The Aversion to Direct Cost Imposition: Selecting Climate Policy Tools in the United States

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Numerous policy tools could be employed in attempting to mitigate climate change through reducing greenhouse gas emissions. Direct cost imposition through the taxation of carbon content of fossil fuels has long enjoyed support from diverse policy analysts but has proven highly difficult to advance politically in the United States and many other nations. This article considers the evolving American experience in climate policy tool selection, including extended engagement by many states over the past decade and growing federal involvement in recent Congresses. It demonstrates the enduring aversion to direct cost imposition as opposed to other policy options. This includes a brief period in late 2008 and early 2009 when prospects for direct cost imposition heightened markedly at the federal level but collapsed quickly in favor of a mélange of other approaches that are likely to be less efficient but also less direct in their imposition of costs. The article concludes with considerations of other methods to advance direct cost imposition in the American case.

A revenue-neutral carbon tax is the simplest and best way to proceed. I think it’s more plausible now. I think there is somewhat more support for it.

—Al Gore, January 28, 2009

I have long recognized that our political system has special difficulty in considering a CO₂ tax even if it is revenue neutral... It appears to be beyond our reach for the foreseeable future.

—Al Gore, March 6, 2009

Any attempt to mitigate climate change through reduction of greenhouse gas emissions allows governments to consider a wide range of policy tool options. They may select from command-and-control emissions standards, technology-forcing mandates, prohibition of specified technologies or fuels, subsidies for alternative technology development or purchase, market-based emission trading systems, taxation on emissions linked to externality, information and education campaigns, and moral suasion. To borrow from William Gormley, these span the full continuum of governance options, ranging from “muscles to prayers” (Gormley 1989). In federated systems such as the United States, there are the added questions of whether one or more levels of government pursue policy development

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Governance: An International Journal of Policy, Administration, and Institutions, Vol. 23, No. 4, October 2010 (pp. 583–608).
© 2010 Wiley Periodicals, Inc., 350 Main St., Malden, MA 02148, USA, and 9600 Garsington Road, Oxford, OX4 2DQ, UK. ISSN 0952-1895
and implementation, and if there is a multi-level strategy, whether different tools are employed at different levels.

Climate policy development to date reflects enormous diversity among various nations as well as sub-national units such as American states and localities that retain authority to launch unilateral greenhouse gas reduction initiatives of their own (Selin and VanDeveer 2009). While this vast laboratory has generated some version of virtually every type of policy imaginable, a large body of scholars and policy analysts appear to concur on what constitutes the most efficient and effective method to mitigate greenhouse gases. Much of this work has been based in economics but also engages other social science disciplines. The premier approach entails direct cost imposition on the use of fossil-based fuel sources such as coal, oil, and natural gas that generate carbon dioxide. The most obvious policy tool to pursue this approach is taxation, using powers well established across governmental levels to tax energy consumption based on the amount of carbon dioxide released through combustion of various fuel sources. This would send clear pricing signals, could rapidly be put into operation, and would entail relatively simple and straightforward implementation. One close variation would involve a system that set a cap on total emissions but allowed emissions trading after an auctioning process, whereby allocations are put out for bid rather than distributed at no charge. The revenue government generated via auction would constitute an immediate form of cost imposition that would likely be passed along to consumers in the form of higher energy costs. Under either approach, governments would then decide what to do with that revenue, either using it to support government programs or returning it to the citizenry through some tax credit or rebate mechanism.

A veritable cottage industry of scholars has endorsed some version of this approach. According to economist William Nordhaus, for example, “Economics contains one fundamental inconvenient truth about climate change policy: For any policy to be effective in slowing global warming, it must raise the price of carbon. . . . Economics teaches us that it is unrealistic to hope that major reductions in emissions can be achieved by hope, trust, responsible citizenship, environmental ethics, or guilt alone” (Nordhaus 2008, 20). In turn, analysts at the think tank Resources for the Future weighed a wide range of climate policy options and concluded that “for anything beyond very small emissions reduction targets, the emissions price is the most efficient single policy for reducing emissions, since it simultaneously gives incentives for fossil energy producers to reduce emissions intensity, for consumers to conserve, and for renewable energy producers to expand production and to invest in knowledge to reduce their costs” (Fischer and Newell 2007, 40). A sizable body of scholarship has emerged to support these basic findings (Rabe 2008, 116). At the same time, this general principal has been supported by a wide range of commentators, prominent public figures, and newspaper editorial boards.
Translating this ideational consensus into policy tool selection has proven difficult at every level of the American federal system. It reflects the enormous incentives political figures have to avoid any form of direct loss imposition that would increase the costs that citizens and industries bear in using familiar forms of energy. This reflects not only an American cultural aversion to taxation but also a more general political resistance to policies that will demonstrably discomfort constituents. This aversion is only exacerbated in cases where any potential benefits from policy may be difficult to discern. In climate change, the most serious effects of global warming are likely to be felt during election cycles well into the future while most near-term benefits from reduced national or state emissions are exceedingly difficult to measure and may be modest at best. Given this calculus, it is not surprising that political officials would approach any direct cost-imposition strategy with trepidation, even more so after the dismal 2008 efforts by Stephane Dion in Canada and Christopher Dodd in the Iowa Caucus to embrace explicit carbon taxation to address climate change as a central plank in their respective campaigns for national office. Thus, the political deck is stacked against adoption of policies for which cost imposition is likely to be perceived as steep. As Leslie Pal and Kent Weaver have noted, those officials responsible for policies that impose significant losses or costs run the risk of practicing “the politics of pain” whereby they “tend to attract blame and lose support” (Pal and Weaver 2003, 2). It is thus not surprising to expect officials to go to considerable lengths to avoid policies that might impose costs that could be traced to their action, given the strong incentive to “avoid blame.”

Despite the formidable hurdles facing any proposed use of direct cost imposition as a climate strategy in the United States, there did appear to be a dramatic shift toward such strategies in late 2008 and early 2009, at the very point that a new president and the 111th Congress expressed considerable interest in a major expansion of federal climate policy. Indeed, there is at least some precedent in recent decades for successful enactment and implementation of loss-imposition strategies that entail taxation in the United States. One classic case involves the far-reaching reduction of popular federal tax deductions as part of broad tax reform legislation in 1986 (Beam and Conlan 2001; Birnbaum and Murray 1987). But perhaps a better analogue to energy taxes involves excise taxes applied to packs of cigarettes. Between 1995 and 2009, the federal portion of this tax increased by 321% and the average state version increased by 267% (Centers for Disease Control 2009). Indeed, the largest federal cigarette tax increase in history, 62 cents per pack, went into effect in April 2009, about the same time that the federal climate debate shifted away from cost imposition strategies. Such cases indicate that it is possible for some ideational policy proposals with direct cost imposition consequences to be advanced by entrepreneurs, moved onto agendas, and at least occasionally transformed into policy.

