Environmental Policy and the Social Contract

By Jason Scorse

Introduction

Gasoline in Norway currently costs over $9 a gallon (down from a peak of over $13 when the price of oil reached $147 a barrel in 2008), while in Germany the price is over $8 per gallon. Prices in this range—between $6 and $10 per gallon—are common throughout most EU countries.¹ In the U.S., by comparison, the highest average per-gallon price ever recorded was $4.27 in May 2011², and the average inflation-adjusted price of gasoline at the peak of the oil crisis in the 1970s/early80s was only $3.31.

The comparison is striking, and you don’t need a crystal ball to imagine what would happen in America if EU prices for gasoline were to occur here. Cities across the nation would likely be wracked with violent protests, and politicians of all stripes would be calling for blood. The party unlucky enough to be in power would be deeply tarnished, and likely suffer at the polls for many subsequent election cycles.

Yet on the other side of the Atlantic, in developed economies much like our own, much higher energy prices are accepted as a fact of life;³ the cost of gasoline is rarely a campaign issue, European auto manufacturers make some of the best-engineered cars in the world, and the continent is famous for its autobahns and scenic drives.

Europeans don’t have the long commutes of many Americans, but even so: why have they accepted high gas prices? Is it because they’re more committed to environmental goals than Americans? Not as much as you might think.

Despite the widespread belief that Europeans are “greener” than their American counterparts, the available data point to a more nuanced picture. Americans spend money on green products, are members of environmental organizations, and express preferences for environmental quality roughly on par with citizens in Europe.⁴ Even on climate change, the difference between American and European attitudes doesn’t begin to explain why Europeans have grown accustomed over the last several decades to paying 2-3 times the price for gas as Americans, or why they enacted strong greenhouse gas reduction policies back in 2005.⁵

The primary reason for the difference in attitudes is that environmental policies do not exist in a vacuum; they are part of the larger fabric of a nation, and environmental commitment hinges on national socioeconomic conditions.⁶ There is an implicit link between how much citizens are willing to sacrifice for the environment and the quality and quantity of social goods the government provides. In societies with strong social safety nets and generous government services, people are willing to pay higher prices for energy and consumer goods because the tradeoff does not present an economic burden that threatens their overall quality of life.

If supporting environmental goals was costless or profitable, virtually no one would oppose them in any country. But when faced with a trade-off between disposable income and environmental
quality, people must weigh their support and make tough choices. In societies where there is
universal healthcare, low-cost daycare, and free or low-cost university education, people are
much more willing to pay higher energy costs to support environmental goals. Put simply, $9 a
gallon gasoline doesn’t make people poor in Norway or Germany, because generous social safety
nets—partially funded by environmental taxes—more than offset the negative economic impacts.

This trade-off between economic security and environmental quality is rarely made explicit in
European societies, but the underlying logic permeates European attitudes both to environmental
policy and taxation more generally. Nine-dollar-a gallon gas doesn’t happen by accident or
chance in Norway, nor does it happen through restrictions on imports or price controls; it occurs
because the Norwegians levy very high gasoline taxes.

All told, Norway applies a 78 percent income tax on oil producer’s profits, and an additional
gasoline consumption tax equal to about 2/3 the price of a gallon of gasoline at the point of sale.
This steady flow of capital, which the Norwegian government deposits into its savings account,
allows it to support their strong social programs—a fact noted by Lasse Fridstrom, Managing
Director of the Oslo Transport Economics Institute.

Ironically, Norway is an oil-producing nation and is the world’s 5th largest oil exporter. Like
other oil-rich nations, Norway could easily provide very low cost fuel to its citizens. Instead it
taxes gasoline heavily and exports its oil resources for the purposes of supporting a very
generous welfare state, which makes Norway one of the best places to live in the world.

Over the past decade, Germany has been slowing increasing all forms of energy taxes and using
this revenue to decrease taxes on labor, while maintaining a consistent stream of tax revenue for
social programs. Although the average German citizen pays more for gasoline and electricity,
and will continue to do as the costs escalate through 2015, they are paying lower income taxes
and also continuing to receive excellent universal healthcare and education benefits.

Like Norway and Germany, the U.S. is also a very rich nation, but our wealth is spread very
unevenly, and the average American citizen receives much less support on everything from
healthcare to education to job security than almost any country in the EU. In addition, U.S.
median incomes have stagnated since 1997, while the costs of healthcare and education have
skyrocketed (70 percent and 119 percent, respectively), leaving many Americans economically
worse off. Given the growing economic insecurity in the U.S., when the price of gasoline rises
this eats into household budgets that are already being squeezed from all sides with no relief in
sight, and causes significant hardship for millions of Americans.

This is the one of the primary reasons America is falling behind on energy and climate policy,
and will continue to do so until the economic security of the average American improves. Asking
citizens to pay higher prices for gas and electricity, when tens of millions are struggling to make
ends meet, is simply asking too much.

