

What If Fossil Fuel Companies Paid Us to Stop Using Their Products?

In 2020, almost four million acres of California have so far been consumed by wildfire. Named hurricanes in the Atlantic have been so numerous they've run through the English/Latin alphabet. The Earth is shouting: time is running short to deal with climate change. Bill McKibben puts it this way in a recent [New Yorker magazine climate crisis newsletter](#): we don't have another presidential term to waste.

This November, electing climate champions is critical. But overcoming the power of fossil fuel companies ASAP is also key. So is minimizing generalized economic dislocation.

Here's a way to manage both fossil fuel lobbying power and the economic impact of a rapid reduction in fossil fuel use: [get the fossil fuel companies to PAY individuals to stop using their products](#).

That's in essence what a national, annually escalating fee-and-dividend program would do. Under fee-and-dividend, the fossil fuel companies pay the fee when the resource comes out of the ground, and 100% of the revenue goes in equal shares to individuals.

For most people, the amount of the dividend would exceed the cost increases in goods and services caused by the fee. Meanwhile, businesses would squeeze carbon out of their supply chains to keep their prices economically competitive.

Fee-and-dividend could be implemented right away. The fossil fuel companies already report and remit taxes to the Federal government based on the energy content (MMBtu) of oil, gas, and coal, and the Dept of Treasury already issues monthly checks to individuals by the millions (e.g., Social Security).

Importantly, fee-and-dividend wouldn't preclude any measure in the [House Select Committee's report on the climate crisis](#). It's a stand-alone action that would jump-start immediate reductions in carbon dioxide ("carbon") emissions, while leaving the field open for additional measures. Many of those measures would be easier to implement if a known and reliable carbon price trajectory were in place.

Fee-and-dividend would create that known and reliable carbon price trajectory. The annually-increasing dividend would make this carbon-emissions-reducing system as politically popular and durable as Social Security.

The Fee on Fossil Fuel Companies Would Shift Their Strategic Approach

The example below uses Exxon to illustrate how all fossil fuel companies would be motivated to [follow BP in an orderly, planned transition from the fossil fuel business](#). If fee-and-dividend had been in place in 2019, the fee for Exxon would have been substantial: \$5.4 billion or 27% of profits. Assuming all else equal, in Year 5, the fee would grow to 99.8% of 2019 profits.

Of course, this example is highly simplified to illustrate the scale of the fee, and doesn't account for the complex dynamics that would ensue if fee-and-dividend were in place. But it's easy to see that it would affect strategic thinking in the C-suites of fossil fuel companies everywhere.

If Exxon Had to Pay the Carbon Fee

EICDA Year	kg of CO ₂ / bbl *	mtCO ₂ / bbl	Fee/ mtCO ₂	Total fee/ bbl	Exxon daily production (bbl) †	Cost of Fee to Exxon per Day	Annual Cost of Fee to Exxon	Exxon Profit (2019) †	Exxon Profit (2019) Post-Fee
1	429.61	0.42961	\$15	\$6.44	2,280,000	\$14,683,200	\$5,359,368,000	\$19,700,000,000	\$14,340,632,000
5	429.61	0.42961	\$55	\$23.63	2,280,000	\$53,876,400	\$19,664,886,000	\$19,700,000,000	\$35,114,000

* <https://www.epa.gov/energy/greenhouse-gases-equivalencies-calculator-calculations-and-references>

† <https://www.statista.com/topics/1109/exxonmobil/>

Given the predictable fee increases, it'll be easy for all fossil fuel companies to forecast a rapid decline in profitability. They'll act accordingly, immediately, in something of a self-fulfilling dynamic, by sharply curtailing new fossil fuel investment and going into maintenance mode for existing investments. This would drive a stake into Keystone XL and all other new pipelines, for sure.

Exploration and drilling would also contract, to the extent it required any investment that wouldn't be recovered in just a few years, rather than the usual 20-30 years. New fossil fuel investments simply won't pencil out.

The Dividend Would Push Businesses and Consumers to Alter Their Purchasing Habits

Because businesses and individuals would be certain that the price of fossil fuels will rise every year, they'd both be very motivated to shift toward clean energy sooner rather than later. That would accelerate the virtuous investment and innovation cycle in the clean energy space. There'd be robust price competition, which would drive down clean energy costs and amplify its rapid deployment, concurrent with a rapid decline in fossil fuel usage.

For businesses, which wouldn't receive a dividend, it would be all about avoiding the added costs of fossil fuels so they could remain price-competitive. They would vigorously drive carbon out of their cost structure.

For individuals, the dividend would be modest in Year 1, somewhere between \$25 to \$50/month. But by Year 10, [a 2013 study](#) shows that it would reach \$396/month for a family of four. \$396/month is meaningful for a family in the lowest two income quintiles, making [\\$3,100/month or less](#). The bottom three quintiles, at the least, would be financially neutral or better off under fee-and-dividend. [A 2017 study by the Department of Treasury](#) pegs the break-even at 70% of the population.

An [update of the 2013 study](#) is underway. It attempts to show the *net* gain for individuals from the dividend, after subtracting out the increased cost of goods and services (driven by their carbon content) and income taxes. For the bottom quintile, the Year 1 annual net gain per household is \$241, or 47% of the dividend. That's for a household doing nothing to avoid increased carbon content. (Lower income households simply don't buy enough stuff to incur high carbon costs.) If a household sought out lower-carbon purchases—which would be easy, because the lower-priced choice will tend to be the lower-carbon choice—***the fossil fuel companies would essentially be paying them to reduce the usage of their product.***

By Year 10, the dividend would be \$396/month. This would yield a net benefit of \$186/month, if we just apply the 47% from above. The benefit would increase with active management, and would also increase annually, as the dividend rose in lock-step with the fee.

What will we do when fossil fuels are reduced to the point that the dividend declines? Given that the fee increases by at least \$10 every year, that day is a ways off. More to the point: We should be so lucky. That's a bridge to cross when we come to it.

Fee and Dividend: A No-Regrets First Step

Is fee-and-dividend a silver bullet? No. But the alternative is to continue to allow the fossil fuel companies to pollute for free. We live in a world where money is real. Trying to work around that reality by going the regulation-only route, and not applying a socially just carbon fee, would take enormous resources, meet enormous resistance, and require far more than four years to ramp up to the required scale needed to avert catastrophic climate change. All praise to California's many years of carbon regulation, but the state's total annual emissions in 2017 (latest available) were only 10% lower than they were in 2000. That's just not good enough.

The money has to shift from the side of fossil fuel lobbyists and their supporters and onto the side of carbon emissions reductions and the people. We got into the climate mess largely through normal economic activity, and it's a big part of how we have to get out of it.

Fee-and-dividend is a no-regrets first step, with immediate effectiveness in reducing fossil fuel production and consumption.