This experience led to the question of whether carbon taxation or an equivalent might be politically feasible, particularly during a brief period
in which three distinct developments appeared to be working in its favor. First, the initial carbon cap-and-trade experiment in North America, involving 10 Northeastern states that established the Regional Greenhouse Gas Initiative (RGGI), conducted the world’s first series of auctions for all of its carbon allowances. This reflected a seismic shift by RGGI states, after several years of planning to allocate most allowances at no cost, toward a system that would instead auction credits. These auctions, begun in late 2008, imposed direct costs on bidding parties and also offered participating state governments significant sources of revenue for re-allocation. Second, a number of proposals for federal engagement on climate change began to include provisions with explicit cost imposition, either through some form of carbon taxation or allocation auctioning à la RGGI. Many of these were endorsed by an eclectic set of commentators and analysts and even a smattering of politicians and industry leaders. Important leadership roles were assumed by a nonprofit think tank devoted to carbon taxation and a small cadre of senior congressmen representing safe districts and holding prominent positions in the House Ways and Means Committee. A good deal of this discussion focused on the advantages of a transparent and relatively straightforward climate policy system and the possibility of finding ways to mitigate the cost burden through various methods to return revenues to citizens through tax reductions, credits, or “dividend checks.” This suggested the convergence of a growing network or epistemic community of proponents around an appealing idea, one that might evolve into a robust advocacy coalition that could advance the idea in the political process (Montpetit 2003).

Third, President Barack Obama seemed clearly inclined to promote this course in introducing his vision of federal climate policy shortly after his inauguration. He endorsed a plan strikingly similar to that of RGGI, one that would employ an auctioning mechanism to impose costs and generate government revenue. “The experience of a cap-and-trade system thus far is that if you’re giving away carbon permits for free, then basically you’re not really pricing the thing and it doesn’t work, or people can game the system in so many ways that it’s not creating the incentive structures that we’re looking for,” said Obama in his first statement on climate policy as president. This was followed in short order by release of the president’s first budget. This document made clear what such a strategy would mean in fiscal terms, projecting that American citizens would be required via carbon allowance auction to contribute hundreds of billions of dollars to the federal Treasury if they continued to rely heavily on fossil fuel use. All of this was consistent with climate scholar Leigh Raymond’s assertion that during this period the United States appeared on the verge of “a historic transformation” in its approach to climate change with auctioning on the ascent (Raymond 2010).

This seeming revolution, however, appears to have been stunningly short-lived. Despite this brief window in which converging forces appeared to increase the political feasibility of direct cost imposition,
subsequent months entailed a rapid and decisive reversal. This was best illustrated by the president’s abandonment of his auctioning proposal within days of its introduction. Nonetheless, climate policy remained salient on many state government agendas as well as that of Congress, reflected most notably in the 2009 American Climate and Energy Security Act that passed the House Energy and Commerce Committee in May 2009 and the full House in a narrow vote one month later. This 1,482-page bill represented an amalgam of virtually every policy tool imaginable that might reduce greenhouse gas emissions except those that would directly impose costs. As a result, carbon taxes were avoided entirely and the role of auctioning would be limited in first two decades but increase many election cycles into the future, assuming no further legislative changes in the interim. This approach reflected a diverse tapestry of policies that blend regulations with subsidies but maximize efforts to keep direct costs for energy as low as possible, particularly in the near term. They are designed to make it difficult for citizens to link any future price increases that might occur to specific policies, thereby minimizing any political risks of supporting legislation. This approach is further confirmed by evolving state experience, with the notable exception of RGGI, including efforts in California, Florida, Minnesota, and a regional alliance of Western states and Canadian provinces known as the Western Climate Initiative. This collective experience suggests strong political preference for a series of policy tools that are designed to minimize short-term political risk by delaying or obscuring cost imposition.

This article is designed to explain this rapidly unfolding odyssey through three distinct parts. First, it will review the evolution of American climate policy to date, looking primarily at state policy experience given the dominant role of state governments during most of the past decade. It will also explore federal policy enactment to date, as this has expanded in recent years even in advance of current congressional deliberations. This section will highlight findings as to what does and does not appear politically viable in the American case. Second, the article will explore more closely this brief window in which explicit consideration of direct cost imposition attained unprecedented saliency. This section will focus in particular on the RGGI experience and consider the role of clusters of policy entrepreneurs in that setting and in others who have attempted to translate the scholarly consensus on cost imposition into a preferred climate policy strategy. Third, the article will consider the seeming collapse of this booklet and resulting shift toward other kinds of policy tools that dominated deliberations in the balance of the 111th Congress. This section will examine the role of a particularly influential advocacy coalition that brought together conventional adversaries from major industries and environmental groups to advance a policy tool package that would minimize or obscure any near-term cost imposition in favor of a mixture of alternative strategies. This coalition reached peak influence in influencing policy tool selection in the House Energy and Commerce Committee in
early 2009, reflected in an extensive set of hearings in May 2009 that will be examined in considerable detail. Consensus around this approach in the House failed to transfer to the Senate, which faced enormous difficulty in advancing any climate legislation through mid-2010. Fourth, this article will briefly look ahead and consider ways in which cost imposition strategies might return to the agendas of either statehouses or the federal government in the years ahead.

Minimizing Direct Cost Imposition: A Decade of State Climate Experience

State governments operating in a federal system are commonly viewed as oriented toward policy tools designed to foster their own economic development. This can generate a mixture of policies that either subsidize or support existing economic activity, recruit investment from outside of the state, or promote home-grown initiatives that could foster future growth. In turn, states are expected to prove very reluctant to invest in activities that will impose high costs, whether through stiff regulatory standards, income redistribution to high-need populations, or tax rates that exceed those of their neighbors. This can set up a dynamic whereby states are often expected to “race to the top” in search of economic development but at the same time “race to the bottom” in those areas that might limit economic growth (Harrison 2006; Peterson 1995).

Applied to climate change, states would seemingly have little incentive to pursue unilateral greenhouse gas emissions reduction unless they were either forced to or given incentives by higher-level authorities. Nonetheless, American states undertook a decade of robust climate policy development, with clusters of states having emerged to adopt some form of virtually every climate policy tool imaginable. This has followed a classic pattern of diffusion and regionalization evident in sub-national policy innovation in environmental protection, energy, and other areas. As of mid-2010, 30 states had completed state-wide climate action plans that established emission reduction goals and endorsed various policy options, 29 states had enacted renewable electricity mandates known as portfolio standards, 15 had adopted an equivalent policy for renewable fuels, 23 had committed to some form of a cap-and-trade approach (including the 10 RGGI states), and 14 had backed California’s bid to establish carbon emission standards for future vehicle fleets.

Entrepreneurs and Economic Development

This policy development process was heavily influenced by policy entrepreneurs operating within the channels of state governments, often senior agency or department staff who had expertise in a particular area and found ways to advance a policy tool idea while building a supportive coalition of elected officials and interest groups (Rabe 2004). One vital skill
was their ability to frame various policy tools as advantageous to state economic development while also reducing greenhouse gas emissions. For renewable energy, mandates to steadily increase their use on an in-state basis have commonly been presented as a commitment to new technology that would tap into “home-grown” energy sources such as wind or biomass. Under this framing, states would no longer have to import fuel sources such as coal, natural gas, or uranium and instead could foster “high-paying, high-technology” jobs to take advantage of these more localized renewable sources. In turn, states have further tried to stimulate in-state renewable energy development through a mixture of subsidies and tax incentives as well as a combination of efforts to discourage importation of renewable energy from outside their borders.