Energy Price Inflation Is Eating Away At The Middle Class

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1 European Median Household Incomes grew steadily over the same period, averaging 9 percent average annual
growth as a region, and 6 percent average annual growth among the region’s more stable economies.
Over the past five years energy prices in the U.S. have risen 18% in real terms due to global market forces alone, much greater than the commonly reported rate of inflation—the Consumer Price Index (CPI). Higher energy prices have translated directly into higher food prices of the same magnitude (as most food is grown industrially with large fossil fuel inputs). And since 2001 gasoline prices have risen over 200% in real terms, again greatly eclipsing increases in the CPI.

Researchers recently examined the increases in energy and food prices and compared them with changes in the poverty rate. They determined that since the recession of 2007-2008 began, 30% of the increase in poverty in the U.S. can be directly linked to increases in energy prices. For context, the average household spends almost 9 percent of its disposable income on utilities and transportation fuel, households making around $20,000 annually spend around 12 percent, and wealthy households making more than $70,000 spend 7 percent. The average German, Swedish, Norwegian, French, or British household, by comparison, spends anywhere from 12 to 20 percent of its income on the same products. But whereas the average American household must spend a large portion of its income on healthcare, education, and retirement plans (around 20 percent all together), Europeans spend a considerably smaller portion of their income on these goods and services, and they are generally of higher quality.

Although most environmentalists are loathe to admit it, in the short to medium term any legislation that puts a price on greenhouse gas emissions will make energy and consumer goods even more expensive. Estimates are that a cap and trade bill that imposed a modest $30 a ton price on carbon would cost the average U.S. consumer $800-$1,600 a year in higher prices (and most economists believe that the carbon price needs to be significantly higher to get the U.S. on a path to 85% reductions by 2050). To put these numbers in perspective, the median American family earning $50,000 a year received a payroll tax cut of $1000 in 2011 (and will do so again in 2012), which would be completely wiped out if climate legislation were passed.

But looking at average impacts obscures the extremely regressive distributional impacts of any legislation that raises energy prices. Americans in the bottom quintile of the income distribution expend more than four times a share of their income (10.3%) on energy-intensive products than those in the top quintile (2.4%), making them disproportionately impacted by any increases in energy prices. In addition, higher energy prices adversely impact rural residents more than those living in urban areas, because of the longer commute distances, and because rural communities are generally poorer.

As long as the middle class in America continues to face the mounting pressures of ever-increasing healthcare and education costs, declines in housing and retirement wealth, and the prospects of even less economic security—as debates about cutting Social Security and Medicare continue apace—it will be difficult for energy and climate policy to generate sufficient popular support to overcome the formidable political obstacles.

The hard truth is that given current technology and our vast dependence on fossil fuel energy, a transition to greener and renewable sources will require making fossil fuels more expensive. This translates to higher prices and greater inflation, which the American public is almost assuredly
not willing to tolerate, unless they get something significant in return. America is much less densely populated than Europe, and our culture revolves around the automobile to a much greater extent. This isn’t going to change in the near term, and higher energy prices will directly translate into a lower quality of life for most Americans without some offsetting policies that directly benefit the poor and middle class.

Americans care deeply about the environment, and despite a propaganda onslaught against climate science funded by the fossil fuel industry, still believe that climate change is a real and growing threat. But they are acting rationally when they oppose higher energy prices, especially at a time of great economic insecurity.

Making the Link Explicit

The best hope for meaningful progress on energy and climate policy in the U.S. is for environmental groups to team up with other progressive organizations, especially labor unions, and push for environmental policies in tandem with policies to boost economic security. The days when large scale environmental policies can be pursued independent of the material concerns of average Americans is over. The environmental movement faces a choice: either expand its scope to include a broad middle class agenda or become increasingly irrelevant.

For many decades, the environmental movement has had a somewhat ambivalent relationship with labor unions. Through the 1990s and 2000s the United Auto Workers (UAW) vigorously opposed efforts for the U.S. to join the Kyoto Protocol, or even to improve vehicle fuel efficiency standards. More recently, based on the potential for new jobs, unions have largely supported the Keystone pipeline between the tar sands of Canada and the Midwestern U.S. (which would make it easier to transport this carbon-intensive and dirty fuel), despite most environmental groups’ strong opposition.

Whether fair or not, many unions still perceive environmental organizations as largely representing the interests of wealthier Americans who value environmental preservation over job creation and economic growth. The only way to once and for all end the lingering distrust between environmental groups and labor is for environmental groups to widen their mission and acknowledge that generating support for environmental goals requires increasing economic benefits for the middle class.

