

Household and Regional Impacts of Cap and Trade

Allocating the value of carbon permits or revenues from a CO₂ auction is critical in determining who loses and who gains from climate policy changes.

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From a regional perspective, disparities under cap and trade are not as great as conventional wisdom might hold.

A new RFF study examines the household and regional impacts of cap-and-trade policies to reduce greenhouse gas emissions in the United States. The study finds that the decision on how the revenue from the policy is used is the key factor in determining the ultimate distribution of the policy's impacts.

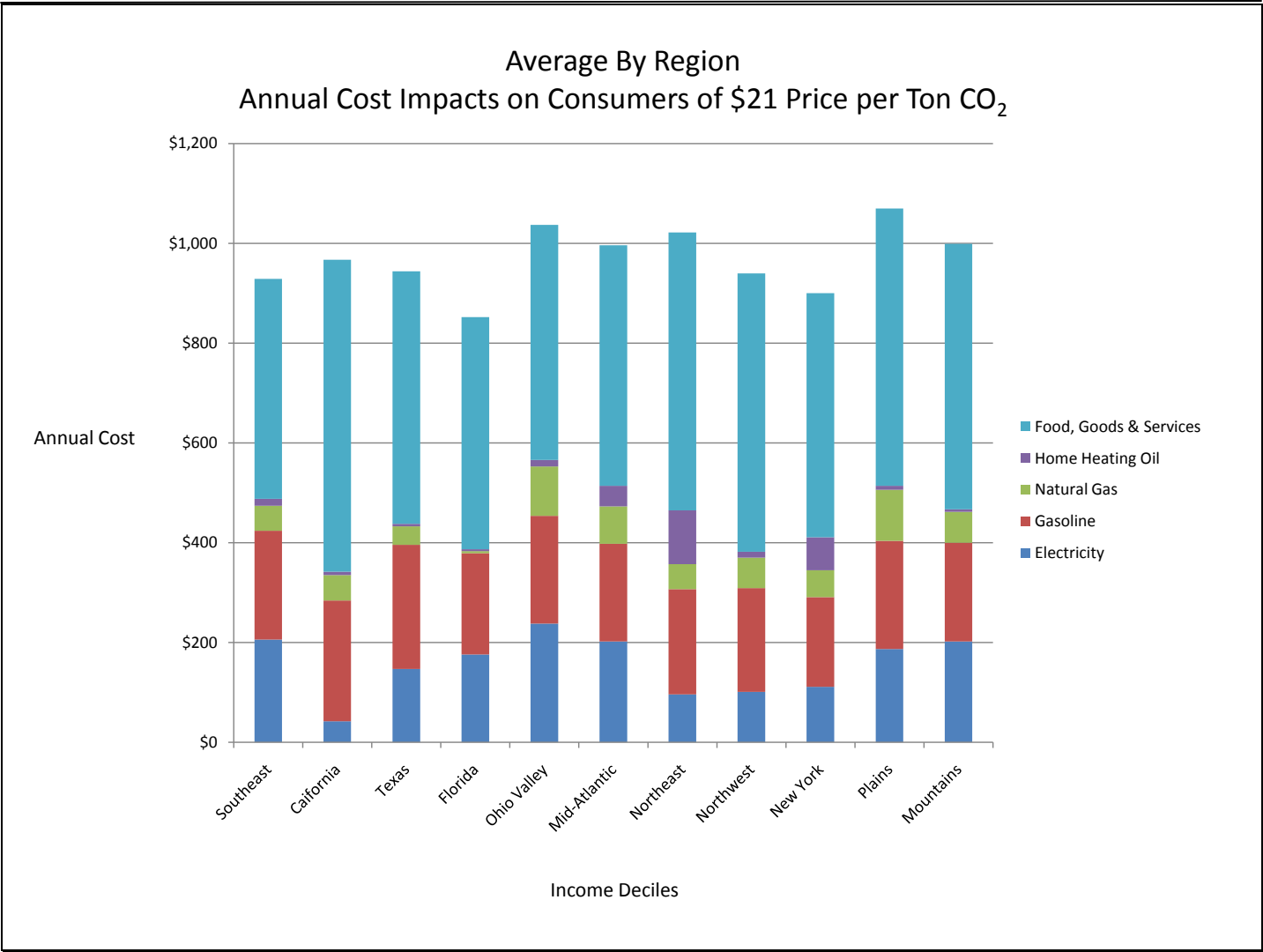
“The Incidence of U.S. Climate Policy: Alternative Uses of Revenues from a Cap-and-Trade Auction,” by RFF researchers Dallas Burtraw, Margaret Walls, and Richard Sweeney, takes into account both the direct effects on energy consumption as well as indirect impacts from increased prices in goods and services. The authors analyze six of the leading proposals for using revenue raised from an auction of emissions allowances.