This admixture of strategies has proven popular to elected officials of both parties in every region of the nation. Such an approach has thus been framed as a policy that simultaneously promotes economic diversification and development, reduces dependence on external energy sources, and offers an environmental benefit by softening a state’s carbon imprint. The appeal is only enhanced by analyses that project modest transition costs, if any, and “circuit breakers” that can suspend or delay implementation if costs should exceed expectations. Any downside in the short to medium term (such as a two- to four-year election cycle) is mitigated further by a pattern of modest early targets that often do not expand substantially until the end of the next decade (after several more election cycles). Survey research indicates that citizens are generally aware of whether or not their state has such programs, though they know little about the detail; they are overwhelmingly supportive of most of them in concept, even in very diverse states such as California, Mississippi, Pennsylvania, and Virginia (Borick 2010).

This type of framing is evident in all of the most common state climate policy innovations, accentuating economic advantages and minimizing any economic downside. Studies used to promote such policies tend to present very rosy scenarios of the economic positives while downplaying any issues related to creating such a complex regulatory and subsidy system. States also avoid drawing attention to the fact that many climate policy analysts view renewable energy mandates as “an implicit tax on fossil energy in the form of the mandate to buy green certificates, which then fund a subsidy to renewable energy through the certificate value” (Fischer and Newell 2007, 41). Such policies tend to appear at the very bottom of any policy tool ranking system based on economic efficiency, but this fact is trumped in state policy deliberations by the images of low- or no-cost energy transition.

**Cross-Border Leverage**

Some states have taken economic development a step further by actively trying to influence activity beyond their borders. The Commerce Clause
of the U.S. Constitution restricts this tactic but states have increasingly promoted climate policy tools that might actually produce economic advantages internally at the expense of other states, all the while potentially reducing state or regional carbon emissions. California has been the master of this strategy, beginning with 2002 legislation to establish the first statutory carbon emission reductions from vehicle tailpipes. The state attempted to use its considerable power under federal air quality legislation to secure a federal government waiver to establish the world’s first standard and was later joined by 14 other states on this matter. As Kirsten Engel and Scott Saleska have noted, “although California is home to a large car market, neither it, nor any of the other states that have committed to adopting the greenhouse gas vehicle emissions standards, are home to many car manufacturers. As a result, the adoption of such standards requires little in terms of economic sacrifice—it does little to threaten the state’s industrial manufacturing base” (Engel and Saleska 2005, 61).

This step was only the beginning of a multi-faceted strategy whereby California has tried to influence other states, including a mixture of efforts to impose its electricity emission and energy efficiency standards on other states that are heavily reliant on fossil fuels and export much of that energy to California. Many of these have been framed as ways for California to expand its claim for national and even global leadership on climate policy. But they may also serve to benefit in-state economic activity in California in areas such as renewable energy, boosting the competitive edge of in-state producers at the expense of out-of-state producers. This formula has worked effectively politically in Sacramento, as long as the public does not perceive an economic downside, and entrepreneurs and coalition supporters accentuate only the positives. All of this served to position California, at least in theory, for a dominant position in the design of future federal policy and development of new technologies in a carbon-constraining society. This was perhaps best illustrated by Governor Arnold Schwarzenegger’s decision to host a global summit on climate innovation in Beverly Hills in late 2008. He orchestrated a sequel in mid-2009 despite a major state fiscal crisis, with the explicit goal of securing “international recognition” of any California policies that reduced emissions. Schwarzenegger and his associates continue to contend that continued pursuit of these policies represents a path to allow California to move forward economically while also mitigating the dangers of climate change.

Perhaps the most significant finding from this case is best explained by the fact that California has now attempted essentially every conceivable climate policy tool, with the exception of the two that would entail explicit pricing of carbon, namely, auctioned allowances under cap-and-trade or a carbon tax. The state has attempted to develop an emissions trading scheme for four years since the enactment of its 2006 legislation but has yet to finalize details and has thus far proven reluctant to embrace large-scale auctioning. Carbon taxation has never emerged as a priority in the legislative or executive branches in Sacramento and a 2008 ballot proposition
that would have increased taxes on oil produced in the state was defeated. Possible longer-term shifts in the state’s stance will be explored in the concluding section.

Further Minimizing Direct Cost Imposition: Enter the Feds

Governmental penchant for climate policy tools that eschew explicit carbon pricing is not confined to states. As the federal government has turned increasingly to climate policy options during recent Congresses, numerous policies have been embraced that have proven popular based on economic development potential for at least some sectors and regions. In these cases, benefits follow the classic pattern of being concentrated and thus recognized by key constituents while any costs are likely to be obscured through their indirect imposition. Both the 2005 Energy Policy Act and 2007 Energy Independence and Security Act are models of using a mix of financial incentives and regulations to try to promote a series of objectives at the same time. Both of these bills were framed as vehicles for facilitating transition from energy importation and cultivation of energy sources that were more locally accessible than imported oil. This was reflected in a maze of tax subsidies and incentive programs, a mandate for renewable transportation fuel that blocked sugar-based imports in favor of more expensive home-grown commodities, expanded federal oversight for siting facilities linked to energy diversification, and a modest increase in vehicle fuel efficiency standards that sustained long-standing loopholes in that approach.

Within a few weeks after it backtracked from its early commitment to carbon pricing via auctioned allowances, the Obama Administration pursued its own version of this type of strategy in the transportation sector. This involved use of its existing authority over fuel economy to set a national standard roughly equivalent to what California had advanced under an air emissions label, becoming particularly stringent in 2016. All of this occurred at a moment of despair among American-based auto manufacturers, reflected in near-total dependency on the federal government and consequently minimal ability for them to push back on new regulations. At the same time, this entire process moved forward without any discussion of energy prices and whether increased gasoline taxes would be essential to produce the demand for the new cars that Detroit and other manufacturers would be required to build in coming years. As Richard Thaler and Cass Sunstein wrote in 2008 (before Sunstein assumed the role of regulatory czar in the Obama Administration), “announcing a new fuel efficiency standard sounds misleadingly ‘free,’ whereas imposing a carbon tax sounds expensive, even if it is actually a cheaper way of achieving the same goal” (Thaler and Sunstein 2008, 186–187). This is clearly the policy tool approach that the federal government has taken for transportation, along with continued subsidies and mandates to increase the supply of ethanol derived from domestically harvested corn.
and creation of a high-profile subsidy to purchase new, ostensibly high-fuel-efficient vehicles that came to be known as “cash for clunkers.” Indeed, not only has the gasoline tax issue been withdrawn from the agenda, but an early proposal from Transportation Secretary Raymond LaHood to replace a tax applied on each gallon of gasoline with one based on vehicle miles driven was almost immediately pulled back by the White House. This proposal raised the spectre of highly explicit cost imposition and so rapidly disappeared as a policy tool option in early 2009.

An Intergovernmental Consensus on Policy Tools?

