BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

PRESS CONTACTS:
Karen Anderson, 202.741.6559,
kanderson@brookings.edu

Susan Kellam, 202.797.6310,
skellam@brookings.edu

FOR IMMEDIATE RELEASE

The Hamilton Project Releases Policy Papers on Economic Approaches to Address Climate Change and Promote Energy Security

Washington, DC – October 30, 2007 – New policy proposals for designing environmentally effective market mechanisms to reduce greenhouse gas emissions were released today at a Hamilton Project forum, "A Climate of Change: Economic Approaches to Reforming Energy and Protecting the Environment."

The Hamilton Project released a new strategy paper and two new discussion papers on this issue, and highlighted new proposals to revamp the federal research and development program and to promote new policies to spur the development of new greenhouse gas reducing technologies.

Scientists and economists alike believe that the damage resulting from global warming to the environment, human welfare and the economy will be substantial, compounded by the small, but real, risk of a major catastrophic outcome. Linked to the problem of climate change is the issue of energy security – a challenge that has plagued the United States since the oil price shocks of the 1970s.

The new Hamilton Project strategy paper emphasizes the need to implement market-based approaches to reducing greenhouse gas emissions, but doing so in a way that protects lower- and middle-income families from the impacts of higher energy costs. The strategy also calls for a series of steps, including ending wasteful government policies and promoting long-run technological change, to help address climate change in an economically efficient and environmentally friendly manner.

Former U.S. Treasury Secretaries Robert E. Rubin and Lawrence H. Summers opened the forum. In his remarks, Summers noted that, "Like the health care debate in the early 1990s, it is now widely accepted that our energy and climate policies are in need of serious reform. But the specifics of how to craft a workable plan to reduce greenhouse gas emissions and U.S. dependence on oil are enormously complex and far from universally agreed upon."

"The nation will pay a substantial price if we do not act in an effective and timely manner," Summers warned. "Far-sighted, careful and thoughtful leadership are essential to addressing our challenge," he concluded.

The first panel showcased policy proposals for harnessing market forces to reduce greenhouse gas emissions. Presenters included Gilbert E. Metcalf of Tufts University on his proposal for a carbon tax swap and Robert N. Stavins of Harvard University on his proposal for a cap-and-trade system. Moderated by Sebastian Mallaby of the Council on Foreign Relations, the discussion highlighted each proposal's merits and included remarks by Pennsylvania Department of Environmental Protection Secretary Kathleen McGinty, a former chair of the White House Council on Environmental Quality, and Hamilton Project Director and Brookings Senior Fellow Jason Furman. An overview of The Hamilton Project policy papers is attached.

"It is imperative that we give the private sector the right incentives to reduce greenhouse gases through a cap-and-trade system or a carbon tax," said Furman. "But carbon emissions pricing alone won't solve the problem of global climate change. Appropriate and significantly increased public investments and new policies to encourage necessary innovation in this arena, are essential."

A second panel explored the need for an expanded, and possibly restructured, federal research and development program to help promote the development of new greenhouse gas reducing technologies. Roger C. Altman, Chairman of Evercore Partners, moderated a panel that included a presentation by Massachusetts Institute of Technology Professor and former Central Intelligence Director John Deutch and Center for American Progress President and CEO John Podesta, also a former White House Chief of Staff. Their new Center on American Progress paper focuses on the need, and strategy for achieving an "innovation revolution" in the United States.

Richard Newell of Duke University and Resources for the Future discussed his forthcoming Hamilton Project discussion paper examining the need for improved science and technology policies to help create new energy technologies. Newell argues that technology must be used as a complement to proper emissions pricing, not as a substitute, to achieve real success. Kelly Sims Gallagher, Director of the Energy Technology Innovation Project at Harvard University and David Sandalow, a Brookings Senior Fellow, joined the broader roundtable discussion on these issues.

"The ultimate solution to the twin problems of energy security and climate change lies in technology, and we are likely to see breathtaking developments there." said Altman. "The federal government can accelerate these breakthroughs by helping to finance the front-end risks."

