

# **Will the Public Support Cap and Dividend?\***

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## **A Survey of Public Opinion Research on Carbon Prices and Rebate or Dividend Programs**



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## Introduction

The failure of the Lieberman-Warner Climate Security Act in the United States Senate in the summer of 2008 shed a clear light on the challenging political obstacles facing carbon regulation and pricing regimes. The bipartisan opposition to the Lieberman-Warner Climate Security Act was merely the latest example<sup>1</sup> of the central obstacle facing carbon pricing proposals: in the absence of readily available and massively scalable low-cost alternatives to fossil fuels, driving deep cuts in greenhouse gas emissions primarily through carbon price signals will drive up the price of energy. Increased energy prices can in turn spark backlash amongst both consumers and industry, creating significant political opposition to carbon pricing proposals. Furthermore, since the climate bill's defeat, the United States and the world have descended into the most severe economic recession since the Great Depression, exacerbating public concern about the economy and energy prices and strengthening the challenges facing climate proposals dependent on increasing the price of fossil fuels.

A proposal to refund directly to consumers 100% of the revenues generated by any carbon cap and trade or pricing program has been offered as a solution to the political challenges facing carbon pricing and regulation strategies. This kind of proposal is referred to variously as “Cap and Dividend,” “Tax and Rebate,” “Tax and Shift” or similar terms (we will use the term Cap and Dividend to refer to all three proposals in this document).<sup>2</sup> Its aim is to mitigate the cost impacts to consumers if a carbon price is established by returning revenues generated by the carbon price as a tax cut, rebate or direct dividend payment, making the policy “revenue neutral.” Proponents suggest this strategy will address the political barriers facing carbon pricing in a simple and equitable manner.

As explained at CapAndDividend.org, a site maintained by Peter Barnes and On the Commons, key champions of the Cap and Dividend strategy:

“A descending carbon cap is necessary, but it will raise the price of fossil fuels and every product that uses them. The burden of these higher prices will fall not just on the poor, but on the entire middle class. The purpose of dividends is to protect American families while we transition to a green economy.”<sup>3</sup>

Elsewhere, CapAndDividend.org acknowledges the risk of political backlash to carbon pricing and argues that a Cap and Dividend approach will be met with public support:

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<sup>1</sup> Carbon pricing proposals have met with similar political challenges in the European Union, where a December 2008 agreement to move forward on a continental emissions reduction agreement required major concessions to carbon-intensive industry and fossil power plants; in Canada, where the Liberal Party's “Green Shift” carbon tax proposal contributed to the party's defeat in the October 2008 federal elections; and at the United Nations where the Framework Convention on Climate Change has so far failed to make headway on a global emissions reduction pact.

<sup>2</sup> We recognize that each of these names refers to policies with different particularities and that the advocates of each approach would no doubt chastise us for lumping them together. However, as they are all motivated by the same central assumption – that returning carbon pricing revenues to consumers through tax cuts, rebates or direct dividends will increase the political tenability of the pricing regime – we consider them equivalent for our purposes.

<sup>3</sup> See <http://capanddividend.org/?q=readfirst/whycapanddividend> Accessed January 2009.

“Given the popularity of Social Security and Alaska’s [oil revenue-funded] dividends, there’s little doubt the American public will support climate dividends. The converse is also true: in the absence of dividends, the public will be outraged by higher energy prices, and a political backlash will arise.”<sup>4</sup>

The Cap and Dividend approach is motivated by an honest assessment of the significant political obstacles facing carbon-pricing proposals. However, there is little evidence that the proposal will help surmount any of these obstacles.

In this report we present a survey of public opinion research that shows Cap and Dividend should not be expected to substantially increase the public appeal of cap and trade or carbon pricing. In fact, public opinion research in the United States and Canada reveals the opposite: spending tax revenue on dividends may actually *decrease* public support relative to other uses of the funds.

## **Survey of Public Opinion Research on Carbon Prices and Rebate or Dividend Programs**

Cap and Dividend advocates often cite the popularity of Alaska’s oil revenue-funded dividend checks as evidence of Cap and Dividend’s public appeal. Beyond this, however, they present little public opinion research, real world precedent or other evidence that a Cap and Dividend proposal will be met with the significant public support necessary to overcome political challenges and ensure its long-term tenability. In fact, all evidence seems to be to the contrary.

