We seem to be at an impasse. Cap-and-trade seems to be in political disrepute; market-oriented economists must find it aggravating that their idea is now considered too “liberal.” Carbon taxes give politicians cardiac arrest. “Command and control” regulation is out of fashion. Perhaps it’s time to try something new.

Here’s an alternative that has some of the same benefits as the familiar market mechanisms, but might be simpler to implement and more appealing to the public. We could call it a self-regulation plan (but it’s not just a call for voluntary reductions, either). The plan involves three steps:

1. The Permit All major carbon sources need a permit (which could be the integrated with an existing Clean Air Act permit). Their applications would set an annual carbon emissions for the term of the permit. *They can pick whatever number that they think is a reasonable goal.* The choice is binding over the life of the permit: if they later violate the limit that they picked, they pay a penalty as with any other permit violation. Permits can use the same bubble or offset techniques that now exist under the CAA to combine sources. Although they can pick whatever number they want, there *are* incentives to get them to try hard to reduce emissions (see below).

2. KeepingThem Honest: The Effort-Based Carbon Fee. To keep emitters honest about what level of CO2 reductions they can reasonably attain, a fee is assessed at the time of the permit issuance The formula for the fee should be based on both the absolute level of emissions chosen by the source and on effort, meaning comparisons with its past performance and with industry abatement efforts (so there’s a bonus if the source’s projected percentage reduction is markedly better than other firms’ and a penalty if it’s a lot worse). Obviously, getting the fee formula right is critical. Payment of the fee is actually amortized over the permit’s life. Proceeds can be given as a “dividend” to consumers, used to promote renewable energy, paid to reduce the federal deficit, etc.

3. Refunds. The source can get a refund (or reduce its payment) at the end of any given year if it has stayed under the annual quota that it set for itself or if it used approved offsets as mitigation.

This isn’t a carbon tax — fees are based on effort as well as emissions levels. It’s not a cap-and-trade scheme, although it does include some limited trading features that are already part of the Clean Air Act. It’s not conventional regulation, because the firm rather than the government sets the target. It’s not voluntary because there are incentives and penalties. Yet it has some beneficial features of all of these. Might be worth a try.