



Congressional Budget Office

The Distributional Consequences of a Cap-and-Trade Program for CO₂ Emissions

Presentation for EPW Roundtable Discussion

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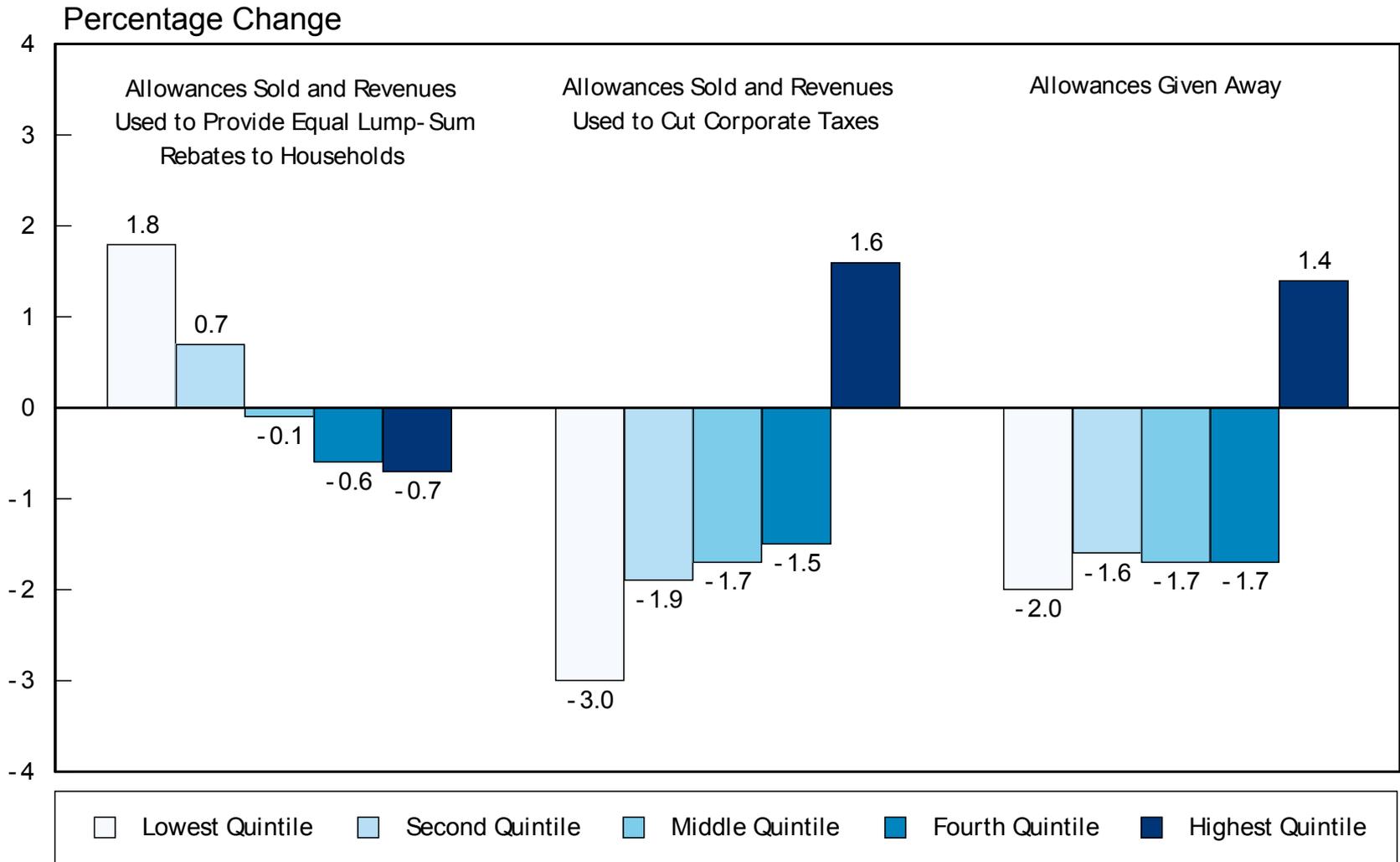


Distributional Effects of a Cap-and-Trade Program are a Policy Choice

- **Program could transfer a large amount of income**
- **Policy could be progressive or regressive**
 - Consumers bear cost of allowances
 - Average cost: \$1,600 in CBO's analysis
 - Price increases impose larger burden (relative to income) on low-income households → regressive effect.
 - Policymakers decide who receives allowance value
 - Giving allowances to companies generally benefits shareholders → regressive effect
 - If government sells allowances, distributional effects depends on how the revenue is spent → regressive or progressive
 - Could offset costs to low-income households, if desired.