We present a public opinion survey conducted in the United States that finds weak public support for a Cap and Dividend proposal. The survey tests various climate policy proposals and finds much stronger public support for investments in clean energy technology.

Furthermore, if we look north, not to Alaska’s oil dividends but to Canada’s experience with carbon taxes, we find more relevant, real world examples. In Canada, revenue neutral carbon tax and rebate programs have been tested at both the provincial and federal level and public opinion research reveals that the rebates do little to increase popular support for the proposals.

### ***A. Survey of American Voters Finds Tepid Support for Cap and Dividend; Voters Prefer Investments in Clean Energy Technology***

Public opinion research conducted in the United States by EMC Research and American Environics and commissioned by the Nathan Cummings Foundation examined public support for various climate policy approaches. The survey of 1,517 likely voters in the United States was conducted in August and September 2007 and specifically tested the “Sky Trust” Cap and

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<sup>4</sup> See <http://capanddividend.org/?q=commonquestions> Accessed January 2009.

Dividend proposal advocated by Peter Barnes, as well as two other policy prescriptions for global warming.<sup>5</sup>

The survey found a bare majority supported the Cap and Dividend proposal (51%). However, support dropped to 31% of respondents once likely arguments against the proposal, including arguments that it would increase energy costs over the next several decades while creating a major new government entitlement program.<sup>6</sup> A greater number of respondents support a straight cap and trade proposal (62% initial support dropping to 46% after arguments against it were made), again indicating that dividends do not increase the appeal of carbon pricing proposals and in fact may weaken public support.<sup>7</sup>

The survey found the greatest public support for a proposal to invest \$300 billion over ten years to develop new, low-cost clean energy technologies and industries, eliminate dependence on foreign oil, create new jobs, and reduce US carbon emissions. Investing in a new energy economy received support from 85% of respondents and the proposal was the only one to maintain support from a majority of those surveyed after likely arguments against it were made. After hearing arguments that the proposal would either raise taxes or expand the deficit and will spend hundreds of billions of dollars with no requirement that polluting industries reduce emissions, 54% of respondents still supported the proposal.<sup>8</sup>

### ***B. Majority of British Columbians Oppose Carbon Tax and Rebate Program; Specifically Oppose Dividends***

In July, British Columbia established a carbon tax of \$10 (CAN) per metric ton of carbon, scheduled to increase to \$30 per ton in 2012, enough to raise gasoline prices by roughly seven cents (US) per gallon at the outset. Putting Cap and Dividend's logic to a real world test, the new policy is designed to shield consumers from price impacts by returning all of the revenue raised via reductions in personal and business tax rates. BC residents even received a \$100 "Climate Action Dividend" before the tax went into effect to build public support for the proposal.

Several polls in the province report that majorities of British Columbians oppose not just to the tax, but even the dividend checks themselves; one poll found 71% of respondents and 64% of low income respondents disagreed with the Climate Action Dividend. In addition, nearly three-quarters of respondents in that survey did not believe statements that the tax was revenue neutral.<sup>9</sup> While voters may be willing to live with the modest tax, they seem to think using the

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<sup>5</sup> See "Nathan Cummings Foundation Global Warming Survey". (American Environics and EMC Research: September 2007). [<http://thebreakthrough.org/blog/files/GlobalWarmingSurveyRelease92507.pdf>]

<sup>6</sup> *ibid* pps. 6-7.

<sup>7</sup> *ibid* pps. 4-5.

<sup>8</sup> *ibid* pps. 5-6.

<sup>9</sup> -A March 2008 poll of 1300 British Columbians (margin of error: +/-2.8%) conducted by Compas Inc. and commissioned by the *Vancouver Sun* newspaper found 61% of respondents opposed the carbon tax and only 25%

revenue for refunds or dividends is a bad idea and are skeptical they'll actually see their money returned.

### ***C. Carbon Tax and Rebate Proposal Becomes Political Liability for Canadian Liberal Party; Public Supports Clean Energy Investment over Dividends***

Running as the opposition party in the October 14<sup>th</sup>, 2008 federal elections, the Canadian Liberal Party selected former environment minister Stephen Dion as their leader and featured a revenue neutral carbon tax and rebate proposal dubbed "Green Shift" as their central plank. The "Green Shift" policy would have established a carbon tax of \$10 per ton of carbon rising to \$40 per ton over time and, like the BC carbon tax, proposed to return all the money raised by the levy to taxpayers through income and business tax cuts.