This will require environmental groups taking a strong stand in support of universal healthcare, strengthening Social Security and Medicare, progressive taxation, and financial support for education from preschool all the way to college. No doubt many environmental groups will find it difficult, risky, or even impossible to support measures beyond their core mission, especially since this will mean entering even more contentious and controversial aspects of the national debate. But maintaining the illusion that environmental goals can be addressed without directly addressing the decline of the middle class in America is no longer tenable.

Some groups have already recognized this. In late 2011, the Sierra Club sent out an email touting their partnership with Occupy Wall Street. The group used the language of the “99%” and urged its members to stand with those fighting against economic inequality and injustice. This was a
great start, but only a start. All of the major environmental organizations need to support broader progressive goals in exchange for union and labor support for a new energy and climate policy.

Organized labor is making its voice heard as well. On January 12, 2012 Richard Trumka, President of the AFL-CIO, gave a speech at the UN Investor Summit on Climate Risk, in which he made the point that asking people in fossil-fuel dependent industries to support climate policy that will threaten their jobs doesn’t make sense in the face of weak social safety nets. He went on to discuss the many ways the labor movement is taking environmental issues seriously, and he called for greater collaboration and coordination with environmental groups.

The day that the leaders of the AFL-CIO, SEIU, and UAW along with the Sierra Club, Greenpeace, the Environmental Defense Fund, and the Natural Resources Defense Council share a joint press conference and announce their commitment to an escalating greenhouse gas tax where the revenue will be used for a combination of middle class tax relief, universal preschool, and lifelong job training for all Americans, will mark the beginning of a new era in environmental policy. The maxim of “united we stand, divided we fall” has never been more apt. With declining union membership and an environmental movement demoralized by more than a decade of failure, an alliance between these two camps could help reinvigorate both.

The U.S. may never resemble Norway or Germany in terms of its social welfare state, but it is still possible to envision improvements in the economic security of average Americans that could provide space for a robust energy and climate policy. This will require making the nexus between environmental policy and the social contract explicit. Theoretically, this is not difficult to do because almost every policy that raises energy costs also generates a near equivalent amount of government revenue.

The key is linking this revenue directly to improvements in economic security and the material well-being of ordinary citizens. If there is any hope of finally weaning the U.S. off of fossil fuels and sufficiently reducing greenhouse gas emissions to avert catastrophic climate change, environmental groups must broaden their mandate and embrace a broader progressive mission—one that has the support of working people and the labor movement.

Notes

1 See “Gasoline Prices Hit New All-Time High” by Nina Berglund in Views and News from Norway (http://www.newsinenglish.no/2011/03/10/gasoline-prices-hit-new-all-time-high/) For historical and present data for the US, see the US Energy Information Agency’s weekly average gasoline price data (http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM_EPMR_PTE_NUS_DPG&f=W) and for European gas prices, see <http://www.eia.gov/emeu/international/Gas1.xls>

2 It is important to note that during the climate policy debates of 2009, proposals were put forth that included mechanisms to refund government revenues generated from cap and trade legislation back to U.S. consumers. Some even called for refunding proportionately more money to low-income households. However, all of these were in the form of lump-sum payments made once a year to U.S. taxpayers, which is a far cry from the types of investments in economic security that are necessary to help rebuild and protect the middle class. In addition, receiving a tax credit once a year—even one sufficient to cover the higher annual energy costs—is unlikely to generate popular support given that higher energy costs are felt on a daily basis.
In some localities the price topped $4 a gallon.

3 In May 2008, around 67,000 Norwegians protested against the high prices they were paying for gasoline. In this online protest, “they threatened a boycott of Norway’s two largest chains of gas stations, Statoil and Shell” (http://www.arcamax.com/currentnews/newshheadlines/s-352125).


Green spending in EU: A Boston Consulting Group report in 2008 found that about 34% of Europeans are green consumers. The same report shows how the US and Europe track almost exactly when it comes to paying more for green products if they provide added benefits. (See http://www.bcg.com/documents/file15407.pdf).

US Environmental Organization Memberships: EDF – 500,000; Greenpeace – 250,000 (US only); NRDC – 1,300,000; The Nature Conservancy – 1,000,000 (worldwide); Sierra Club – 1,400,000; Union of Concerned Scientists – 250,000

EU Environmental Memberships: Friends of the Earth – 2,000,000; The EEB is an umbrella organization of EU environmental membership organizations, and boasts a combined membership of ~15,000,000.