Disproportionate effects on the poor can be addressed through the provision of per capita rebates or tax credits for working people with incomes below a certain amount. In contrast, using revenue to cut preexisting income or payroll taxes will tend to benefit wealthier households much more.

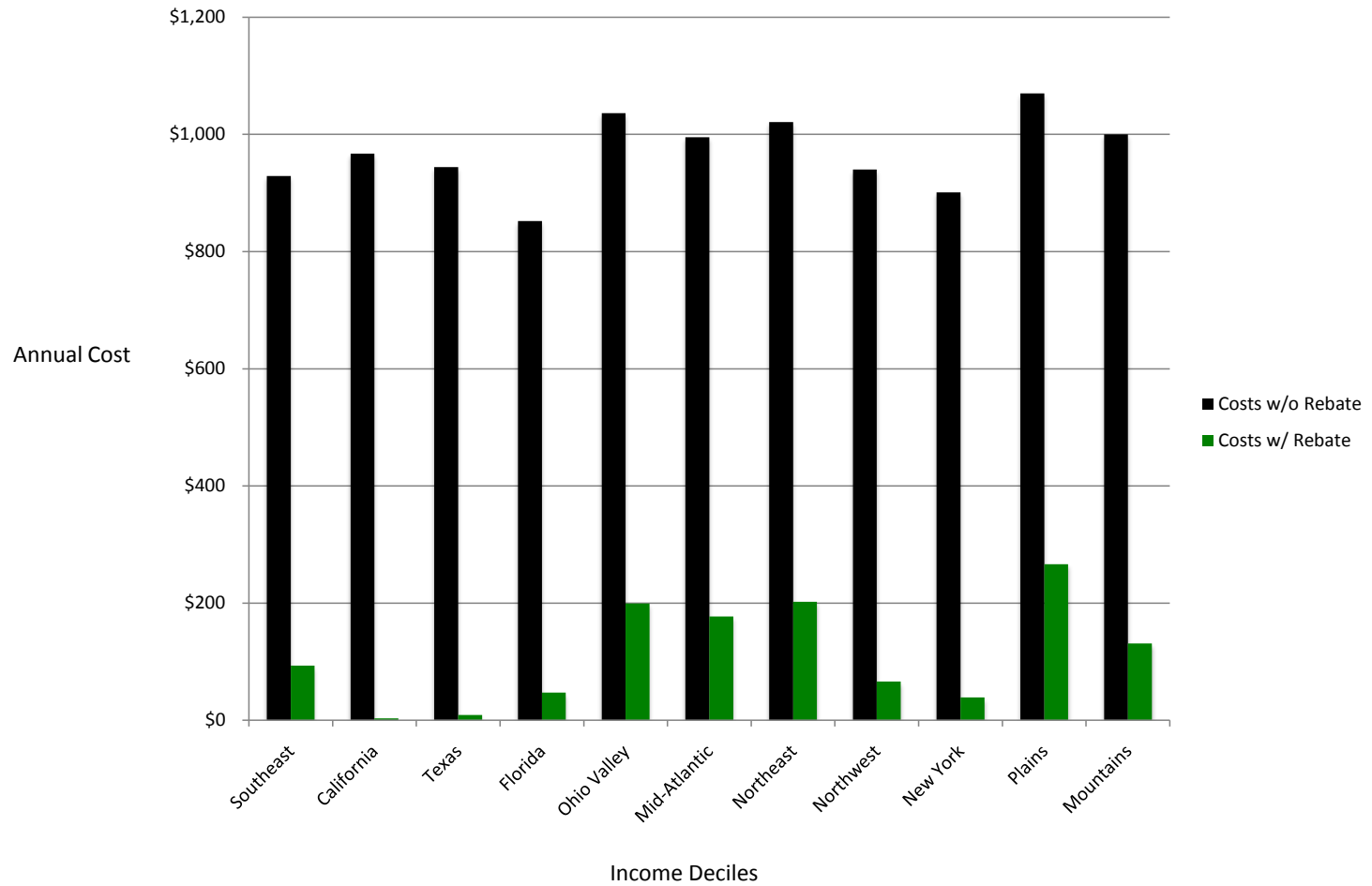
From a regional perspective, the disparities are not as great as conventional wisdom might hold. Although different regions have differing expenditure patterns on energy, they tend to balance out somewhat. For example, households in the Northeast spend relatively more on heating oil, while households in the Southeast spend more on electricity.