State governments had virtual free rein in selecting climate policy tools or simply ignoring them for more than a decade and continue to retain considerable latitude despite an expanding federal role and possible encroachment on some of their terrain. Some state officials have gained substantial notoriety for their effective policy entrepreneurship, including some state agency appointees who assumed prominent federal roles in 2009. A key element in their state policy work was selecting climate policy tools that could be framed primarily as an economic development enhancement while also promising some greenhouse gas emission reduction. An equally important component may have been their aversion to tools that explicitly imposed costs, even though these likely remain the best options to address climate change on the grounds of efficiency and effectiveness. Federal policy appears to be following a similar pattern, with reluctance to impose direct cost leading to policy tool selection that embraces strategies that disguise any costs through indirect imposition. Nonetheless, there have been occasional signs of a shift toward more explicit cost imposition, reflecting a policy idea long championed by a disparate array of entrepreneurs who appeared on the verge of emerging as influential advocates for a brief period in late 2008 and early 2009.

The Pricing Moment and the Odyssey of Carbon Cost Imposition

The idea of increasing direct taxation as a primary policy tool to reduce consumption of a product whose legal use causes individual and societal harm has long held considerable appeal among policy analysts. Tobacco is a classic case in point, where a steady blend of direct excise tax increases imposed by the federal government and many states is widely acknowledged to have been the most influential factor in driving down demand for this high-risk product in past decades. Extending this idea to energy and environmental protection has long been considered as well, though usually with modest political appeal. During the energy crisis of the early 1970s, the Council of Economic Advisors in the Richard Nixon Administration responded favorably to the idea of increased gasoline taxes, primarily as a way to foster American independence from foreign sources of oil. President Nixon even ran with the concept for a short time in
the environmental arena, proposing a series of taxes on environmental emissions such as sulfur dioxide. This idea would be embraced a decade later by Democratic members of the House such as Henry Waxman (California) and Gerry Sikorski (Minnesota) who wanted to tax electricity on a national basis to curb sulfur dioxide and other emissions (Kamieniecki 2006, 160). But these proposals never advanced very far in the political realm.

The political risks of advancing such a step are perhaps best illustrated by the experience in formulating energy policy during the Gerald Ford Administration, as concerns about energy prices and supply peaked in 1974 and 1975. Ford’s senior energy advisor, John Sawhill endorsed an increase in energy taxation to reduce consumption. This stirred considerable upheaval, reflected in a plea from Republican Congressman Tim Lee Carter of Kentucky to Sawhill: “Please, for god’s sake, don’t mention any more tax on gasoline! This adversely affects every congressional candidate in the United States. . . . I have travelled from one end of this district to the other and I found only one man who supported the 10 cents/gallon tax on gasoline and he was a kook” (Mieszkowski 2005, 218). Under considerable pressure, Ford fired Sawhill for raising this issue, instead deciding to back a series of energy subsidies and regulations less likely to impose direct costs and appointing an “energy czar” to coordinate any federal policy response. Ford’s czar, Frank Zarb, explicitly opposed use of taxation to reduce energy consumption during his term, though out of office more than three decades later he proposed a national carbon tax as the best way to address climate change and produce energy transition away from fossil fuel sources (Zarb 2007). In the 1990s, then-Vice President Gore’s proposal for a national energy tax as part of a broad domestic reform proposal in the early stages of the Clinton Administration met vehement opposition that nearly brought down the entire package. It was ultimately downsized to an increase of less than a nickel per gallon on gasoline taxes. At this point, “getting BTU’d” entered the American political lexicon, reflecting the metric Gore proposed for his taxation plan and the intense opposition that it garnered. This experience is invoked repeatedly in the United States to deflate any serious carbon tax proposal and likely deterred Gore from revisiting carbon pricing strategies until after his retirement from elected politics. In his 2000 presidential campaign, for example, he said very little about climate change policy, with one of his primary energy proposals involving release of fuel from the Strategic Petroleum Reserve to help mitigate recent gasoline price increases.

The idea of a carbon tax has endured, however, though largely relegated to policy analysts, commentators, and public officials, having gained a new lease on life in recent years given the increased saliency of climate change and the exploration of possible policy interventions. This represents a very loose network of individuals attracted by the general idea of direct cost imposition but not linked through any formal network or organization. Unlike epistemic communities, in which ideational
advances can be made through creation of strong networks that bring like-minded individuals together and find ways to collectively advance the idea, the “carbon tax crowd” has remained a much looser set of alliances. Indeed, carbon cost imposition has not thus far followed the pattern of other policies that have been based heavily on the ideational advantage of heightened efficiency and effectiveness and been championed by effective entrepreneurs able to frame the idea in a manner that can gain broader appeal and bring likely opponents on board (Orenstein 2008).

A Viable Carbon Tax?

Nonetheless, heading into early 2009, it appeared more plausible than ever before that a carbon tax might emerge as a serious alternative in congressional deliberations, reflected in a series of developments that seemed to elevate this policy tool to new prominence. First, a flurry of op-ed and commentary pieces began to emerge, as well as speeches from very diverse quarters, all suggesting the possibility of a strange bedfellows coalition. Ralph Nader embraced the carbon tax idea on the op-ed page of the Wall Street Journal, Thomas Friedman authored multiple columns and a best-selling book that endorsed this approach, and industry leaders such as Rex Tillerson, CEO of ExxonMobil, said in a January 2009 speech that a carbon tax would be “the most efficient means of reflecting the cost of carbon in all economic decisions—from investments made by companies to fuel their requirements to the product choices made by consumers.” These voices were joined by an unusual chorus of others, unified in support of carbon taxation as a superior climate policy tool though often attracted to it for different reasons. Second, a number of prominent Obama Administration appointees were previously on record as not only endorsing carbon taxes but explicitly seeing it as the best policy tool to confront climate change. Peter Orszag, who was named head of the Office of Management and Budget, had written for the Congressional Budget Office in 2007 that “studies typically find that over the next several decades, a well-designed and appropriately set tax would yield higher net benefits than a corresponding cap and trade approach” (Orszag 2007, 8). The following year, Orszag testified before Congress that “within the relatively efficient category of approaches that rely on the power of markets, a tax on emissions is generally more efficient than a cap-and-trade system.” Other incoming members of the Obama team made similar statements in recent years including Council of Economic Advisors chair Lawrence Summers, Energy Secretary Steven Chu, and senior economic advisor Paul Volcker, among others. This suggested the possibility of a pro-carbon tax “brain trust” with considerable access to the Oval Office, following an election campaign in which Obama had called for decisive federal action on climate change but had not offered detailed proposals on his plan.