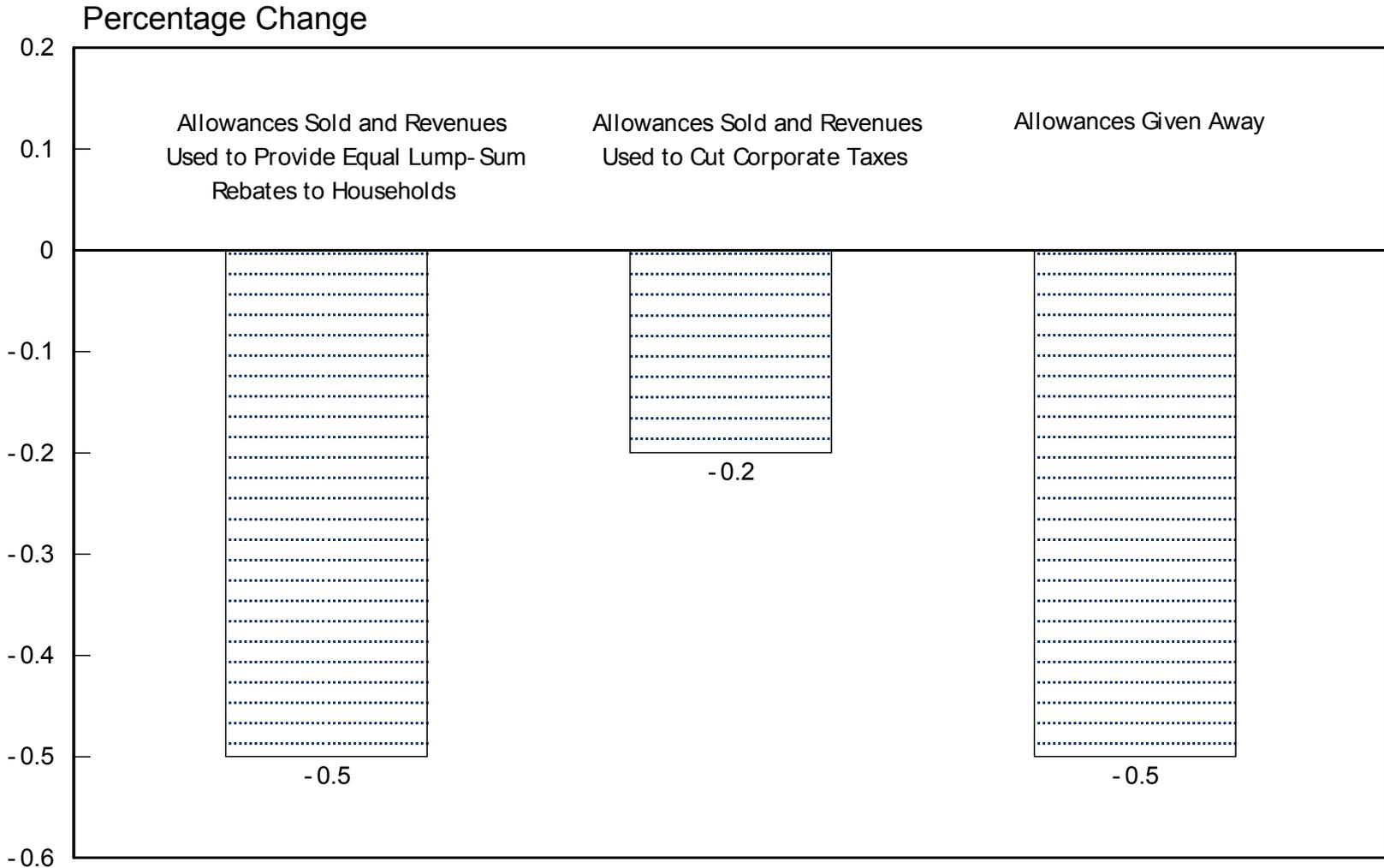


Effect on Average After-Tax Real Household Income, by Income Quintile



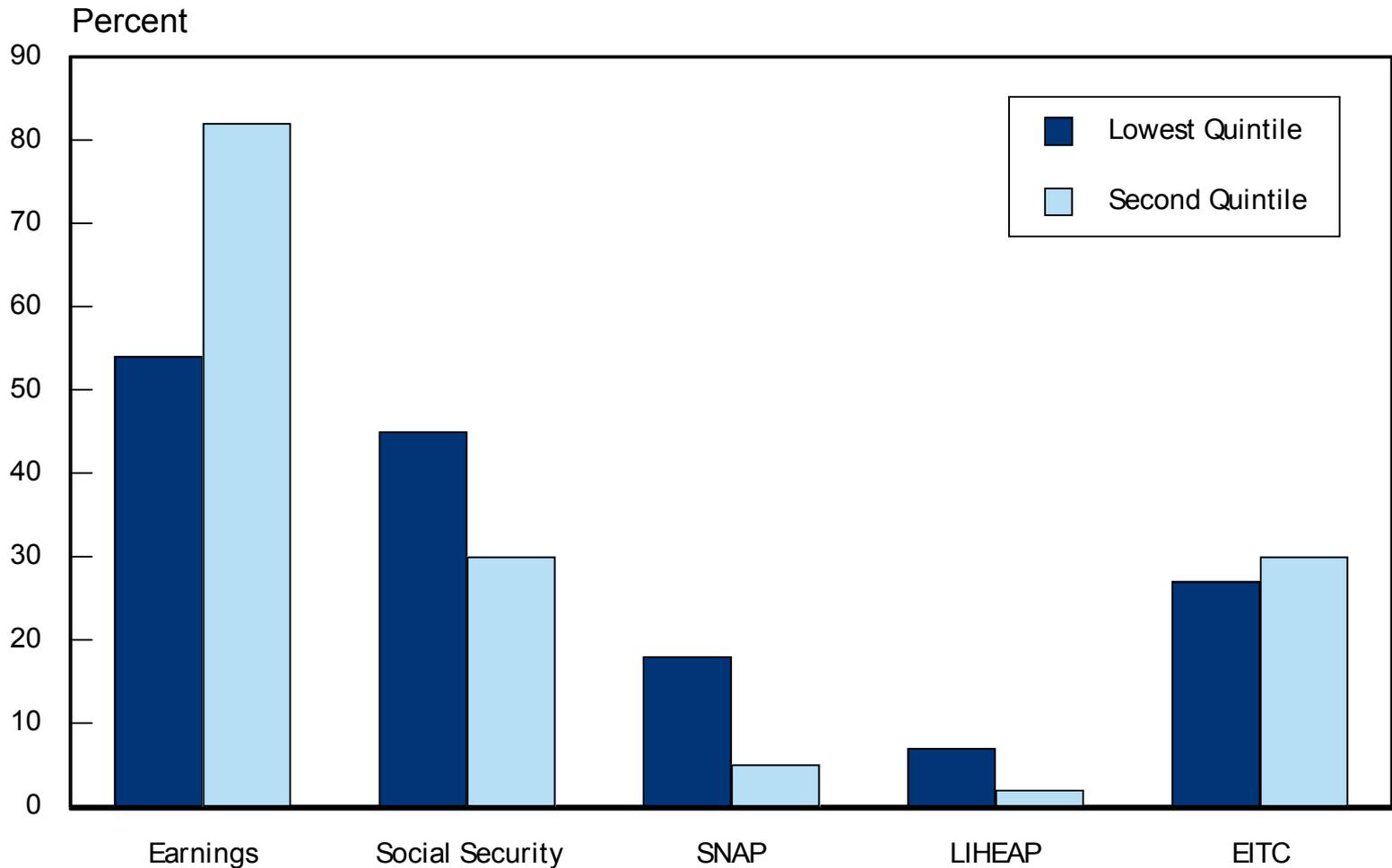


Efficiency Cost (Measured as a Percentage of Gross Domestic Product)





Low-Income Households with Income and Benefits from Selected Sources





Conclusions

- **Ultimate distributional effects of a cap-and-trade program are a policy choice**
- **Administrative costs of compensating low-income households would be less if method relied on existing structures**
 - Some automatic compensation will occur
- **Policymakers will face trade-offs**
 - It will not be possible to compensate all households for all costs
 - Using the allowance value to lower the overall cost to economy would tend to disproportionately benefit higher-income households



Where Can You Find More Information About CBO's Work on Climate Change?

- **Visit the special collection area of CBO's website:**

www.cbo.gov/link/cc