Initial polls found a majority of Canadians supported the Liberal Party's carbon tax<sup>10</sup>, but by Election Day, the onset of economic recession had shifted public opinion. Prime Minister Stephen Harper and the Conservative Party used the carbon tax as evidence that the Liberal Party would put the environment ahead of the economy. The Liberal Party countered that the "Green Shift" proposal would really be an economic opportunity but Dion was unable to gain traction with the Canadian public on this argument. On October 14<sup>th</sup>, instead of gaining several seats in Parliament, as the Liberal Party had hoped, they lost 18 seats, and Canadian voters handed 17 more seats to the ruling Conservative Party.

Notably, early polls that showed majority support for a carbon tax proposal also revealed that Canadians preferred any revenues be used to fund clean energy and energy efficiency investments, rather than on tax refunds. Mirroring the results of the EMC/American Envirionics survey of U.S. citizens, nearly half of Canadian respondents in one poll (47%) said they

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supported it. [See <http://www.canada.com/vancouver/news/story.html?id=0c9bdb97-6b34-447d-8094-3955bfbf72af&p=1>]

-A July 1<sup>st</sup> 2008 Ipsos Reid telephone poll of 800 adult British Columbians (margin of error: +/- 3.5%) commissioned by the BC New Democrats Party (NDP) found 59% of British Columbians opposed the introduction of a provincial carbon tax (45% "strongly oppose", 15% "moderately oppose"). Opposition was found across a majority of supporters from all three of BC's main political parties (56% oppose among BC Liberals, 58% among NDP and even 53% among Greens). It should be noted that the NDP party ran in opposition to the carbon tax in the latest BC provincial elections. [See: <http://www.ipsos-na.com/news/pressrelease.cfm?id=3968>]

-A July 2008 poll commissioned by the Vancouver, BC newspaper *24 Hours* and conducted by Strategic Communications surveyed 609 eligible BC voters (margin of error: +/- 4%) and found that 71% disagreed with the government sending out the \$100 one-time "Climate Action Dividend." The poll even found 64% of respondents making less than \$30,000 (CAN) per year opposed to the dividend checks. It's worth noting that under the BC carbon tax, low-income families in BC received an additional tax credit of \$100 per adult and \$30 per child. 73% of respondents also said that they did not believe statements that "the tax is "revenue neutral" because all of the additional revenue that the government will receive from the tax will be paid back to British Columbians through the \$100 "Climate Action Dividend" and cuts to personal income tax." [See <http://billtieleman.blogspot.com/2008/07/new-polling-shows-british-columbian.html>]

<sup>10</sup> A May 2008 McAllister Opinion Research poll commissioned by the Pembina Institute, an environmental research firm, surveyed 1,009 Canadian adults from across the country (margin of error: +/- 3.1%). The survey found that 72% of respondents thought the carbon tax implemented in British Columbia was "a positive step." [See <http://www.canada.com/topics/news/story.html?id=c28d5cd4-5404-4ade-a748-0352268d392c>]

preferred potential revenues be spent on “renewable energy like wind and solar power” and 16 percent said they wanted to see revenues spent on “energy efficient technologies.” In contrast, only 11 percent of respondents said they would prefer the carbon tax revenues be used to cut income taxes.<sup>11</sup> Again, it seems that there is little evidence that introducing rebates and making the proposal revenue neutral did anything to improve the popular appeal of the Liberal Party’s “Green Shift” proposal, and public opinion research indicates that a proposal to reinvest revenues in clean energy technologies would have had more public support.

## Conclusions

Carbon pricing regimes, including carbon taxes and cap and trade programs, face very real political challenges. Cap and Dividend proponents recognize these challenges and argue that returning the revenues of a carbon pricing program to consumers via dividends or rebates will increase the public appeal of carbon pricing. In contrast, we conclude that public opinion evidence shows weak public support for Cap and Dividend proposals. Furthermore, we find considerably evidence that using carbon tax or auction revenues for consumer dividends or rebates actually *weakens*, not strengthens the popular appeal of a carbon pricing proposal relative to other uses of the revenues, including investments in clean energy technologies and energy efficiency.

We therefore conclude that Cap and Dividend is unlikely to increase the political tenability of a carbon pricing proposal, and that alternative strategies must be developed to address the urgent challenge of global climate change and spur the transition to a low-carbon energy economy.

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<sup>11</sup> *ibid.*