US and EU Preference for Environmental Quality: A 2004 study showed that the US and wealthier countries in Europe showed similar willingness to pay to protect the environment, with the US slightly lower than the EU countries analyzed. (see: http://www8.georgetown.edu/departments/economics/pdf/209.pdf)

5 The European Union’s Emissions Trading Scheme (ETS) launched in 2005 currently covers around 11,000 point-source emissions like power stations and industrial plants across 30 countries. Its core policy is a cap-and-trade framework where point-source emitters must operate within a slowly shrinking overall cap on certain types of greenhouse gases. To conduct their operations under this cap, emitters receive emissions allowances that they can then use or sell on an established market to other emitters who need to purchase extra allowances. Beginning in 2013, these allowances will be auctioned to emitters, whereas currently the overwhelming majority are simply given to emitters. (See: http://ec.europa.eu/clima/policies/ets/index_en.htm)

6 See, for example, the Environmental Kuznet’s Curve (http://www.ecoeco.org/pdf/stern.pdf).

7 As in the United States, much of the political rhetoric in Europe focuses on how efforts to decarbonize the economy can create jobs. See, for example, the official website of the “The Greens” – the Green Party’s representation in the European Parliament: (http://www.greens-efa.eu/economy-and-social-6.html?L=14.html)


11 See US Energy Information Agency’s international export data:

12 Norway ranks 3rd of 111 countries in the Economist Intelligence Unit’s Quality of Life Index (http://www.economist.com/media/pdf/QUALITY_OF_LIFE.pdf), and 5th among OECD countries in the OECD’s Better Life Index (http://oe.cd/betterlifeindex.org/#/1111111111) when all factors are weighted equally. The US ranks 13th and 7th, respectively.

13 The only major EU countries that spent less per person than the US on social programs were Portugal, Ireland, Greece, and Spain Data on total social expenditure by the public sector obtained from OECD: http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=SOCX_AGG&ShowOnWeb=true&Lang=en. Note that the data are only for public sector expenditures, and do not include private contributions to sources like pensions, other retirement accounts, or health insurance. By 2010, healthcare costs per person reached $8,402 in the United States, while in 2009, the average per capita healthcare expenditure in Europe was $3,047. However, the US
ranks considerably below other European countries in health care quality. See “National Health Expenditures 2010 Highlights” from the US Centers for Medicare and Medicaid Services, and data from the European Commission’s Eurostat, for expenditure data. See findings from the OECD’s Better Life Index for quality of health care rankings.

14 US median family income has fluctuated between $60,000 and $64,000 per year since 1997, with a drop of over $4,000 in just the last 4 years (from $64,500 in 2007 to $60,400 in 2010). Data from the US Census Bureau: http://www.census.gov/hhes/www/income/data/historical/families/2010/F06AR_2010.xls. During that same time period (i.e., since 1997), consumers have felt a 70 percent increase in medical care costs, and a staggering 113 and 119 percent increase in energy and education prices, respectively, according to the US Bureau of Labor Statistics’ Consumer Price Index (http://www.bls.gov/cpi/data.htm).

15 The CPI for all items rose 8.4 percent in the last 5 years (2007-2011) while the prices of energy rose 18 percent during the same period. (See http://www.washingtonpost.com/blogs/ezra-klein/post/can-we-stop-gas-prices-from-squeezing-the-middle-class/2011/10/21/gIQAV0im3L_blog.html).


17 For US income share data, see Bureau of Labor Statistics Consumer Expenditure Survey. For EU share data, see OECD statistics on household income, number of households, and total household expenditure data.

18 See, for example, http://www.instituteforenergyresearch.org/wp-content/uploads/2010/06/KL-APA-Final-Study.pdf. Also, in 2009, the MIT Joint Program on the Science and Policy of Global Change published a report saying that a cap-and-trade program that priced carbon at $30-$50 per ton would generate about $366 billion in revenue for the US government. Republican policymakers figured this revenue would come from American households, so they divided the $366 billion by 117 million households to arrive at a figure of around $3100 per household per year. However, one of the authors of the MIT report wrote two follow up letters to Congress to correct any incorrect conclusions that others were drawing from the report. Using net present value calculations over the life of the proposed cap-and-trade policy, the actual cost would be about $800 per household per year. The MIT report can be found here: http://web.mit.edu/globalchange/www/MITJPSGC_Rpt146.pdf, and the follow-up letter can be found here: http://www.factcheck.org/UploadedFiles/Reilly_Response_Letter_2.pdf.


22 See Labor and the Environmental Movement: The Quest for Common Ground by Brian Keith Obach.

23 To read the full version of the speech, see http://www.aflcio.org/Press-Room/Speeches/Remarks-by-AFL-CIO-President-Richard-Trumka-UN-Investor-Summit-on-Climate-Risk

24 To be sure, a carbon tax is not the only policy option. Others include a strong cap and trade or cap and dividend program, or other regulations anchored by progressive taxation.

25 See, for example, “Cap and Dividend: How to Curb Global Warming While Protecting the Incomes of American Families,” by James Boyce and Matthew Riddle at the Political Economy Research Institute (http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_101-150/WP150.pdf)

26 See testimony by Terry Dinan, Senior Advisor to the US Congressional Budget Office: “The Distributional Consequences of a Cap-and-Trade Program for CO2 Emissions” (http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10018/03-12-climatechange_testimony.pdf)