New Synergies in Solving America’s Great Challenges

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In this paper, we make the case for a new policy proposal called ARCHES, which stands for American Recovery for Climate, Health, and Economic Stability. The ARCHES plan is designed to build the bridge from where the United States is now—in the midst of immediate health and economic emergencies, with a looming climate disaster—to a more resilient, prosperous future for all Americans.

The centerpiece of ARCHES is a scalable and flexible framework for making simultaneous, large-scale essential investments in our healthcare system, economic recovery, and climate solutions. Through ARCHES, our nation would mobilize $2.3 trillion over a decade to prevent future pandemics, reboot the U.S. economy, generate millions of good, resilient jobs for working and under served families, and reduce U.S. climate pollution by more than half by 2030. The ARCHES plan uses 75 percent of new resources for block grants to states and cities to spend locally to create healthy, clean, and thriving communities. The plan leaves 25 percent of funding available for the Congress to allocate on a combination of deficit reduction and new Federal investments in healthcare, climate action, and job creation. ARCHES would fund all of these new investments through a steadily increasing fee on climate pollution paid by corporate polluters rather than consumers.

ARCHES has the potential to garner support from both conservative and progressive governors and mayors from across the country, many of whom face massive fiscal shortfalls. Roughly forty U.S. states are barred under local law from running budget deficits and are unable to make ends meet in the new COVID-19 economy. Governors and mayors are looking for steady long-term leadership from Washington during this once-in-a-century, era-defining moment. If red state and blue state leaders rally together to champion ARCHES, it could become a bipartisan solution in Congress, particularly if Democrats do well in November and move Federal support for local communities, job creation, and climate action higher on the political agenda.
Recently, our country’s attention has been justifiably focused on managing the tragic consequences of the COVID-19 pandemic and the resulting economic crises. Meeting immediate public health needs, protecting vulnerable people and minimizing economic harm to families, communities, and the nation, and centering justice in all these solutions must remain the paramount priority right now.

At some point, the immediate risk from the coronavirus may subside, but its impacts will be with us for a very long time. As we make the transition from emergency response to rebuilding our country, we will need a bipartisan vision of how America can regain its footing. This is a generation-defining moment—like the September 11th terrorist attacks and the 2008 global financial crisis. Those lost to COVID-19 will leave lasting impact in our communities. Many companies and jobs will not come back. COVID-19 will redefine the way we work and interact permanently. Though we will defeat the virus, our states, cities and communities—which have been on the frontlines of the war—are already financially and emotionally exhausted. To return our country to strength, we will need to buttress their financial footing.

In the months ahead, as we move beyond the current focus on minimizing infections and immediate economic fallout, we will have to confront three major, longer-term crises: healthcare, the economy and climate change. COVID-19 highlights the injustices in our society and demonstrates that we need to make additional investments in pandemic prevention and containment. We also need to invest in our hospitals and health care heroes who have been so essential to saving lives. Simultaneously, we need to get millions of Americas back to work, particularly those struggling in underserved and minority communities. This will require partnering with the private sector to create good jobs—ones that are well paid, resilient to future crises, and central to tomorrow’s economy. We will also need to finally address the overarching threat of climate change, which national policy makers have ignored for too long.
COVID-19 has shown the world the risks of ignoring scientific evidence, the enormous economic damage of global threats left unchecked, and that we can muster the resources to address broad national and international crises. The impacts of climate change may be far more harmful and economically devastating than COVID-19, disproportionately affecting areas with large populations with people of color. These impacts—such as sea level rise and changes in precipitation patterns—cannot be contained or reversed quickly, if at all. We need to implement the vaccines for global warming now. For all three crises, we need to learn an age-old lesson from COVID-19: an ounce of prevention is worth a pound of cure.

As we move ahead, state and local governments will have a big role to play in confronting the health, economic and climate crises. They will need to put people back to work with investments in broadband, roads, airports, schools, farm communities, clean energy, manufacturing, and environmental justice programs. Cities and states, however, will have one arm tied behind their backs as they take on these tasks. With unemployment high, local tax revenues have declined sharply, leaving local governments unable to pay for existing programs, let alone make the investments needed for a better future. Unlike the Federal government, many cities and approximately 40 U.S. states operate under laws that prohibit deficit spending, leaving them with no secure financial path forward. If left on their own, local governments will need to either raise taxes, which could reduce economic growth and keep unemployment high, or slash social services at a time when those services are truly needed.

