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How to Cut Emissions Without Wrecking the Economy

A proposal for carbon dividends, backed by the broadest climate coalition in American history.

By Christopher Crane And Ted Halstead

In a major shift, the Business Roundtable recently embraced the idea that the purpose of a corporation should go beyond serving shareholders and include responsibility to the environment and the broader community. On no issue is this more true than climate policy—which affects all sectors of society, but where market prices do not internalize environmental costs. So what exactly would a pro-business, pro-evironment and pro-consumer climate solution look like?

To answer this question, the broadest climate coalition in U.S. history has met in private over the past two years. Brought together by the Climate Leadership Council, of which Exelon is a founding member, this coalition includes corporate sector leaders from a range of industries, environmental nonprofits, economists and opinion leaders from across the political spectrum. The outcome of this two-year dialogue is a breakthrough plan to cut U.S. carbon emissions in half by 2035—while benefiting American businesses, workers and consumers.

Our plan is based on the concept of carbon dividends: a gradually rising fee on all carbon emissions, whose proceeds are returned directly to the American people through quarterly dividend checks. It also calls for significantly simplifying carbon regulations and a border carbon adjustment to protect and promote the competitiveness of American firms. This general framework was first introduced in these pages in 2017 by former Secretaries of State George P. Shultz and James A. Baker III.

It's one thing to build an odd-bedfellow coalition around broad principles, quite another to refine the details of an actionable plan. That we have now done. The Council's Bipartisan Roadmap will be released in the coming months, but we can preview here three of its salient features.

The first is our plan's environmental ambition. It calls for a carbon fee starting at $40 a ton and increasing annually at 5% above inflation. According to modeling by the research group Resources for the Future, if implemented in 2021 the plan would achieve 50% U.S. CO_2 reduction by 2035, as compared with 2005 levels. It would also exceed the 2025 U.S. commitment under the Paris agreement by a wide margin.

Our plan, unlike many of the aspirational proposals floating around these days, is grounded in concrete modeling. It's also backed up by an Emissions Assurance Mechanism, which specifies that the carbon fee will temporarily increase faster if agreed-upon emissions reduction targets are not achieved.

Second, the vast majority of Americans will be economic winners under our plan. According to the U.S. Treasury, 70% of American families—including the most vulnerable—would come out ahead, receiving more in carbon dividends than they pay in increased energy costs. A family of four would receive approximately $2,000 a year in carbon dividends, an amount that will grow over time as the carbon fee increases. And the more you shrink your carbon footprint, the more you come out ahead. This aligns—for the first time—the economic interests of American families with climate progress.

Third, our plan's environmental and social ambition is matched by equally strong pro-business and pro-competitiveness provisions.

For starters, our bipartisan plan is revenue-neutral and won't increase the size of the federal government. Unlike many climate plans, which require large increases in taxes, deficits or both, ours will "finance" the transition to a low-carbon future by incentivizing individual and corporate behavior and by leveraging the extensive resources of the private sector. It will also spur American innovation and let the market decide on the best low-carbontechnologies and energy sources.

Enacting the most ambitious carbon price of any leading emitting nation will render many current and future carbon regulations unnecessary. In the majority of cases where a carbon fee offers a more cost-effective solution, the fee will replace regulations. For example, all current and future federal stationary-sources carbon regulations will be displaced or pre-empted. This offers businesses the predictability and flexibility they need to innovate and make long-term investments in a low-carbon future.

No doubt this regulatory streamlining will be controversial in some circles. But the decisive metric in weighing climate policy alternatives should be their ability to reduce emissions. On this score, a meaningful and rising price on carbon easily outperforms regulation-heavy alternatives. For example: If all Obama -era climate regulations had remained in place, they would have reduced U.S. greenhouse-gas emissions only by approximately 18% by 2025, falling well short of Paris commitments. Our plan, by contrast, would achieve 32% reductions by 2025.

Finally, border adjustments for the carbon content of imports and exports will enhance the competitiveness of American firms that are more energy-efficient than their foreign competitors, reversing today's trade incentives, which effectively subsidize dirtier manufacturing overseas. This will put America in the driver's seat of global climate policy and encourage other top emitters—such as China and India—to adopt carbon pricing of their own.

Our carbon-dividends plan demonstrates that economic dynamism, environmental stewardship and social well-being are mutually compatible and need not be traded off against one another. It should serve as the basis for a much-needed bipartisan climate breakthrough.

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