Cap and dividend is a politically appealing idea; put a price on carbon, then refund the money to consumers in equal shares. But conservatives and libertarians object to this idea on two grounds. First, cap-and-trade systems are complex and require a lot of regulatory oversight. Second, if the government collects the money, despite its current promises to do so, it may be unable to resist the temptation to tap the funds for other purposes. Thus, cap and dividend could expand Big Government. But these problems are fixable. We could call the resulting system "fee and dividend."

The fix is simplest in terms of electricity. Here's how it goes. Congress sets an amount for the price of carbon. Sellers of fuels record the amount of fuel they sell to each generator, and generators notify their utility customers of their share of the fuel usage and the amount of the corresponding carbon fee. Utilities are then required to refund the total fee to their individual customers on a lump-sum basis, so each customer gets the same amount. Of course, electricity costs have to rise to cover the fee, but for the average consumer, this is a wash. This system has the same economic and environmental consequences as a carbon tax on the generators, but none of the money every passes through the government's hands. There's also no complicated trading system to administer.

The basic idea for transportation fuels is the same. Fuel wholesalers would collect a carbon fee for each gallon of gasoline or diesel sold in a state, and would pay the funds to a go-between, who would then pay a dividend. One option is to use car insurance companies as the go-betweens, so everyone who had car insurance would get a dividend. (This has the added advantage of incentivizing people to get insured — in many states, that's a real problem.) Another option is to use the utility companies again, so that each utility customer would get an additional dividend based on the amount of gas sold in the state. This would give dividends to people who don't own cars, but that may be fair given that many of them are paying the fee for gasoline indirectly when they ride on buses, use taxes, or buy products that were shipped by truck.

Utilities and insurance companies are already highly regulated by the states, and state governments would have a strong political interest in ensuring that their consumers got the benefits of the dividend. So there shouldn't be a need for a large federal regulatory presence. No money goes to the government, eliminating the worry that it could be diverted to expand government programs. And there's no complicated cap-and-trade scheme to administer. Of course, the government is still playing a regulatory role, but the incremental expansion of coercive regulation is pretty minimal, and most of the implementation is at the state level.