

Cap-and-Trade

Lingo Behind Polluter Limbo

Rather than issue a divine proclamation banishing carbon from the kingdom, the mood in Washington is for a more business-friendly approach to global warming legislation. The thinking is to put a price on carbon-dioxide pollution and allow companies to buy and trade it until they are no longer in the business of producing it.

Under a Clean Air Act amendment, cap-and-trade was used to clear the skies of the sulfur dioxide blamed for acid rain. That program was largely hailed as a success and achieved dramatic reductions at about half the cost of more traditional top-down regulation.

A CO² pilot cap-and-trade program in the European Union got under way in 2005. While it hasn't resulted in universal carbon reduction yet, it also hasn't been the economic disaster some predicted. In fact, according to analysis by MIT researchers, the program has had an "imperceptible" impact on the European economy.

Here's How It Works:

Set the cap.

Congress sets a magic number as the upper limit of permissible CO² pollution.

Get your token.

A certain number of pollution credits are sold — or given — to industry. (We like the sold option, which could create up to \$300 billion that could be used to help states and low-income residents manage temporarily higher energy bills, according to the Congressional Budget Office.)

Make the trade.

Polluter A reduces emissions below the targeted goal, leaving them with extra credits.

Polluter B just can't stop belching carbon.

Polluter B is allowed to purchase pollution credits from Polluter A.

Buy some habitat.

Instead of buying credits from another polluter, you can earn credits by investing in carbon-reducing projects outside the US. Save a rainforest; pollute for a year.

Then, the CO² cap is lowered for another round. Repeat.

Cap-and-Dividend

You may have noticed that in the above scenario the polluter pays the government for fouling the air. But who owns the air you breathe? If you think the federal government does, then keep pushing for cap-and-trade. If you think people share it in common, then consider this modification.

Rather than trust the government to reimburse select electricity and gasoline users, push for cap-and-dividend. In this model, the money raised by auctioning carbon credits is paid out to all US citizens. Heck, it works in Sarah Palin country. Proceeds from the sale of Alaska oil leases are doled out this way under the Alaska Permanent Fund.

Supporters prefer cap-and-dividend for its built-in equity: Everyone gets the same amount. Those who are frugal with their carbon-based energy will save more of their dividend than those going hog wild in their Hummers.