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Here's How to Win on Climate-Change Policy

By Ted Halstead

As the United Nations climate conference enters the home stretch, a sense of gloom is setting in. Not only are global greenhouse gases projected to increase by 2.7 percent in 2018, but the solution that economists have long considered the most cost-effective — a carbon tax — just suffered two blows. Its recent defeat in France and Washington state is leading to a mistaken narrative that carbon taxes are a political dead end.

The real lesson to learn from these setbacks is that the political prospects of carbon taxation depend on how the revenue is used. As long as the public perceives a carbon tax as an increase in its energy costs and, therefore, a reduction in its living standards, chances of success are low. By contrast, a winning carbon tax strategy would return all the money raised directly to citizens, making the majority of families better off.

Whereas France and Washington state illustrate the problem, two recent counterexamples — one in Canada and the other, of all places, in Congress — point the way forward.

President Emmanuel Macron's recent fuel tax increase set off widespread public demonstrations throughout France, ultimately forcing him to back down. These "yellow jacket" protests highlight that climate policies that increase the cost of living for ordinary people can trigger strong public opposition. Macron was in effect asking French citizens to bear the costs of climate action now for benefits that will accrue to other people in other countries at some point in the future.

Now consider the Canadian plan recently put forward by Prime Minister Justin Trudeau. Four of the largest provinces in Canada — Ontario, Saskatchewan, Manitoba and New Brunswick — failed to adopt carbon pricing mechanisms as required by law, triggering a federal backstop. Trudeau shrewdly designed that backstop as a carbon dividends plan, under which 90 percent of the revenue from a carbon tax will be rebated directly to the citizens of each province.

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Washington state's carbon fee revenue, like France's, would not have been returned directly to citizens; rather it would have been dedicated to an array of green energy initiatives. The voting results were telling: Only three wealthier counties around Seattle (with a long track record of environmental support) voted in favor; all the more rural and suburban counties voted against.

But there is a deeper lesson to be drawn from the state's initiative. Unfortunately, it pitted environmentalists against some in the oil and gas industry. For a carbon tax to succeed in the political arena and last, it must not only be popular but also bipartisan and supported by key stakeholders in the debate. Imagine if environmentalists, the oil and gas industry, Republicans and Democrats could all be on the same side?

This may seem unlikely, but recent developments suggest otherwise. Two weeks ago, two Republicans and three Democrats introduced the first bipartisan climate bill in a decade in the U.S. House. It calls for a rising carbon fee and returning 100 percent of the revenue directly to American citizens. The bill would also open the door to replacing various carbon regulations with a carbon fee, which could appeal to conservatives and businesses. Of course, a bill introduced in a lame-duck session is only a starting point.

More encouraging is that a remarkably broad climate coalition is aligning behind a similar national solution that my organization developed, known as the Baker-Shultz Carbon Dividends Plan. While there are important differences with the bill recently introduced in the House, they are directionally consistent. Our plan is based on four pillars: a rising carbon fee starting at $40 per ton, with 100 percent of the money returning directly to citizens, regulatory relief and a border carbon adjustment.

This Republican-inspired plan could exceed the U.S. commitment under the Paris climate agreement, benefit the majority of Americans families, shrink the size of government and provide companies regulatory certainty. This time, environmentalists and industry are working together to develop the details. And already, the largest utility, oil and gas company, solar company and wind energy trade association in the United States is putting its money behind the plan.

The recent developments in France, Canada, Washington state and the District all point to the same conclusion: A carbon dividends framework is the winning climate solution we have been waiting for.

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