As was the case during Great Depression and the Great Recession, the Federal government will need to drive America’s recovery. Right now, the response to the current public health and economic crisis is being financed through Federal deficit spending. In the short term, deficit spending is inevitable and necessary. Holding back on spending or imposing new Federal income taxes at this time, despite the ballooning deficit, could undermine the recovery and emergency response effort. New Federal funds are needed to fight the coronavirus and to keep communities, companies and families afloat during the deep economic downturn.
There is, however, a limit to the amount of deficit spending the nation can absorb without huge financial risk. Many in Congress already feel that the price of existing COVID-19 bills has been too high and are balking at further spending. America’s debt-to-GDP ratio is approaching levels not seen since World War II.¹ The annual Federal deficit is increasing sharply and estimated to near $4 trillion in 2020.² Yet, as the impacts of COVID-19 drag on, Washington will be called upon to help struggling states, communities and families.³ Federal lawmakers will need to figure out how to keep Federal support flowing without allowing our national debt rise to a level that it could cause a major financial crisis. Modern Monetary Theory, which suggests that government can print money for a long time without undermining the economy, has become mainstream in certain political circles in recent years. But in Congress, particularly in today’s Senate, a majority considers that theory to be unproven and risky. Many lawmakers remain concerned that soaring debt levels could lead to higher interest rates, loss of confidence among investors, less flexibility to increase spending in future crises, lower economic growth and revenue, and harmful cuts to the social safety net.


How we solve the current health, economic, and climate crises will determine America’s future. We can simultaneously build a health care system that is resilient to pandemics, create an economy that provides equal opportunity and good-paying careers, and pursue clean energy solutions to climate change.

The ARCHES (American Recovery for Climate, Health and Economic Stability) proposal can jumpstart equitable solutions to these emergencies and usher in a new era of stability and prosperity for America.

COVID-19 has infected millions of Americans, cost trillions of dollars and killed more Americans than all wars since World War II.

The COVID-19 crisis has left millions unemployed and has created depression-like conditions.

Climate Change could cost the U.S. 10.5% of its GDP by 2010.

**ARCHES WORKS:**

Flexible Block Grants

- 75% of funds given to states & communities to address local health, economic & climate needs.
- 25% allocated to Federal government to solve the three crises.
- Raise $2.3 trillion over ten years by imposing a $52/ton fee on carbon pollution, increasing 6% per year.

**ARCHES BENEFITS**

**Support State and Local Priorities**

- Provide flexible and stable funding for investments in local needs.
- Invest in our healthcare heroes & hospitals
- Create new, good jobs revitalizing America’s infrastructure
- Invest in resilience to health, climate & economic disasters
- Rejuvenate essential services for local communities including underserved families
- Develop a more educated workforce to strengthen our economy & working families
- Provide support to households & communities ensuring equitable outcomes

**Support Federal Needs**

- Provide funding for programs best implemented at the national level.
- National training programs for the jobs of tomorrow, including a just transition for fossil fuel workers
- Support clean tech R&D for climate solutions & create jobs for tomorrow
- Reduce the federal debt to create economic stability for the future
- Invest in pandemic prevention and disaster relief
- Reduce payroll taxes on working families
- Improve air quality to save lives and reduce climate pollution by 50% by 2030

**CLIMATE ADVISERS**

building climate leadership
America needs a plan that will allow it to make sustained, large-scale investments needed for today and tomorrow. The ARCHES plan, if adopted, would allow us to simultaneously tackle America’s big long-term challenges without increasing the national debt. The centerpiece of ARCHES is a scalable and flexible framework for making simultaneous, large-scale essential investments in our healthcare system, economic recovery and climate solutions. Through ARCHES, our nation would mobilize $2.3 trillion over a decade to reboot the U.S. economy, generate millions of good, resilient jobs for working and underserved families, spur environmental justice, and reduce U.S. climate pollution by more than half by 2030. The ARCHES plan uses 75 percent of new resources for block grants to states and cities to spend locally to create healthy, clean and thriving communities. The plan leaves 25 percent of funding available for the Congress to allocate on a combination of deficit reduction and new Federal investments in healthcare, climate action and job creation. In just the first year of the program, states would receive a total of $157 billion while Congress would have a new funding stream totaling approximately $52 billion.

