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## POSITIONS ON CARBON PRICING IN THE UNITED STATES

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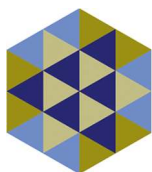
As discussions in Germany around an **international climate club** take off, this background briefing gives an overview of positions towards carbon pricing in the US, based on interviews with decision makers and research. The US does not have a carbon pricing system at the federal level. Our top-line assessment is that despite President Biden's recommitment to climate, chances of the US adopting carbon pricing in the near future remain low. His **pledge to not raise taxes for anyone earning below \$400,000** is notable as a limiting factor.

### The Biden Administration

President Biden has not officially endorsed or indicated he wishes to pursue national carbon pricing. Presidential climate envoy John Kerry told reporters **President Biden believes "at some point in time" the US needs to put a price on carbon**, but it's unclear on when the politics will align.

Instead, the preferred approach is to decarbonise the power sector by 2035 through a **Clean Electricity Performance Program** or clean energy standard, which can be interpreted as an indirect price on carbon in the power sector. It was proposed as part of President Biden's **American Jobs Plan** and included in the **budget reconciliation resolution framework** which will serve as the basis for the infrastructure reconciliation package.

With a long list of domestic priorities, President Biden has a small window of opportunity to push for climate action in Congress before the midterm elections next year. It will be extremely tough for the Democrats to hold onto power in



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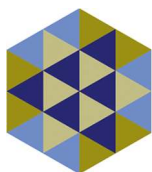
Congress so it's unlikely President Biden will use what little political capital he has on climate for carbon pricing when all his negotiating power is being used on climate-focused investments in infrastructure. A carbon tax approach would also be difficult to reconcile with campaign trail promises and the Biden tax plan to **not increase taxes for anyone making \$400,000 or less**. Also, given **the Administration's emphasis on environmental justice**, Biden may be uncertain about pushing for carbon pricing since many environmental justice activists believe **carbon pricing does nothing to address pollution in their communities**.

## Congress

Any carbon pricing scheme must pass Congress. Due to Senate procedural rules, it's very difficult to pass legislation without a 60-vote majority. Democrats have only a 50-seat majority with the Vice President breaking the tie. They could use a procedural tool called budget reconciliation which allows for certain legislation to pass under a simple majority. However, Democrats must keep all Senators on board, even moderate Senators like **Senator Manchin** and **Senator Sinema**, who have consistently been opposed to carbon pricing. Some carbon pricing champions like **Senator Whitehouse maintain opponents within the party can be convinced**, but the legislative clock is running out as Members of Congress are already beginning to prepare for midterms with elections coming in November 2022. As Members gear up for midterms, there are concerns carbon pricing will be viewed as a **tax increase by voters**. The memory of the last major attempt at comprehensive climate legislation in the US, the Waxman-Markey cap-and-trade bill which passed the House and died in the Senate, is still fresh for Congressional leaders, who are **hoping to avoid the same mistakes made in 2009**.

## Business

The private sector is increasingly supportive of market-based mechanisms over a regulatory approach, but this may be an attempt to head off any potential regulations under the Biden Administration. The **American Petroleum Institute (API)**, a coalition of over 600 companies representing the oil and gas industry, for years challenged any attempt at climate reforms and **invested heavily in bringing Waxman-Markey down** arguing it would cause gas prices to increase and contribute to job losses. Now, after Biden's win, API supports **economy-wide carbon pricing**, but as the sole instrument to reduce emissions over any other mandates or regulations. The **US Chamber of Commerce**, representing prominent US corporations, has also embraced carbon pricing in response to the



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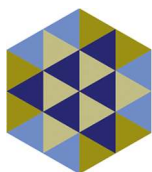
Administration committing to ambitious climate action, after **years of denying climate science**.