Third, a small band of congressional representatives embraced the idea of carbon taxation and introduced bills into the 110th and 111th
Congresses that would make such a tax a central plank of federal climate policy. Such legislative champions tended to be senior Democrats with links to the House Ways and Means Committee, which brought taxation issues well within their purview. House members such as Pete Stark from California, James McDermott from Washington, and John Larson from Connecticut were particularly vocal on the issue, periodically revising various proposals and emphasizing their simplicity and transparency. Larson in particular noted the possibility of governmental return of revenues to the citizenry through some form of rebate or tax reduction and also proposed a tax that would phase in and could be adjusted over time to meet desired levels of emission reductions. “The American people want us to level with them,” said Larson in a March 2009 interview. “We create price certainty without any new bureaucracies or complicated auction schemes” (Broder 2009). Some expression of support for such an approach was also offered by a small set of Republicans in the House and Senate, though generally for taxes set at lower levels. This political base seemed modest but offered a venue for possible advancement of a carbon tax, especially given the likely role of Ways and Means in approving any comprehensive climate bill given its considerable influence on legislation with fiscal ramifications. Fourth, a nonprofit organization was founded in 2007 with the explicit purpose of promoting carbon taxation through the classic forms of issuing reports and providing a clearinghouse for any document supportive of a carbon tax, while also trying to establish a network among carbon tax proponents. The Carbon Tax Center appears to have been the first concerted effort to develop an epistemic community exclusively around the idea of carbon taxes, maintaining offices in New York City and Washington, D.C., and gaining considerable visibility in late 2008 and early 2009. The Center appeared primed to take its place alongside more established organizations that had staked out preference for other policy tools, such as mainstream environmental groups that had long backed a cap-and-trade program modeled on earlier experiments with sulfur dioxide emissions.

These converging factors suggested that carbon taxes might move from the periphery to a far more central role as the 111th Congress convened. This body of supporters reflected a fairly loose confederation, drawn to the carbon tax idea for somewhat different reasons. Nonetheless, they seemed to coalesce around a general idea that would amend the existing federal excise tax code and tax all fossil fuels according to their carbon content. Momentum generally seemed directed toward some method of reallocating most or all of this revenue to make the enterprise “revenue-neutral,” either through a direct rebate, dividend check or some combination of tax reductions. Further unity was reflected in strong concerns that a cap-and-trade system that allocated permits at no charge was deeply flawed. Carbon tax proponents repeatedly noted that a cap-and-trade system applied to carbon dioxide would be vastly more complex than any other emissions trading regime. They emphasized the likely extended
period required to develop a trading regime before it could go into opera-
tion, the imprecision of measuring and authorizing carbon offsets that
could be substituted in cases where emission reductions could not occur,
the substantial lack of predictability on allowance pricing and cost impli-
cations, the uncertainty of distributional impacts across regions and
income groups, and the sheer difficulty of erecting and sustaining such a
complex regime while maintaining transparency and public confidence
in its operations. There was a very strong effort in this period to link
in the public mind proposals endorsing cap-and-trade with the financial
markets crisis, since a number of cap-and-trade proposals called for cre-
ation of oversight institutions modeled heavily on the financial regulatory
institutions that were so intensively scrutinized in the banking and
housing sectors in this period.

A Stealth Carbon Tax via Auctioning?

Alongside the growing interest in carbon taxation emerged a variant of
cap-and-trade that had many of the attributes of a tax although it lacked
such explicit labeling. Auctioning enables government to establish a
bidding process whereby emission allowances would be allocated accord-
ing to the highest bids. This represented a major shift from emissions
trading programs employed for conventional air pollutants in North
America and early European Union efforts for carbon, which allocated
allowances for free. Auctioning had considerable appeal to policy analysts
who view it as a way to establish a far more robust carbon pricing mecha-
nism than under free allocation. It had always hovered in the background
of some emissions trading policy discussions but rather rapidly reached
center stage in 2007, accelerated in large part by a rather sudden shift in an
American regional policy experiment. This development set a highly
visible precedent that drew unprecedented attention to the auctioning
option, which according to political scientist Leigh Raymond would
“create a carbon tax without calling it a carbon tax” (Raymond 2010).

Nineteen states have experimented with very modest forms of “stealth
carbon taxes” through levying small fees on electricity bills. These impose
only a modest fee in order to minimize public opposition and generally
use revenue to cover the costs of renewable energy and energy efficiency
programs. The most ambitious of these policies are set just below the level
of Quebec’s modest provincial carbon tax, and all fall far below British
Columbia’s far more ambitious carbon tax that was established in 2008
(Harrison 2009). All states with such policies have refused to label these
as taxes, instead classifying them as “social benefit charges” or “public
benefit funds.” Some states do not itemize these added levies in monthly
electricity bills and it is not at all clear that even recipients who might see
these titles realize what they entail. So, on this very modest scale,
some states have experimented with stealthy ways to impose direct costs
on fossil fuel use.
But auctioning under a cap-and-trade regime could go considerably further in terms of likely cost imposition. This may explain the early reluctance of ETS and other emission trading systems to even consider this option. In turn, RGGI did not explicitly endorse significant levels of auctioning during its first years of operation. New York launched preliminary discussions about establishing a regional cap-and-trade zone in 2003, followed two years later by a memorandum of understanding that set out the terms for such a system to begin operation. This involved a cap that began in 2009 at 1990 carbon dioxide emission levels for all coal-burning power plants located in participating states. The cap would remain steady from 2009 through 2014 and then decline by 2.5% each year until 2018, thereby achieving a 10% reduction from 1990 emission levels. The memorandum followed prolonged multi-state negotiation that continued in subsequent years as key implementation issues were addressed. A number of prominent elected officials were supportive as this coalition ultimately included 10 states. But in many ways the formation and further development of RGGI was a classic case of policy entrepreneurship guided by state department heads and senior associates. This built on a strong network of collaboration between lead environmental protection and energy departments in this region, a model of insider refinement of a policy tool that would then be “sold” to key principals such as governors and legislators. RGGI can thus be conceptualized as a kind of case “where administrators have had substantial, even decisive, influence over policy” (Lee and Raadschelders 2008, 429) and maintained that influence into implementation despite some turnover in key administrative and political posts. It is thus reflective of cases in which entrepreneurship can build on initial innovation over time rather than be confined to a one-time experience (Crowley 2003; Mintrom and Norman 2009).

The RGGI governance network systematically worked through many key issues in establishing a viable trading system, including mechanisms that established a region-wide oversight process while delegating considerable decision making to individual states. But it had never fully addressed the process for allocating allowances, though generally committed to a mechanism whereby most allowances would be allocated at no cost and some small states were granted bonus allowances in order to retain their political support for the multi-state process. Many key RGGI staffers were quietly supportive of moving toward a more auction-based system but were reluctant to go public with their views due to anticipated political backlash from those most likely to face the expanded costs, including participating utilities. They also recognized that this could be a very divisive issue among individual states, which would make final decisions on this given their role in overseeing their respective allocations.

But a cross-continental policy failure opened a proverbial window of opportunity for RGGI policy entrepreneurs to propel a rapid shift toward full auctioning. In 2005, the European Union launched ETS to great fanfare and claims of world leadership in climate policy innovation. But the
system experienced a short-term collapse in 2006 when the trading price for allowances in a nonauctioned market plummeted. This led to allegations that there were major design flaws in the ETS system, including a failure to guard against allocations to individual EU Member States that exceeded actual emissions. Many nations appeared to have presented inflated emission budgets to the EU, and in turn, granted regulated parties allocations greater than their actual emissions. This led to a near-collapse of the newly formed market and widespread allegations that parties ostensibly regulated under cap-and-trade were actually experiencing “windfall profits,” whereby they increased costs for their customers even though ETS imposed few if any pressures necessitating such a step.