Importantly, given our rising national debt, ARCHES would fund all of these new investments without adding to the deficit. It would do so through a steadily increasing fee on climate pollution paid by corporate polluters, not consumers. Putting a fee on climate pollution—referred to as carbon pricing—would have the twin benefit of generating new revenue for essential investments while also creating a powerful economic incentive to reduce climate pollution. We have argued in the past for a particular form of carbon pricing called Price and Block Grant. Under his approach, the Federal government would impose fees on big climate polluters and then give the majority of those funds to states and cities to solve local problems. That idea, updated for the COVID-19 era in the form of the ARCHES approach, makes more sense than ever.

The details of the ARCHES plan are as follows. The Federal government would impose a simple fee on each ton of carbon dioxide pollution emitted in the United States. This fee would be imposed “upstream”—i.e. on major utilities, energy companies and manufacturers. U.S. states and cities would receive most of the carbon pollution revenue in the form of block grants to spend on local COVID-19 needs, economic recovery, job creation, and climate solutions.
• The carbon price would start at $52 per ton, rising 6 percent each year.
• An annual emissions reduction target is built into the policy that, if not met, will increase the price per ton for carbon pollution at a higher rate each subsequent year until emission reduction targets are met.
• States would receive 75 percent of the revenue, allocated to each state based on various factors discussed below.
• The Federal government would receive the other 25 percent, and Congress would determine how to allocate these sums through the legislative process.
• The ARCHES plan would provide incentives to states to ensure they are spending the block grants in ways that create a more inclusive, just society, including by fighting discrimination and inequality. States and cities would be asked to demonstrate to the Federal government that they have allocated funds in ways that prioritize low and moderate-income households and protect these households from higher energy prices.
• Additional incentives would be provided to states to ensure the reduction of additional fossil fuel emission pollutants within dangerous proximity of America’s most affected towns and cities.
• State and local policymakers would be permitted to allocate the revenue they receive to a broad array of investments in healthcare, economic and environmental justice, infrastructure, clean energy, education, and economic growth.
• The Federal government would impose only two restrictions on spending. First, states and cities would need to invest funds in healthcare, climate solutions, and/or resilient economic growth and job creation. Second, they could not use the funds in ways that would undermine the climate benefits of the carbon fee (such as giving the money to coal, oil, and gas companies).

**Funding from ARCHES would be allocated among the states and cities in a block grant program taking into account relative economic and health impacts of COVID-19, as well as the disparate impacts of climate change and responses to it.** Some of the specific factors that would go into the allocation formula are a state’s population, share of climate emissions, share of COVID-19 deaths, dependence on fossil fuel industries and change in tax revenues compared to 2019. These factors would ensure that carbon fees get to the communities that need the most help.
The ARCHES program fits the current political moment. America is amidst a generation-defining period. Our response to the COVID-19 crisis, racism, and climate change will define our society in the future. Like the September 11th terrorist attacks, World War II, the Great Depression, and the 2008 Great Recession, the COVID-19 outbreak will require a massive long-term response on the part of the citizenry and policymakers at all levels. Dealing with COVID-19 and its economic fallout will shape our healthcare system, our fiscal priorities, and our economy for decades. The ARCHES solution is the type of bold program America needs to rise to today’s massive challenges.

ARCHES is also flexible and scalable to solve multiple problems at a time. The program would operate at a large scale and lift the entire U.S. economy by providing durable solutions to multiple major threats. The block grant approach is inherently flexible, allowing for those in charge of spending decisions—both locally and nationally—to tailor funds to evolving needs year-to-year. ARCHES is also fiscally responsible, allowing for the program to be economically and politically sustainable. It’s a plan that states and communities could rely upon for years.

In the best Federalist traditions, the ARCHES program puts cities and states in charge of most spending decisions while also providing the Federal government with funds for programs that are best kept at the national level. Cities and states have been on the frontlines of the fight against COVID-19, and the crisis has exposed enormous gaps in their capacity. Yet, America is big and diverse. The needs of Chicago to recover from the COVID-19 crisis may differ from Houston’s, and Michigan’s priorities may be radically different from those in Mississippi. Under ARCHES, local governments would have maximum flexibility in how they allocate their funds. The system would be able to address the country’s most challenging problems in a manner that also respects America’s rich diversity.
ARCHES is fiscally responsible. As noted above, States will end 2020 in a dire fiscal situation. Many states and cities are already facing a severe fiscal crisis as spending needs increase while they see decreases in tax receipts. With help from the ARCHES program, they could get their fiscal houses back in order. Just as importantly, ARCHES would also help meet Federal fiscal needs, including deficit reduction and additional national programs to restart the economy and make our society more resilient.

