OPINION | COMMENTARY

Economists’ Statement on Carbon Dividends

Bipartisan agreement on how to combat climate change.

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Steam billows from a coal-fired plant in Bow, N.H., Jan. 20, 2015. PHOTO: JIM COLE/ASSOCIATED PRESS

Global climate change is a serious problem calling for immediate national action. Guided by sound economic principles, we are united in the following policy recommendations.

I. A carbon tax offers the most cost-effective lever to reduce carbon emissions at the scale and speed that is necessary. By correcting a well-known market failure, a carbon tax will send a powerful price signal that harnesses the invisible hand of the marketplace to steer economic actors towards a low-carbon future.

II. A carbon tax should increase every year until emissions reductions goals are met and be revenue neutral to avoid debates over the size of government. A consistently rising carbon price will encourage technological innovation and large-scale infrastructure development. It will also accelerate the diffusion of carbon-efficient goods and services.

III. A sufficiently robust and gradually rising carbon tax will replace the need for various carbon regulations that are less efficient. Substituting a price signal for cumbersome regulations will promote economic growth and provide the regulatory certainty companies need for long- term investment in clean-energy alternatives.

IV. To prevent carbon leakage and to protect U.S. competitiveness, a border carbon adjustment system should be established. This system would enhance the competitiveness of American firms that are more energy-efficient than their global competitors. It would also create an incentive for other nations to adopt similar carbon pricing.

V. To maximize the fairness and political viability of a rising carbon tax, all the revenue should be returned directly to U.S. citizens through equal lump-sum rebates. The majority of American families, including the most vulnerable, will benefit financially by receiving more in “carbon dividends” than they pay in increased energy prices.

George Akerlof, Robert Aumann, Angus Deaton, Peter Diamond, Robert Engle, Eugene Fama, Lars Peter Hansen, Oliver Hart, Bengt Holmström, Daniel Kahneman, Finn Kydland, Robert Lucas, Eric Maskin, Daniel McFadden, Robert Merton, Roger Myerson, Edmund Phelps, Alvin Roth, Thomas Sargent, Myron Scholes, Amartya Sen, William Sharpe, Robert Shiller, Christopher Sims, Robert Solow, Michael Spence and Richard Thaler are recipients of the Nobel Memorial Prize in Economic Sciences.

Paul Volcker is a former Federal Reserve chairman.

Martin Baily, Michael Boskin, Martin Feldstein, Jason Furman, Austan Goolsbee, Glenn Hubbard, Alan Krueger, Edward Lazear, N. Gregory Mankiw, Christina Romer, Harvey Rosen and Laura Tyson are former chairmen of the president's Council of Economic Advisers.

Ben Bernanke, Alan Greenspan and Janet Yellen have chaired both the Fed and the Council of Economic Advisers.

George Shultz and Lawrence Summers are former Treasury secretaries.

More information is available at www.clcouncil.org.