Review of this incident was not confined to climate policymakers in the EU. RGGI officials had long maintained close ties with ETS counterparts and EU climate officials in sharing policy design ideas (Selin and VanDeveer 2007, 20) and so quickly recognized the severity of the problem. Negative accounts of ETS were released in the United States by various environmental groups, some of which secured considerable media attention among states enrolled in RGGI. In Europe, this experience made auctioning somewhat more politically attractive than ever before, leading Germany and Britain to auction nearly 10% of their allowances by 2009, though resisting bolder steps in the face of private sector opposition. This allowed the EU to contend that it was responding to earlier abuses and thereby “make the allocation process more transparent and efficient” (Brunner 2008, 504), while averting the political risks that might follow more intensive cost imposition that have so complicated earlier experimentation with carbon taxes in that case (Cass 2006).

But RGGI decided to go much further with this idea. In 2007, Massachusetts Governor Deval Patrick became the first elected official in the region to embrace 100% auctioning and New York followed suit in short order. In a relatively short period of time, every RGGI state also moved in this direction. Maine, for example, enacted authorizing legislation, endorsing a full sale of allowances “at public auction” and also creating a state Energy and Carbon Savings Trust “to receive, hold, bank and expend revenue resulting from the sale of allowances.” Other states relied on administrative steps to establish the auction process. All RGGI states decided against a mechanism that would rebate or return the revenue to the public and instead decided to use funds for state renewable energy and energy efficiency programs. A coalition representing the utilities that would be directly affected by this shift registered strong opposition, noting in a public statement that “it is clear that the balance promised in the multi-state process has been lost.” They warned about steep electricity price increases and lamented that any auctions “have a good chance to be manipulated by outsiders and a better chance to increase regional costs with few benefits.” Despite this opposition, the RGGI network held firm. Quarterly auctioning began in September 2008 and has received consistently high marks from independent auditors for transparency and
fairness. The auctions also provided states with added revenue to fund their energy programs, though this declined in the June 2009 auction as allowance prices dropped amid uncertainty about RGGI’s future viability under a possible federal climate regime. The most significant challenge to RGGI auctioning has come through litigation, whereby plaintiffs contend that auctioning is in effect a carbon tax and thereby must be approved as such by each legislature and governor.

The possibility that the RGGI experience might follow the familiar path in American federalism whereby an innovation in one or more states is eventually embraced by Congress on a national basis seemed entirely plausible, as auctioning began and RGGI got off to a much smoother start than ETS. The possible intergovernmental transfer of policy ideas seemed to receive a further boost when President Obama named two prominent RGGI entrepreneurs, known to network insiders as “RGGI Roadies” to leading roles in the Environmental Protection Agency. Lisa Jackson moved from her role as director of the New Jersey Department of Environmental Protection to EPA Administrator, and she put Connecticut counterpart Gina McCarthy in charge of the agency’s air quality program. Both were heavily engaged in RGGI development on a regional scale and within their states, including direct involvement in the transition to auctioning. Their experience seemed entirely on track with the president’s early call for allocation auctioning and appointment of other senior officials who had publicly endorsed some form of direct cost imposition to address climate change.

The Pricing Moment Passes: Greenhouse Issues in the Hothouse of the 111th Congress

The move toward explicit carbon pricing likely reached its peak with the initial Obama climate policy proposal and subsequent budget submission in the very early months of his presidency. Within days, however, it became evident that there was strong congressional and interest group opposition to any RGGI-like auctioning process and serious discussion of a carbon tax was rapidly shoved to the sidelines. Obama quickly relented and the House took the lead in fashioning a bill that advanced a version of cap-and-trade that would allow only limited auctioning and instead create an allowance distribution process that could be continually adjusted to provide currency in allowance form to secure support from likely swing votes. This process was linked with innumerable other provisions, including a renewable portfolio standard and an avalanche of new energy efficiency standards and incentives. Despite a packed congressional agenda, overriding concerns about the national economy, far-reaching economic and financial system regulatory interventions, and polling evidence that suggested global warming was declining as a leading public concern, the American Climate and Energy Security (ACES) Act marched through the House in stunningly rapid order. HR 2454 was cleared by the House
Energy and Commerce Committee, reconciled with other committee versions, and presented to the full House for a vote in late June 2009. This left open the issue of Senate involvement and the hurdle of enacting comparable legislation given its own likely concerns about such a wide-ranging bill. But the rapid movement in the House demonstrated the ability of a formidable coalition and skilled political leadership to not only crush alternative policies but also move forward one of the most complex bills ever debated in the halls of Congress.

ACES was in many respects the brainchild of an advocacy coalition that brought together five leading environmental groups and 26 major corporations under the auspices of the U.S. Climate Action Partnership (USCAP). Among environmental organizations, established entities such as the Natural Resources Defense Council (NRDC) and Environmental Defense (ED) joined forces with the newer Pew Center on Global Climate Change. All had considerable experience not only in lobbying for federal climate policy but also in negotiating possible strategies with the private sector. Both NRDC and ED had been key players in the 1990 Clean Air Act Amendments, when they embraced emissions trading for sulfur dioxide and later parlayed their role in that effort to expand their base of organizational support. These groups were joined by a diverse set of firms, including major electricity generators and manufacturers. Many of these firms had previously acknowledged an interest in working collaboratively to produce a federal climate bill and some had taken heavily publicized steps to unilaterally reduce their own greenhouse gas emissions. Each brought somewhat different concerns to the table, all clearly inclined to bargain on a federal climate strategy as long as it did not impose heavy costs on them.

USCAP built on earlier efforts to convene diverse stakeholders, including dialogue groups launched by Pew a decade earlier. But it worked quietly to attempt to develop a consensus position long before a climate bill had a reasonable chance to pass either chamber of Congress, leading to its January 2007 release of Call for Action, a fairly broad statement of principles on what a future federal climate package might entail. This led to two years of continued work, resulting in a far more detailed proposal that was published just before the Obama inauguration, entitled Blueprint for Legislative Action. This report endorsed national emission reduction targets from 2012 to 2050, a cap-and-trade program with a “robust offsets program,” and an allocation system whereby “a significant portion of allowances should be initially distributed free to capped entities and economic sectors particularly disadvantaged by the secondary price efforts of a cap,” but phased out over time (USCAP 2009). It also endorsed major new commitments to carbon capture and storage technology, renewable energy, improved vehicle and fuel greenhouse gas performance standards, and major commitment to energy efficiency standards.

This was not a conventional stakeholder group that releases a report, garners a bit of attention, but then disappears. USCAP was designed for the longer haul and used its report to push aggressively for early action
in the House. This followed a key leadership change, whereby Henry Waxman of California supplanted John Dingell of Michigan as Chair of Energy and Commerce and signaled a strong interest in working closely with Edward Markey of Massachusetts, who chaired a special House committee on global warming which was established in 2007. The USCAP Blueprint became, in effect, the literal blueprint for what would evolve into ACES, enabling House leaders to contend that diverse sectors of society had converged on a compromise proposal that could become the focal point of early hearings in the 111th Congress.

