers, consumers, and businesses that did not receive free permits would end up footing the entire bill for carbon dioxide reductions. This amounts to a massive corporate welfare policy. The atmosphere is a common asset, and its benefits should not be given away.

2. Giving away permits would be fraught with interest group politics, where industries would lobby furiously to obtain the maximum number of permits possible. This makes the whole emissions reduction program less efficient. In fact, the high cost of lobbying for permits actually led to *industry* support for auctioning the telecommunication spectrum for portable phones, pagers, and other wireless communication devices. When the FCC compared the costs of auctioning to the cost of previous lotteries for spectrum allocations, they estimated that "free" (lottery) permits were six times more costly than the auctioned permits, once filing costs, government administration costs, and public losses from delayed services were calculated.

3. Auctioning greenhouse gas emission permits would create a revenue source that policymakers could use for tax cuts or direct payments to consumers, businesses, and taxpayers. This "revenue recycling" would make the permitting system, and possibly the tax system, more equitable and more efficient.

4. If the polluters are not charged for emissions, it will imply that citizens do not have a property rights claim to a clean environment. A giveaway policy would send the message that the atmosphere is "owned" by polluting firms. When the U.S. chooses to limit carbon dioxide emissions, we should ensure that emitters compensate the rest of society for the valuable right to use the atmosphere for carbon dioxide emissions.

In previous papers, Redefining Progress has argued the case for revenue recycling—that is, using carbon taxes or auctioned emissions permits to raise revenue that can be recycled back to the economy through other tax cuts, direct rebates, or assistance to those population segments hit hardest by increased energy prices. This is the most equitable way to use market forces to drive climate change mitigation.

In this paper, Redefining Progress explains why granting free emissions permits would result in a huge corporate welfare program. It is vital that the United States choose a different course.[1]

> ***Any giveaway of greenhouse gas emissions permits would create a multi-billion dollar corporate welfare program for polluters at the expense of taxpayers, consumers, and small businesses.***

WHAT IS CORPORATE WELFARE?

Corporate welfare occurs when the government transfers tax dollars or public assets to private companies or industries for minimal public gain. While not all government programs are corporate welfare, far too often Americans see little benefit when their money and/or common assets are given away.

For example, in 1997 the government doled out $225 million to large high tech corporations, (including Xerox and Caterpillar among others), through the Advanced Technology Program. The intent of this program was to enhance the competitiveness of a few large American corporations against foreign competitors.[2] Government watchdogs, liberal and conservative alike, criticized this program because of the questionable benefit to American taxpayers that comes from seeking to increase the competitiveness of private corporations that were already quite profitable.

The government also dispenses taxpayer assets to corporations in less obvious ways. The 1997 broadcast spectrum giveaway is just one such example. Federal regulators lent each of the nation's 1,600 television stations a second channel for the coming transition to digital broadcasting, despite complaints that the extra channels represented a multibillion-dollar gift of public property. Although the companies did not receive direct outlays from the government, they did receive a valuable common asset for free.

The atmosphere is also a common asset. Giving away the right to emit greenhouse gases into it would be an even more egregious form of corporate welfare. Such a policy would create huge windfall profits for permit grantees at the expense of most consumers and those businesses that did not benefit from the emissions permit giveaway.

THE EARTH'S ATMOSPHERE IS A VALUABLE COMMON ASSET

If the federal government initiates a permit trading system to prevent climate change, the right to emit greenhouse gases will become valuable, regardless of how permits are distributed.

Limiting greenhouse gas emissions is equivalent to restricting access to the atmosphere, which emitters typically have been allowed to use freely. This restriction makes emission permits valuable because it makes the supply of atmosphere emissions credits scarce relative to demand. When the right to emit becomes scarce and therefore has economic value, those who own the rights will collect that value in the form of "scarcity rents."

