



Economist Statement on 100% Auction FAQs

Will credit auctions protect families and businesses from higher energy costs?

No. As the Congressional Budget Office has made clear, the costs to families and businesses under a carbon cap-and-trade will be the same regardless of how the credits are allocated.

“Under a cap-and-trade program, firms would not ultimately bear most of the costs of the allowances but instead would pass them along to their customers in the form of higher prices. Such price increases would stem from the restriction on emissions and would occur regardless of whether the government sold emission allowances or gave them away.”

Auctions are superior to allocations because they ensure the government has the resources necessary to offset those higher costs.

Does the statement take a position on how the revenues from an auction should be spent?

No. Advocates who agree on auctions may disagree on how the auction revenues should be spent. This statement does not attempt to advocate one use of the revenues over another. Rather, it argues that, absent auctions, there are no revenues. The value of the credits simply would be handed to shareholders of polluting industries.

How did the European Union treat carbon credits?

Initially, the EU allocated a large portion of the carbon credits under their cap-and-trade program. These allocations failed to restrain higher energy prices for consumers -- energy prices went up across-the-board -- while providing a huge windfall for emitting industries and their shareholders. Earlier this year, the EU announced it would move to 100 percent auctioning by the year 2012.

What about electricity producers in regulated markets?

While the existence of regulated markets complicates the economics of cap-and-trade, we have no confidence utility commissions will effectively shield energy

consumers from higher energy prices over the life of the cap-and-trade program. Regulated markets or not, the result will be the same -- the cost of capping carbon emissions will be born by consumers. The free allocations of credits to carbon polluters, even in regulated markets, will provide energy consumers with little or no relief.

Are free allocations of credits to polluters politically necessary?

Free allocations to polluters are based on the premise that they will shield families and businesses from higher energy prices. As is clear both in the economic literature and our experience in Europe, this premise is both false and politically dangerous.

The result in Europe was the distribution of billions in credits to the shareholders of polluting industries at the same time energy consumers confronted significantly higher energy bills. Congress should learn from Europe's painful experience and use auctioning immediately.

Is a cap-and-trade bill with 100% auctioning the same as a carbon tax?

While full auctioning makes cap-and-trade similar to a carbon tax, there are significant differences. Most importantly, a cap-and-trade program assures that the United States will meet its goals of reducing carbon and other greenhouse gas emissions by establishing strict caps on the release of these gases into the atmosphere.

Does the statement reflect the position of the institutions that employ some of the economist who signed the statement?

No. Economists who signed this statement are reflecting their own views and not necessarily the views of the institutions where they work.