Ditching Explicit Carbon Pricing

The Waxman-Markey team moved adroitly to use the USCAP report to keep open the possibility of some future transition toward auctioning while preventing any embrace of the RGGI auction model, much less a carbon tax. Their rapid bid to take the lead role in climate policy formation served to marginalize Ways and Means members who clearly wanted to foster some debate over competing policy tools, including serious review of the carbon tax option. Larson and Stark reintroduced their earlier carbon tax proposals but these were quickly marginalized as ACES dominated deliberations. The USCAP-ACES alliance produced a clear rebuke of any explicit carbon pricing, instead promoting their package as a stimulus for economic development. Ways and Means Chair Charles Rangell noted early in the 111th Congress that he was open to either cap-and-trade or a carbon tax but would base his decision on “where the votes are.” It quickly became evident which side would dominate and what form of cap-and-trade was most likely to gather significant votes if properly packaged. In March 2009, Markey noted, “I am aware of the economic arguments for a carbon tax, but politics is the art of the possible, and I think cap and trade is possible.... Someone once told me that a smart man learns from his mistakes but a wise man learns from others’ mistakes. We can learn from 1993 or Canada in 2008, but we should learn” (Broder 2009).

Let the Hearings Begin

Both the House and Senate had a long history of holding hearings on climate change, producing more than 400 of these sessions between 1975 and 2009. Approximately one-half of these took place during the 110th Congress, covering a wide range of climate science and policy debates. But none of these were well coordinated or designed to dominate the agenda through protracted analysis of one particular proposal. Instead, the more common pattern had involved a wide range of ad hoc hearings, reflected in the 110th Congress as 10 separate full committees in both the House and Senate sponsored one or more hearings (Rabe 2010). This made the Waxman-Markey alliance all the more significant, with Waxman using his
new powers as Chair of Energy and Commerce while Markey continued to direct the Special Committee and also assumed a new role as chair of an Energy and Commerce subcommittee on climate change. After embracing the USCAP proposal and quickly releasing a legislative version of it, Waxman and Markey announced four consecutive days of hearings in early May 2009 in which nearly 50 individuals would be invited to testify.

The hearings marathon allowed for some range of debate but was clearly oriented to allow USCAP members to dominate the process. Most of the exchanges focused on the cap-and-trade provisions of the bill, with discussion of other components such as the renewable portfolio standard and energy efficiency mandates confined to brief segments during the final day of hearings. A consistent theme emerged from USCAP representatives despite some differences. In particular, they repeatedly deemed cap-and-trade a proven method based on the earlier experience with sulfur dioxide, predicted that overall costs would be modest, and endorsed offset provisions that would be fairly generous and flexible. Testimony remained remarkably on-message despite the diversity within the group, though many speakers also made a case for special considerations for their particular industry, organization, or region.

Perhaps most important, the hearings served to crush any remaining notion that direct cost imposition had a political future in the House in the 111th Congress. The initial draft of ACES that was under scrutiny at the hearing made no reference to a carbon tax but also did not specify the method for allocating allowances under its cap-and-trade provisions, setting this up as a major topic of discussion for the hearings. The lone reference to a carbon tax through four days of extended deliberations was a passing endorsement by Lee Lane of the American Enterprise Institute, who opposed ACES and said a tax would be a better approach. The lone support for auctioning came from Robert Greenstein of the Center on Budget and Policy Priorities and Richard Cowart of the Regulatory Assistance Project; the only references to RGGI and its auctioning method were provided by Cowart and Ian Bowles of the Massachusetts Department of Environmental Protection.

In contrast, support for allocation that was either totally or substantially free was evident in multiple rounds of testimony presented during each day of the hearings. Many of these efforts attempted to frame auctioning as analogous to a tax, representing a direct form of cost imposition unlike a free allocation process. Glenn English of the Rural Electric Cooperative Association, for example, said his organization “strongly opposed an auction tax (emphasis added) as a means of distributing emissions allowances” and was joined by others who were concerned that auctioning would increase energy costs and alienate the public. A number of speakers employed some variation on taxation language, such as John Somerhalder of the American Gas Association who was concerned that auctioning “will essentially amount to a specific federal charge for the right to consume natural gas, almost entirely for
essential human needs.” Others, such as Jeffrey Sterba of the Edison Electric Institute, questioned whether the public would be able to grasp the linkage between auctioning and any method that would rebate some or all of that revenue to them. The anti-auction chorus was potent and there was little surprise when the revised version of ACES that was released shortly after the hearings embraced an allowance approach that limited auctioning until the latter stages of its four-decade period of operation. Congressmen Waxman and Markey did field complaints from pro-auction forces about being deterred from presenting their case in the hearings, leading to some added discussion of auctioning in a later session. But by this time it was abundantly clear that the allocation issue had been fully framed by the hearings; ACES would not emulate the path of RGGI and embrace auctioning on a large scale from its outset.

The hearings and subsequent revisions of ACES leading up to a floor vote also demonstrated that free allocation could be used as a distributional policy tool, in essence enabling allowances and related favors to be dangled before potential allies and then distributed in exchange for support for the bill. Under most models of emissions trading, allocations would be based on some baseline level of emissions. This might be the projected emissions for a given year or an average across years. But each subsequent step of the legislative process in the House added complexity to the allocation process, including repeated adjustments in the allocation formula that appear to have had little to do with emissions and instead created bargaining opportunities in search of a supportive majority coalition in the House. Anticipated opposition in late June from legislators representing agricultural districts, for example, was assuaged by offering more generous terms on offsets, switching jurisdictional oversight on offsets from the Environmental Protection Agency to the more friendly terrain of the Department of Agriculture, providing more favorable technical assessment of the climate impacts of corn-based ethanol, and giving bonus allocations to the rural-based electricity generators that English represented. Other key constituencies extracted their own benefits, many linked to the allocation process. All the while, the bill swelled from an initial length of 630 pages in early May to more than 1,200 pages by late June, including continuous adjustment of the allocation formula to garner votes for the final passage.

On to the Floor

This set the stage for the seven hours of House floor debate on June 26 that culminated in a vote. One immediate area of controversy and confusion was an insertion of 319 pages of new text into the bill during the early hours of the morning of the vote. Opponents continually alleged that they could not locate a copy of the heavily modified new bill and all of the last-minute changes, much less offer detailed reflection on it. Nonetheless,
Republican opponents of the bill attempted to frame it as an exercise in cost imposition that was confusing but nonetheless massive in scope. At least 14 Republican members of the House described ACES as a “national energy tax” in their allotted time for speeches on the floor, many adding highly pejorative adjectives to that framing exercise. Others focused concerns on the generous accommodation of swing vote legislators, the extreme complexity that could generate manipulation in implementation, and the heavy anticipated intergovernmental shifting of cost burdens. In the latter case, Representative Geoff Davis (R-KY), noted that the bill is “nothing more than the economic colonization of the heartland by the coastal states.”