## Economists

Mainstream economists are strong advocates for carbon pricing. In 2019, the **Climate Leadership Council** organized an “**Economists’ Statement on Carbon Dividends**” supporting a carbon tax with revenue returning directly to taxpayers through rebates. Their **carbon dividends plan is known as the Baker-Schultz proposal**, named after the two elder statesmen who are co-authors of the proposal, James Baker and George Schultz. The plan has the support of 3,589 US economists, 4 former chairs of the Federal Reserve, 28 Nobel Laureate Economists, and 15 former chairs of the Council of Economic Advisers. While economists commonly argue that carbon pricing is the most efficient tool for reducing greenhouse gas emissions, they generally **neglect the political hurdles to policy implementation**.

## Civil Society

Climate NGOs have pivoted from support for carbon pricing to support for **infrastructure investment** as the main vehicle for climate action. This is especially true now that the Clean Electricity Performance Program was included in the reconciliation package. Carbon pricing has become politically unpopular within the progressive wing who are hesitant to rely solely on market-based schemes and assume businesses will be given generous carveouts like in the **2009 Waxman-Markey cap-and-trade bill**. They have also grown weary of corporations supporting a carbon tax, with fears that carbon pricing would **zero out any other regulations**. In the past, some fossil fuel companies have advocated for proposals for carbon pricing because it shields them from lawsuits in which they would be found **liable for climate damages**, another red flag for progressives. Overall, progressives are distrustful of Big Oil’s recent embrace of carbon taxes. Perhaps rightfully so as the head of Exxon’s lobbying team in Washington was recently caught on camera saying the **company supports a carbon tax because they know it will never happen** and admitted to trying to weaken the climate provisions in Biden’s infrastructure package. Lastly, climate NGOs and progressives are concerned about the social equity implications of a carbon tax because of its regressive nature and disproportionate distributional impacts. Some groups like the **Climate Leadership Council** argue social impacts can be mitigated in a well-designed carbon tax by flowing the revenue directly back to taxpayers, as is the case with their carbon dividends plan.



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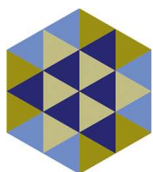
## States

US states making up **a quarter of the population and a third of economic output have carbon pricing schemes**. California has had an operating **multi-sector cap-and-trade system** since 2013 covering over 80% of the state's emissions. The state's forest carbon offset program has been criticized for generating credits that **overestimate the climate benefits of the projects**: a report recently found **29% of offsets were 'over-credited'**. Eleven US states participate in the **Regional Greenhouse Gas Initiative (RGGI)**, a cap-and-trade system in which emissions from the power sector are covered. Prices for each system are low compared to the EU; the allowance price for RGGI is hovering **around \$8.00** while the allowance price in California's scheme is **close to \$19.00**. In 2016, Washington State attempted a carbon tax through a voter referendum which failed after **progressives and environmental justice advocates lobbied intensely against the measure**, arguing the policy did not do enough to account for the distributional impacts of a carbon tax. After the carbon tax failure, Washington State now has plans for a **"cap-and-invest" approach** in which the state sets a cap on emissions and uses the revenue from allowances to invest in clean transportation, the energy transition and other emission reductions projects.

## US views on carbon pricing internationally

At the recent G7 summit, the US signed on to the communiqué with the rest of the leaders of the Group of Seven recognizing the "potential of high integrity carbon markets and carbon pricing". The communiqué mentioned the importance of establishing a **"fair and efficient carbon pricing trajectory"**.

Still, given President Biden's and Congressional Democrats' hesitancy on carbon pricing, along with its unpopularity among progressives, a federal carbon pricing system seems unlikely in the US for the foreseeable future. President Biden and Democrats in Congress will continue the standards and investments approach which includes a clean energy standard, expanded tax incentives for clean energy and electric vehicles, investments in clean energy research and development, and potentially a 'Buy Clean' procurement strategy requiring cleaner product standards in infrastructure projects.



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## About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at [www.e3g.org](http://www.e3g.org)

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