

Carbon Fee and Rebate — Answering the Threat of Climate Change and Strengthening the Economy

Carbon pollution from the burning of fossil fuels, which is the primary cause of climate change, is the greatest environmental and economic threat facing the planet. It already has begun raising sea levels, causing droughts and floods to worsen, increasing the threats to our health, and making storms more intense. It is putting coastal cities and towns such as those in Massachusetts – and the investments of money and sweat in homes and business – at great risk. The center of Hurricane Sandy missed Boston only by about six hours; while New Jersey and New York bore the brunt of that storm, Massachusetts was more fortunate – but just barely. Now is the time to act.

What must Massachusetts do to combat climate change?

The state's Global Warming Solutions Act requires that we cut climate change pollution (primarily carbon dioxide, or CO₂) to 25% below the 1990 level by 2020, and to at least 80% below 1990 by 2050. To achieve this we need a dramatic shift from fossil fuels to clean energy such as solar and wind, while we greatly improve the efficiency of our energy use.

Why is a carbon fee and rebate the right way to cut carbon pollution?

Economists on the left and right agree that adding a pollution charge to fossil fuel prices is the most cost-effective way to cut carbon pollution. Such a charge would give energy producers and consumers a strong incentive to shift from fossil fuels to clean energy – while having the freedom to decide how to do so.

But won't this raise energy prices and hurt consumers?

Most or all of the money collected from households would be returned to them via an equal rebate to every resident of the state, enough so that low-income and middle-income households will either come out ahead or break even. And *anyone* who reduces their fossil fuel use can come out ahead. Employers, too, would receive rebates, in their case based on their number of employees.

In addition, a \$10/ton of CO₂ fee in the first year will only raise gasoline prices by 9 cents a gallon, far less than the ups and downs we see from month to month now. In the 5th year gasoline prices would rise 27 cents a gallon – still much less than the amount prices fell in 2014.

If you give everyone back the fees, won't they just keep buying the same amount of fossil fuels?

Each person's rebate would stay the same regardless of how much they pay in carbon fees. So people could cut their costs by using energy more efficiently and buying clean energy instead of fossil fuels. And energy suppliers could make more money by selling clean energy instead of fossil fuels such as natural gas, oil, and gasoline.

What effect would this system have on the Massachusetts economy?

Massachusetts currently sends more than \$20 billion out of state to pay energy producers in places such as Texas, Nigeria, and Saudi Arabia. The carbon fee and rebate policy would result in more of that money staying in the state to grow jobs and create businesses.

A carbon fee and rebate also would help solidify the state's position as a national leader in clean energy, and accelerate our ability to attract the clean energy companies that already are helping to fuel our Innovation Economy. Massachusetts already ranks among the top states in the exploding market for solar power, wind energy and energy efficiency. A carbon fee and rebate would create many new jobs in these critical industries.

How will a carbon fee and rebate policy affect my household budget?

A carbon fee will be phased in gradually. At first, it will have a small impact on prices paid by consumers for polluting energy sources, such as oil, coal and natural gas. The impact on fossil fuel prices will grow over time, but will be offset by the rebate checks or tax cuts that all households and businesses will receive. Households will have years to adjust as the fee phases in—for example, by making their homes more energy-efficient with additional insulation, by buying high-efficiency appliances, and more efficient cars.

Why not expand the policies we already have?

Massachusetts has a complex mix of many energy and climate policies. Scaling up existing policies to achieve the required carbon pollution reductions would cost more and be more complex in comparison to a carbon fee and rebate system.

Are there successful models of carbon fees in action?

Yes. Countries and localities around the world use carbon pricing to cut pollution and improve local economies. Most experts consider British Columbia's policy a stellar example of an effective economy-wide carbon pricing policy. In 2008, the province became the first place in North America to adopt a carbon fee and rebate system.

What research supports a carbon fee?

[This economic study](#) conducted by the Massachusetts Department of Energy Resources (DOER) showed the state how to implement a carbon fee and rebate system that cuts carbon pollution, strengthens the economy, and protects low- and moderate-income households. This national study conducted by Regional Economic Models Inc., a firm that is highly respected for its unbiased research, found similar results for a carbon fee and rebate at the national level.