“Although climate change is a long-run problem, climate policy has an important short-run political dynamic,” the authors write. “Therefore, delivering compensation or finding ways to alleviate disproportional burdens of the policy seems especially important in the early years of climate policy. Similarly, if all politics are local, then the local and regional effects of policy may be fundamentally important to building the political coalition necessary to enact climate policy.”

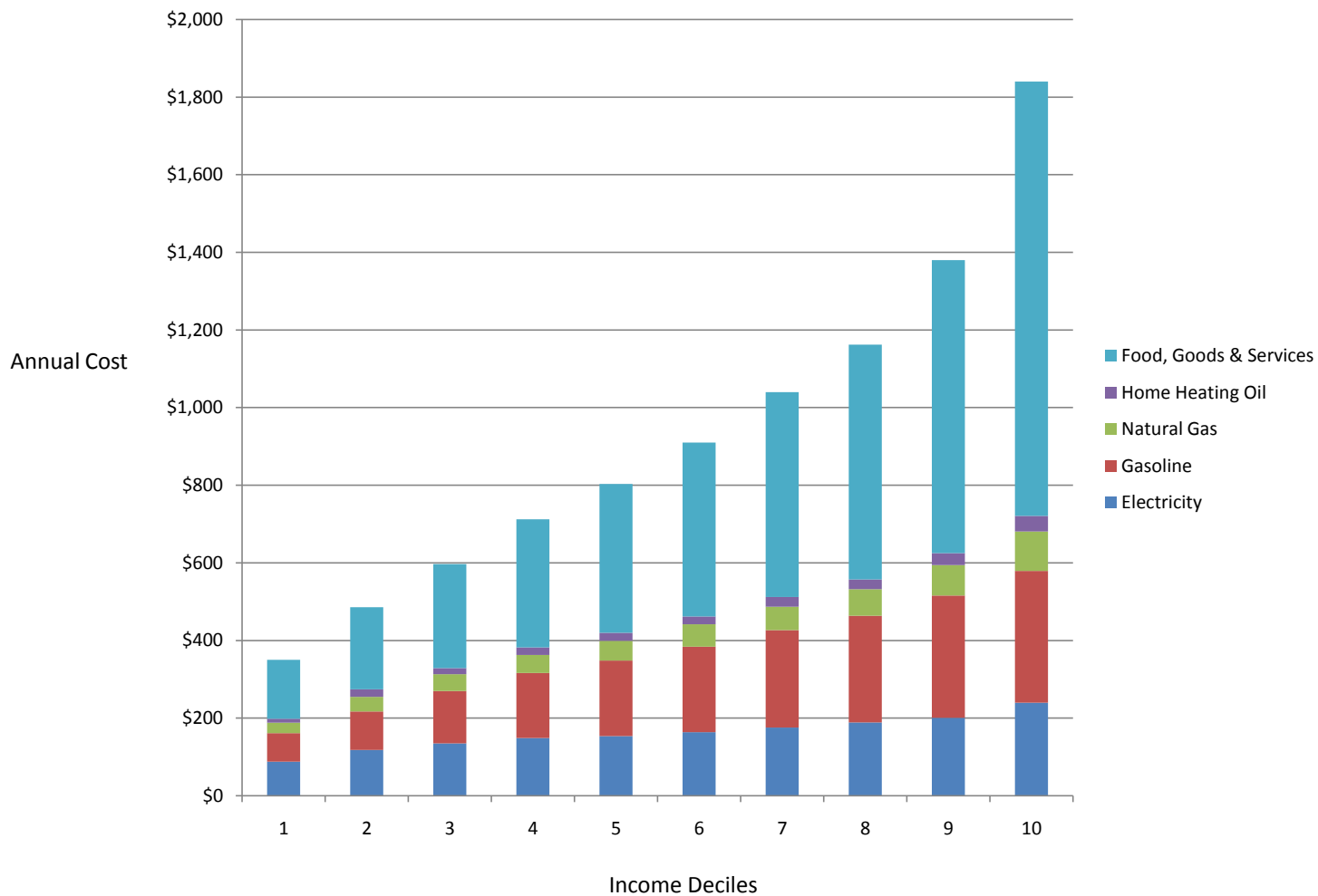
Attached are four charts that illustrate varying impacts of one cap-and-trade policy under consideration. The charts show the differences among 11 different regions of the United States, as well as the costs to households across a range of income levels.



Average By Region
 Annual Cost Impacts on Consumers of \$21 Price per Ton CO₂ w/ 100% Rebate



Nationwide Annual Cost Impacts on Consumers of \$21 Price per Ton CO₂



Comparison of National Average Consumer Costs if 100% of Allowances Auctioned and Returned Per Capita to Every Consumer