If companies have the right to emit carbon dioxide into the atmosphere free of charge, the scarcity rents they collect will show up on their balance sheets as enormously valuable assets equivalent to the market price of the permits (whether they use the permits themselves or sell them). Doling out emissions permits based on lobbying connections or political expertise, rather than any benefit to the common good, would be a clear case of corporate welfare.

One scenario would have the government "grandfather" permits, or give them to companies for free, based on their past emission levels. This policy would give firms that have polluted the most in the past the most emission permits in the future.

Many previous trading systems were based on grandfathering. The government issued free permits to limit sulfur dioxide emissions based largely on historical emissions at the state level. If a grandfathering scheme were enacted for carbon dioxide, the two largest U.S. oil companies (Exxon-Mobil and Chevron), and two of the largest coal companies (Peabody and Cyprus Amax) alone could receive an estimated $9.2 billion dollars a year worth of free permits. This estimate assumes a conservative emissions permit price of $25/ton.[3]

A study by Resources for the Future investigates the differential impacts of permit policies on industry by estimating changes in their equity values under various scenarios. Equity values are useful because they incorporate expected changes in profit for the short, medium, and long term. ***Table 1*** illustrates the different results expected from a plan featuring auctions with tax reductions versus proposals to give away permits.

A permit giveaway would be a boon to the coal mining industry (1,005% increase) and the oil and gas industry (29% increase), while the equity values in most other industries would decline. The profits these companies generate from their free pollution permits would directly benefit only stockholders in these companies. Most Americans would only receive higher prices in return. Electric utilities, which buy the energy produced by fossil fuel extractions, would suffer the most (-5.7%).

On the other hand, under a system of permit auctions coupled with targeted tax cuts, the electric utility, construction, auto, service, and housing industries would do better relative to the giveaway scenario. In some cases, they would do better than if there were no climate policy at all. In this situation, prices would still increase by the market price of permits, but the revenue raised from the permit auctions or fees could then be used for various environmental or economic purposes. These might include rebates to citizens facing higher energy prices; mitigating climate change's impacts on the most vulnerable groups; or tax shifts that reduce personal, payroll, or business investment taxes.

Auctions would provide a benefit to society as a whole in exchange for letting corporations use the atmosphere, while grandfathering would benefit only the corporations who hold the permits.

TABLE 1

PROJECTED CHANGE IN EQUITY VALUES OF FIRMS UNDER DIFFERENT CLIMATE POLICY SCENARIOS

Equity values of firms in 2000
(% change from reference case)

Industry	Carbon Permit Auction + industry specific corporate tax cuts*	100% Giveaway of carbon permits
Agriculture & Non-Coal Mining	0.1	0.0
Coal Mining	0.0	1,005.4
Oil and Gas	0.0	29.2
Petroleum Refining	0.0	-4.7
Electric Utilities	0.0	-5.7
Natural Gas Utilities	-0.3	-0.8
Construction	1.8	1.0
Metals and Machinery	-0.6	-0.5
Motor Vehicles	0.2	0.1
Misc. Manufacturing	-0.2	-0.2
Services (except housing)	0.2	-0.1
Housing Services	0.4	0.1

SOURCE: Goulder 2000
**Assumes permit price of approximately $25/ton carbon. Any revenues remaining after cutting corporate taxes would be used to finance cuts in personal income tax.*

WHY POLLUTION CHARGES FACE AN UPHILL BATTLE

Permit giveaways of this sort conflict with our ideal that government should act in the interest of the American people as a whole. Some argue that they occur because the U.S. political system currently confers disproportionate access and influence to those that have the money to buy access.

Because of unequal representation, Americans have inadequate protection from private interests who demand the use of common assets for their private gain. Small groups or mammoth corporations that are well-connected and well-funded have consistently won the right to use common resources without paying fair compensation to society. This applies to assets as varied as Western state grazing rights, uranium mining, and the digital television spectrum.

Even if consumers actively fight a give-away of carbon dioxide permits, the strong influence of money on policymaking in the federal government presents a massive barrier to charging polluters for their greenhouse gas emissions.