As noted above, carbon pricing under ARCHES would reduce U.S. carbon emissions by more than half compared to 2005 levels in just a decade.\(^5\) Carbon pricing reduces the incentive to pollute and both stimulates investments in clean energy technologies and increases their uptake. ARCHES would create a resilient economy that can avoid the worst impacts of climate change. ARCHES would complement other emissions-reduction programs—such as vehicle, building, and appliance efficiency standards—to bring about further declines in emissions, putting the country back on track to meet ambitious U.S. climate goals.

ARCHES should be seen as a supplement to broader climate action that would focus on investing in an equitable transition, the deployment of clean technologies, and a just worker transition. ARCHES can supplement broad economic and social climate action in the following ways: improving the attractiveness of clean energy options for the free market, establishing a mechanism for a border adjustment tax to be developed which can keep the United States competitive with European and Chinese markets with established carbon pricing schemes; strengthening state and local governments’ abilities to enact their own climate resiliency and clean energy transition plans.

The ARCHES proposal is better suited to help America address the current COVID-19 crises than many other pandemic and economic recovery proposals. ARCHES would generate large-scale, long-term and predictable funding to address the huge challenges facing the nation. In contrast, fiscal stimulus approved by Congress or monetary stimulus from the Federal Reserve, though probably still necessary, are not viable long-term solutions as they add to the debt and put pressure on the U.S. dollar. And so far, COVID-19 laws approved by Congress have focused on immediate health and economic needs, not on building back a more resilient, safer, and durable economy for working families.

The ARCHES proposal would do more to help America address multiple national emergencies than other economic recovery proposals. They would not necessarily address our health crisis or create new jobs while also tackling climate change and environmental justice. ARCHES would give local governments the funds needed to put people back to work, address healthcare shortfalls, and finance environmental justice remedies while also financing new investments in clean energy and climate solutions.

Other carbon pricing programs envision Federally managed efforts or ‘rebates’ to citizens and do not support or empower states and cities to optimize solutions for local conditions. ARCHES differs significantly in how it allocates money raised from carbon fees. Unlike ARCHES, other carbon pricing approaches do not strengthen our healthcare system while also addressing the climate crisis.

The ARCHES plan is complementary to other climate policies open to carbon pricing, such as the Green New Deal, the Democrats’ “Climate Crisis Action Plan,” and the American Conservation Coalition’s innovation-based climate platform. The Green New Deal is an ambitious liberal initiative without a funding mechanism for decarbonizing the U.S. economy and creating a more just, inclusive economy. Liberals could see ARCHES as a first step toward a Green New Deal. The Democrats’ “Climate Crisis Action Plan” calls for carbon pricing to play a complementary role alongside other climate policies – rather than being a “silver bullet” to solve the climate crisis. ARCHES fits this vision too. In ARCHES, carbon pricing is a means to an end (state and local investments in a better future) rather than an all-encompassing climate solution. Finally, ARCHES could contribute to conservative-led proposals for investments in Federal clean energy R&D to speed the arrival of climate-friendly energy technologies. Conservatives need a way to pay for proposed clean energy programs and ARCHES provides an answer by keeping 25% of funds raised at the Federal level for such spending, along with deficit reduction.

In short, ARCHES provides a long-term, fiscally responsible framework for economic recovery, unlike the deficit financed ad hoc approaches Congress has approved since the COVID-19 crisis began. ARCHES is more in tune with today’s political context than other climate plans because ARCHES would fund economic recovery, pandemic prevention and social justice programs too. Only ARCHES would help states and cities solve their fiscal crises. Also, only the ARCHES plan provides a means for paying for the climate priorities of both liberals and conservatives alike.
The ARCHES proposal has other major benefits. It broadens involvement in decision making beyond Washington, DC and therefore would be more popular and more politically feasible than other climate, health, and economic policies. The following constituents and interest groups have reason to support the ARCHES approach, increasing the odds that it could become law:

- **Governors and Mayors** – Governors and mayors are likely to support ARCHES as its block grant system would bring in new funding for necessary COVID-19 and economic recovery programs at a time when their coffers are being depleted by declining tax revenues and would allow them to determine the best way to spend the revenues.