In response, Democratic proponents continually turned to the image of a single U.S. postage stamp, contending that one prominent study suggested that the bill would cost the average American family about the cost of one stamp a day for the life of the bill. Were Americans willing to make such payment in order to reverse global warming, asked Representative Jay Inslee (D-WA). “You bet we will. For the price of a stamp, this is a good deal.” Representative G.K. Butterfield (D-NC) reached a similar conclusion and applauded the architects for designing a bill that “will literally save the planet” but also will “assure that any costs to the citizens would be painless.” At the same time, low projected costs were linked with high anticipated job development potential. “At its core, this is a jobs bill,” said Markey in his opening remarks. After an hour-long assault on the proposal by Minority Leader John Boehner (R-OH), Speaker Nancy Pelosi offered only one brief comment on the bill after extending thanks to those who had taken a lead role developing the legislation: “Remember these four words: Jobs, jobs, jobs, jobs. Let’s vote for jobs.” Interestingly, only one reference through the seven-hour debate was made to the most prominent alternative, a carbon tax. Toward the end of the session, Representative Bob Inglis (R-SC) called for a substitution of Waxman-Markey with a “revenue-neutral tax swap,” reducing federal payroll taxes on an equivalent basis for imposition of a carbon tax. “Just by changing what we tax would cause old fuels to give way to new fuels,” he said. This was not discussed further and only one proposed amendment was allowed to come to the floor, which was soundly defeated. Shortly thereafter the House voted largely along party lines, 219-212 to pass the legislation, move it along to the Senate, and recess for the July 4th holiday. As the vote counting was finalized, Republicans began to chant “BTU, BTU, BTU,” indicating their future intent to link the legislation to an earlier energy tax increase that was destined for defeat and adverse political consequences for a number of its supporters, who were defeated in the 1994 elections. On the other side of the floor, Democratic leaders celebrated in a fashion tantamount to a professional sports team having won a championship.

The ACES process shows that rather than a market-based tool that promotes efficiency, an allocation process made through political calculations can quickly transform emissions trading into a form of distributional
policy. This allowed ACES proponents not only to secure allies who might receive more favored status via allowances but also contributed to a mantra among ACES supporters that energy prices would not rise (at least not very much very soon), overall program costs would be minimal, and the economic development impact would be significant. Indeed, many other sweeteners were added throughout the Energy and Commerce Committee reviews and in the days and hours leading up to a floor vote, all relatively modest in overall budget terms but individually attractive to a particular legislative district or constituent. In fact, a number of swing district legislators made extensive use of the colloquy process in the House on June 26, whereby members could not only enter into interpretive dialogue with Congressman Waxman on the record but also use that forum to gain public commitment from the Energy and Commerce Committee chair that some specific provision that they supported would be provided. These ranged from funding for a hurricane research center that would be based in Orlando to guarantees that early-reduction credits that had been submitted to the non-profit Chicago Climate Exchange would be counted in any future allocation process. In response, Representative Joe Barton (R-TX) declared, “If you haven’t done your deal, come down to the floor,” sarcastically imploring colleagues to negotiate terms with Representative Waxman before the cameras prior to declaring their willingness to vote in favor of the bill.

ACES became so complex as it approached the floor that it became virtually impossible to conduct any feasible economic analysis, with each side instead gravitating to any published study that supported its views. This led to a range of speculative efforts but did give proponents advantage through uncertainty, their own modest cost estimates, and the real possibility that any future cost increases that did occur would be indirect, concentrated in future decades, and difficult to trace directly to the legislation. It also allowed proponents to frame the entire cost of the bill as equivalent to “one postage stamp a day” per American family, suggesting inconsequential financial cost in exchange for climate protection and economic development benefits. That made this form of cap-and-trade far more attractive politically than the more direct and visible cost imposition that would likely follow a carbon tax or auctioned allocations. But its extraordinary complexity and the confusion over its final content also left it vulnerable for re-framing by opponents as a stealth-like form of massive cost imposition. This was evident as the venue shifted to the Senate where the House approach began as a baseline for deliberations but substantial opposition and extended delays left the future of any climate legislation in serious doubt.

Whither Direct Cost Imposition?

The American intergovernmental experience with climate change policy to date suggests considerable aversion to any strategy that would impose
significant costs on citizens through energy taxation or equivalents. This indicates political preference for a range of policy options that may be far less desirable on economic grounds but spare officials the possible “politics of pain” that likely follows intense loss imposition. Of course, just as climate change is likely to remain on the agendas of all American governments for some time to come, selection of policies to reduce greenhouse gas emissions is likely to be an iterative process and the conversation could shift at any point. Continuing policy developments in the states and in the Senate raises the question of the conditions under which direct cost imposition might move beyond its narrow ideational base and produce a more viable coalition, even in the foreseeable future.

For many states, the severe recession has caused profound fiscal distress, leading a number of them to explore new ways to generate revenue both for the short term and to secure a more stable long-term base. Despite its penchant to pursue virtually every form of climate policy except carbon taxes, this option landed on the Sacramento agenda in the summer of 2009. This was driven both by political desperation for alternative revenue sources and concerns about the difficulties that have emerged in implementing state climate legislation. A statewide commission exploring the long-term fiscal viability of the Golden State began to consider a possible shift toward energy-based taxes for both fiscal and environmental reasons and the California Air Resources Board proposed a wide range of “carbon fees” in September 2009 that it would impose under the umbrella of existing legislation and use revenues to cover all climate policy implementation costs. In turn, an advisory board for the California climate program endorsed in January 2010 full auctioning under any future state cap-and-trade program, with possible ramifications for the Sacramento-based Western Climate Initiative. In the Midwest, state leaders of a regional counterpart to RGGI indicated growing interest in an auction-based system. Moreover, the desperate search for revenue amid severe recession in many state capitols opened exploration of new and expanded taxes, including a number of consumption taxes that could include energy.

In the Senate, Washington State Democrat Maria Cantwell took a lead role in fashioning an alternative cap-and-trade approach to the one that passed the House. Her Carbon Limits and Energy for America’s Renewal Act endorsed 100% auction and full revenue return to the public through a dividend check, prohibiting offsets in the process. Cantwell sought to use her position as chair of the energy subcommittee of the Senate Energy and Public Works Committee to gain a platform for this proposal and began to assemble a coalition that cut across partisan and other traditional divides in late 2009. This proposal was designed to respond directly to criticisms of the House bill and attempt to neutralize some opposition by emphasizing its plan to return all revenues to the citizens to mitigate concerns over costs, but it proved difficult for the Senate to give attention to this or any other climate bill as of mid-2010.
These developments underscore the continuing ideational appeal of using direct cost imposition as a climate policy strategy. They also demonstrate ways in which such policies might be re-framed to build a base of political support. But these remain modest works in progress against a steady trend of policy enactment and development across levels of American government that seeks to minimize, delay, or obscure cost imposition as an approach to greenhouse gas emissions reduction.

Acknowledgments

I am very grateful to Kathryn Harrison, Michael Kraft, Erick Lachapelle, Pietro Nivola, and two anonymous reviewers for thoughtful comments on previous drafts of this article. An earlier version was presented at the 2009 Annual Meeting of the American Political Science Association in Toronto.

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