Political watchdogs such as Common Cause, and many politicians, such as Senators John McCain, Bill Bradley, and Russell Feingold, argue that political contributions earn contributors special favors and undue influence.[4]

Robert Reich, a secretary of labor in the Clinton Administration, stated the relationship explicitly in 1996:

> *"...the issue of corporate welfare is intimately tied to campaign finance. Why do we have so many targeted subsidies and tax breaks with no public justification...? It is because companies and industries have managed to effectively lobby for their little piece of public largesse. Why have they been so effective? Because they support campaigns."*[5]

Greenhouse gas emitters have positioned themselves well to win favorable emissions-control legislation. Over the past 10 years, the oil industry gave nearly $250 million dollars to both major parties, and the coal mining industry has given almost $19 million in donations over the same period.[6]

The federal government has reciprocated this generosity. Since 1984, the coal industry has received about $2 billion in federal subsidies through the Clean Coal Technology Program. Over the next five years the Petroleum Research & Development Program will provide $280 million in subsidies to the oil and gas industry. The magnitude of the profits at stake in the carbon emissions permit debate ensures that these industries will be active participants in the political battle over how the government allocates permits.

Given the recent passage of Campaign Finance Reform legislation that bans "soft money," it is difficult to predict exactly how money will find its way back into influencing policy debates. Few observers, however, doubt that it eventually will.

CONCLUSION

Government programs that benefit private corporations at taxpayer and consumer expense require substantial justification. The public benefit must be commensurate with the cost, and the benefits must be sufficiently well distributed among those paying them.

Any giveaway of greenhouse gas emissions permits would create a multi-billion dollar corporate welfare program for polluters at the expense of taxpayers, consumers, and small businesses.

Americans must not forfeit the atmosphere. When the U.S. finally decides to take action on climate change, our political leaders must not allow large corporations to become "landlords of the sky" without paying a cent for the privilege.[7]

Americans need to insist on a better return from our common assets for their own good, and the benefit of future generations. The atmosphere is a good place for Americans to start reclaiming their common assets for the benefit of the commonwealth.

ENDNOTES

[1] This is the fifth paper in a series highlighting why it is imperative that the U.S. require polluters to pay for their greenhouse gas emissions by auctioning emissions permits or taxing pollution. The first paper in this series, *Fair and Low-Cost Climate Protection*, summarized why charging polluters and returning the revenue to citizens and investors improves economic well-being, social equity, and environmental protection. Please direct comments, queries, or requests for additional information to Redefining Progress, 1904 Franklin Street, 6th Floor, Oakland, CA, 94612. Phone: 510-444-3041 www.RedefiningProgress.org. We would like to express our gratitude to the Wallace Global Fund, Turner Foundation, and the W. Alton Jones Foundation whose generous support made this work possible.

[2] Stansel and Moore 1997

[3] The number of permits given away is estimated to be equal to 1990 emission levels and permit price is assumed to be $25/ton, which is a conservative estimate of the expected permit value. Sources for data are: IEA1997; Executive Office of the President, Office of Science and Technology Policy, 1997, and NRDC 1999

[4] McCain campaign web site, CNN campaign coverage of Bill Bradley, and Lucey 1998

[5] Zitner and Sennott

[6] Center for Responsive Politics. Figures include Contributions to political parties, soft money contributions, as well as contributions from PACs and individuals. Figures may be low because not all numbers for the 2000 election cycle were available.

[7] Barnes 1999

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REDEFINING PROGRESS is a nonprofit organization that develops policies and tools that reorient the economy to value people and nature first.

Redefining Progress does this by developing policies and tools to internalize the economy's hidden social and environmental costs (the **Accurate Prices Program**), to transform the human use and distribution of the Earth's natural resources (the **Sustainability Program**), and to restore the value of shared social and natural assets (the **Common Assets Program**).

These three goals come together in Redefining Progress's advocacy of fair and low-cost policies to reverse climate change (the **Climate Change Program**).

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