

A Green-ish New Deal?

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Political momentum seems to be building for a “Green New Deal.” Although this would add to a debt burden that was exacerbated by the 2017 Tax Cuts and Jobs Act, this is a far more important and better expenditure of federal money. But a Green New Deal should not crowd out simpler, more effective, or fiscally prudent measures, namely a carbon tax, with some designated use of the carbon tax revenues.

A carbon tax is a unitary tax on actual carbon dioxide emissions. It can be levied upstream, at the point of extraction, refining (of oil), or distribution, or it can be levied downstream, as a surcharge at the gasoline pump or on an electricity or heating bill. Critics of carbon taxation, which include not only opponents of climate policy but many advocates of climate action, focus on the tax itself, without considering what might be accomplished by the tax revenues. That is akin to complaining about local property taxes without thinking about the schools and roads they help fund.

For carbon taxation, revenues can be used to offset the increased energy costs for the economically vulnerable. The simplest way to accomplish this is to return carbon tax revenues—without any governmental interference—to each household on a per capita or lump sum basis. That is the plan of the bipartisan Energy Innovation and Carbon Dividend Act, proposed in the U.S. House of Representatives. The end result would be that such a carbon tax “rebate” or “dividend” would cushion the shock of higher costs of gas, electricity (in some parts), and energy-intensive products like cement, chemicals, and steel. Most people probably could, if they were inclined, just turn around and spend that money continuing their carbon-intensive ways. But the incentive is for them to spend their carbon tax rebate to change their ways, like buying a more fuel-efficient car or truck.

Climate skeptics attack carbon taxation because it would be an effective deterrent to consuming fossil fuels. But some climate advocates are also skeptical about carbon taxation. It is as if some people simply cannot believe that prices change behavior, or that they change it very much. The routineness of market transactions, the millions of decisions that are made daily, render these events mundane and unspectacular, somehow falling short of the heroics needed to save us from climate change. It is also true that economists have trouble explaining how prices ripple through an economy and change behaviors throughout entire supply chains. As Cornell University economist Maureen O'Hara self-deprecatingly quipped, “we know markets work in practice, but we are not sure how they work in theory.” Maureen O'Hara, *Making Market Microstructure*

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Matter, FIN. MGMT., Summer 1999, at 83, 83. But that does not mean they don't work; they have, in measurable ways, for centuries. Markets aren't fancy, they don't make for ribbon-cutting moments, and politicians do not get to take credit for them. But they do indeed work. For just about everything, it is safe to say that if the price goes up, consumption will go down. That is true of fossil fuels.

There is one feature, should Green New Deal advocates insist on spending money, that should make its way into any Green New Deal proposal: the institution of *prizes* for technological breakthroughs. First prominently suggested by Professor Jonathan Adler, prizes are an alternative to the patent system for technological innovation. Jonathan H. Adler, *Eyes on a Climate Prize: Rewarding Energy Innovation to Achieve Climate Stabilization*, 35 HARV. ENVTL. L. REV. 1 (2011). The idea of a prize is to provide a back-end incentive for a specific *outcome*, like some amount of carbon dioxide capture. This contrasts with patent protection, which protects rights to promising new ideas, regardless of outcome. The U.S. Department of Energy has awarded small prizes for small challenges, like developing affordable hydrogen fueling stations. Sir Richard Branson's Virgin Earth Challenge is much more ambitious, offering \$25 million for a "commercially viable" technology that can remove one billion carbon-dioxide-equivalent tons of greenhouse gases every year for ten years. The utility NRG has offered a \$20 million prize for a technology that can convert CO₂ into a useful product, such as a building material.

Apart from what amounts to private philanthropy, prizes are rare for two reasons: upfront money must be made available, and the primary benefit is a public good—freely available new knowledge. This is the exact opposite of what is good and bad about patent protection. Awarding a patent is costless, but as we have seen in the pharmaceutical industry, it enables a patent-holder to "lock up" an idea, preventing others from exploiting that idea unless satisfactory royalties are paid. The price for a dose of insulin in the United States can be as high as \$100, while it can be had for less than \$10 in other countries with less robust patent protection. Price-gouging is deplorable, but not really the point. The point is that intellectual property for technologies to address climate change must be as free as possible, fertilizing as many other new ideas as possible without price barriers. There is no time for lockups.

Climate change is such a colossal problem that even suboptimal uses of taxpayer money might be better than doing nothing at all. But resources are limited, especially in a world that seems to be politically unstable, so it is still crucial to spend money wisely. What is troubling is that many seem to be pushing ahead with a Green New Deal as a defiant act of unilateralism. Inconveniently, Democrats control neither the White House nor the Senate, so alienating Republicans that are willing to work on climate change would appear to be foolish. Even if such a headstrong effort were successful, there is no time for another unproductive swing of the pendulum. The safer, bipartisan, and ultimately more productive approach is to start with a carbon tax, while adding some carefully crafted spending measures, like climate technology prizes.