About The Hamilton Project (www.hamiltonproject.org)

The Hamilton Project, named after the nation's first Treasury Secretary, Alexander Hamilton, seeks to advance America's promise of opportunity, prosperity, and growth. The project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy —strikingly different from the theories driving economic policy in recent years— calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

New Hamilton Project Policy Papers

An Economic Strategy to Address Climate Change and Promote Energy Security
A Hamilton Project Strategy Paper
Jason Furman, Jason E. Bordoff, Manasi Deshpande and Pascal J. Noel

Acknowledging the dual challenges of climate change and energy security, the strategy paper argues for giving the private sector the right incentives to undertake emissions reductions by pricing carbon correctly. The paper endorses the use of a cap-and-trade system or a carbon tax to achieve this goal.

The Hamilton Project authors note that the implementation of a new market-based approach must be accompanied by new policies to alleviate the resulting burden on low- and middle-income families from higher energy prices, and that existing government mandates on energy use must be re-examined so as not to interfere with market forces. The strategy also calls for a new approach to public investments in energy research and technology, with new focus given to long-run, speculative energy technologies. Finally, the strategy paper addresses the global nature of climate change and encourages a framework for improved international cooperation grounded in strong U.S. leadership.

A Proposal for a U.S. Carbon Tax Swap
An Equitable Tax Reform to Address Global Climate Change
A Hamilton Project Discussion Paper

Gilbert E. Metcalf proposes the creation of a carbon tax to reduce greenhouse gas emissions. The tax would be imposed at the producer level, targeting coal mines, oil refineries and wells, which would simplify the process for enforcement and collection of revenues, utilizing the existing U.S. tax structure. A refundable tax credit would be available to producers who can develop and utilize technologies to "capture" carbon and keep it out of the environment. To protect the incomes of lower- and middle-income families from the impacts of higher energy prices, Metcalf proposes using revenues from the carbon tax to alleviate the payroll tax burden through a process he calls a "carbon tax swap." Metcalf argues that a carbon tax has advantages over other market proposals in that it provides an explicit mechanism for protecting those hit hardest by rising energy costs, and is less vulnerable to lobbying pressures and attempts to create loopholes for targeted interests.

Highlights of his plan include:

- **Pricing greenhouse gas emissions**. A gradually increasing tax on greenhouse gas emissions would encourage firms and consumers to reduce emissions while giving the economy time to adjust.
- **Encouraging economic efficiency**. The carbon tax would promote cost-effective abatement by providing flexibility on when, how, and by whom emissions are reduced.
- **Offering an environmental tax credit**. Revenue from the tax would fund the environmental tax credit. Low-income taxpayers, who are affected most by the carbon tax, would receive the largest refunds as a percentage of income.

- **Promoting United States leadership**. Serious action by the United States, the world's largest energy consumer and its wealthiest nation, would encourage other nations to act.

A U.S. Cap-and-Trade System to Address Global Climate Change
A Hamilton Project Discussion Paper

Robert N. Stavins proposes a cap-and-trade system, in which the federal government would issue a limited number of permits for carbon emissions. This system would regulate total carbon emissions while giving firms the ability to buy and sell permits, ensuring that emissions reductions are undertaken by the firms that can do it in the most cost effective manner. Stavins' plan takes into account the need for distributional equity, to ensure that certain firms or industries are not disproportionately burdened by a new cap-and-trade system.

Stavins highlights five key factors for minimizing the economic costs of an effective cap-and-trade system:

- **Emission allowances should be tradable**, ensuring that economy-wide emissions targets are met while giving firms flexibility in deciding how to do it.
- **The level of emissions reduction should increase gradually**, to give the economy time to adjust and provide incentives for the development of new cost-saving technology.
- **The point of regulation should be upstream**—on energy producers rather than energy consumers— decreasing the number of entities to monitor and ensuring economy-wide scope of coverage.
- **The system should include mechanisms to reduce cost uncertainty**, such as banking and borrowing of allowances along with a cost-containment mechanism that effectively places a ceiling on allowance prices.
- **The United States should eventually link with other cap-and-trade systems** to take advantage of lower abatement costs abroad.

All of these papers are available on The Hamilton Project website at www.hamiltonproject.org.

Media Notes: Any reporters wishing to interview representatives from The Hamilton Project, please contact Karen Anderson, 202/744-5183 or kanderson@brookings.edu, or Susan Kellam at 202/797-6310 or skellam@brookings.edu. Summaries of the papers referenced here can be found on the web at www.hamiltonproject.org.

###