- **Local Communities** – ARCHES empowers healthcare systems, education systems, businesses, and other interest groups in cities and towns that might not be able to impact or benefit from federal spending decisions but could impact local decisions. Under ARCHES, local communities and local interests get to make spending decisions.

- **Conservatives** – Although at the national level many conservatives tend to oppose policies that could harm oil, gas, and coal companies, locally elected conservatives tend to be more pragmatic. Local conservatives understand that their cities and states need financial support but don’t want federal interference. Conservatives who seek help to solve the pandemic, economic, or climate change crises should support ARCHES since it follows small government and Federalist principles, helps solve several important state and local challenges, and would not increase the Federal debt or deficit. ARCHES could also fund the climate programs that conservatives tend to favor, including tree planting, nuclear power, and carbon capture.
• **Environmentalists** – Many environmentalists and economists view carbon pricing as the single most effective climate policy available and believe that the transition to a low-carbon economy would usher in the next era of a thriving, prosperous, healthy, more equitable nation. ARCHES carbon pollution pricing alone would reduce U.S. emissions by more than half in a decade while providing substantial health and other co-benefits, particularly for minority communities that have been disproportionately impacted by climate pollution.

• **Progressives** – Progressive groups tend to favor greater public health benefits, stronger support for local communities, stronger environmental programs, and economic policies that reduce income and wealth stratification while promoting fair economic growth. ARCHES delivers powerful benefits in all these areas.

• **Racism** – Virtually all of American society is rising up against racism in a new effort to provide equity now and compensate for past wrongs. Different groups and sectors of society will want to address these in different ways. ARCHES can provide support for all the various approaches.

• **Businesses** – The economic activity ARCHES generates and its ability to keep the federal deficit under control make it attractive to large parts of the business community. While polluting industries will oppose ARCHES because carbon pricing makes their products even less competitive, other major businesses, such as the tech, finance, and energy innovation sectors will likely endorse the fact that polluters finally have to embed the social cost of their pollution in their products, and not spread those costs throughout society.

**ARCHES could be the catalyst to reestablishing American prosperity, unity, and pride in the coming months and years.** The magnitude of the current economic, health, and climate crises requires bold yet pragmatic action. ARCHES is exactly that. In 2021, ARCHES could pass the Congress independently or as part of a broader package, particularly after the November 2020 elections. A new Congress and possibly a new President may open political space to set a new agenda. Given the size and scope of the COVID-19 crisis and its economic aftermath, in 2021 Washington may be more receptive to incorporating fresh approaches to solve America’s challenges, making ARCHES an attractive option.
The coronavirus and its fallout have exposed vulnerabilities and shortcomings in our policies, institutions, economic system, social habits, and even our values. Responding to COVID-19 will create a once in a generation—perhaps once in a lifetime—opportunity to shift the national agenda, introduce new policies and develop innovative solutions. We must, as the British are now saying, “build back better.” We must not only fight this pandemic and avoid the next, but also make sure that our efforts to restart the economy contribute to other important objectives and make our country better, including by taking on the looming but long ignored challenge of climate change.

In order to thrive, America will need to address the healthcare, economic, and climate crises together. All three threaten our long-term stability and security, and all three crises demand ambitious, innovative solutions. To rise to the occasion, our national leaders need to have big goals and yet also not balloon our national debt in ways that would create giant new risks and burdens for our children and grandchildren.

The ARCHES plan would quickly and efficiently help the country recover from COVID-19 and put people back to work while also confronting climate change and making our society more resilient to future pandemics. To bridge to the future, ARCHES would provide funding to cities and states to fill gaps in the healthcare system and spur long-term economic growth. It would also create new economic incentives needed to cut U.S. climate pollution by at least half in a decade. The ARCHES plan is consistent with our Federal system and respectful of America’s tremendous regional diversity, devolving decisions to the local level to find local solutions. Yet, ARCHES is potentially politically feasible, particularly if Democrats do well in the November election and Washington starts looking for long-term climate solutions that contribute to COVID-19 recovery.
ecoAmerica is a non-profit that builds institutional leadership, public support, and political will for climate solutions in the United States.

Climate Advisers is a Washington, DC-based policy shop working to strengthen climate action in the United States & around the world through research, analysis, public policy advocacy & communications strategies.

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