Greg Ip Unwittingly Makes a Case AGAINST a Carbon Tax

Robert Murphy

October 7, 2016

Greg Ip of the Wall Street Journal often writes nice pieces showcasing the unintended consequences of government intervention in the economy, but his recent article—telling climate change skeptics they should still support a carbon tax—was very sloppy. The worst thing about it, as Oren Cass pointed out, is that one of Ip's arguments actually showed why it *makes no sense* for Americans to support a carbon tax. But that whopper of a mistake was one of several in the piece. If an environmentalist put forth some of these arguments at a left-wing publication, it would be understandable, but for an economics writer at the Wall Street Journal? This just shows the poverty of *economic* thinking on the issue of climate change.

Ip Overstates the "Scientific Consensus"

Let me first quote the opening paragraphs from Ip to give the gist of his piece:

According to polls, the majority of Americans are worried about climate change and want their leaders to act on it. Suppose, though, you are in the minority. You think the scientific consensus is wrong, or too uncertain.

Even if you're skeptical, you should probably still back a carbon tax. When you consider the range of things that could happen, odds are the country will still be better off.

Here's why.

Ip then lists four reasons that even a skeptic should embrace a carbon tax. I'll get to them shortly, but first I want to point out that Ip is unfairly loading the deck when he (throughout the article) keeps writing as if the "scientific consensus"*supports a U.S. carbon tax.*

No, it doesn't. In this context, "the consensus" refers to the fact that most natural scientists who publish in climate science believe that human beings are having an influence on the climate, and that at least some of the documented warming since 1750 is due to industrial activities.

That "consensus" does not at all line up with some of the more aggressive demands for government intervention in the name of fighting climate change. Indeed, the leading "denier" scientists, such as MIT's Richard Lindzen as well as my co-authors on this Cato study (Pat Michaels and Paul Knappenberger) would all be part of this "consensus" too. Economist David Friedman has demonstrated that the "97% of climate scientists agree…" statistic is utterly misleading.

The popular policy prescriptions do not necessarily follow from the *physical science*. To see just how little the physical science claims buttress the popular *policy conclusions*, go read my IER piece from two years ago, where I rely on just the latest IPCC report itself to show that the economic costs of a carbon tax likely outweigh the ostensible benefits in the form of mitigated climate change damages. Keep these facts in mind when people like Ip try to intimidate you with references to the "vast majority of scientists" as if physicists and chemists are equipped to assess the optimal tax policy.

Now I'll hit each of Ip's four points that allegedly show why even a skeptic should support a carbon tax.

"It's an insurance policy."

Ip first argues that a carbon tax is a good insurance policy. He writes:

Adopting a carbon tax now, especially if its revenues are used to reduce other, growth-damaging taxes, is a pretty cheap insurance policy…

Indeed, a study by Resources For the Future found that a carbon tax of $45 per ton rising at 2% above inflation per year would reduce household incomes by just 0.5% to 0.8% in the year 2030 (depending on what the money is used for). That would reduce annual economic growth by a barely perceptible 0.06 percentage points per year.

By 2030, any remaining uncertainty over global warming should be dispelled. If the proof of damaging climate change has become incontrovertible, you'll be glad action was taken. In the unlikely event the scientific consensus has been overturned, little harm done. [Bold added.]

First of all, even though Ip brings up the insurance analogy, he doesn't actually try to do a cost/benefit calculation to show why it makes sense. On Twitter, I pointed Ip to my own analysis—using the "scientific consensus" as codified in the IPCC reports—to show that it made no sense to buy such overpriced "insurance." In particular, I showed that it would be analogous to spending 3.4% of your income today on a fire insurance policy that covered you for a 1 in 500 chance of a 20% hit to income fifty years from now. Would anybody in his right mind buy such a fire insurance policy?

Now Ip read my piece and gave a polite reply, but he didn't respond with his own calculations, to show why I was wrong. Now you have to ask yourself: If someone tried to sell you a fire insurance policy, and then you challenged the numbers and said to the agent that the premium seemed outrageously high for the limited protection it offered, would it convince you to buy if the agent merely responded, "You'll want to buy this before the rates go up," without rebutting your calculations?

I think in any other context, the people at the Wall Street Journal (and Ip himself) would be quite dubious.

It's also ironic—as Oren Cass points out—that these ostensibly negligible costs of a carbon tax imposed through 2030 are still higher than what the Obama Administration's own models show as the dangers of climate change through 2030.

Referring back to the quotation from Ip above, note also the massive caveat about the Resources for the Future (RFF) Study, where the costs range between the two listed estimates "depending on what the [carbon tax] money is used for." If you refer to the RFF study (Table 4 at the very end), you'll see that the 0.5% reduction in household welfare occurs if *all* of the new carbon tax revenues are devoted to corporate tax relief. The 0.8% reduction in household welfare occurs if *all* of the new carbon tax revenues are returned lump sum to citizens.

Now you have to ask yourself: How realistic is it to assume that a $45/ton carbon tax, levied in 2016 and rising 2 percent per year (on top of inflation) through 2030, would not be used for anything except lump sum payments to citizens or corporate tax reductions?

The real world examples of carbon taxes and cap-and-trade strongly suggest a lot of the money will be spent on other things. Governor Jerry Brown wanted to use California's cap-and-trade revenue for high-speed rail, while the website for the Regional Greenhouse Gas Initiative (RGGI)—which is the cap-and-trade program for power plants in participating Northeast and Mid-Atlantic states—proudly explains how its revenues have been spent on renewables, energy efficiency projects, and other "green" investments. Washington State Governor Jay Insleewanted to install a new state-level cap-and-trade levy on carbon emissions to fund his $12.2 billion transportation plan. And let's not ignore the progressive writerswho are openly telling us that they will not support a mere carbon tax, but that other investments in "green" programs are essential.

The particular RFF study that Ip referenced doesn't estimate the actual dollar amounts of likely revenue, but a May 2013 CBO study estimated that a mere $20/ton carbon tax would raise $1.2 trillion over its first decade.

Now you can't just bump up the numbers proportionally because there would be different behavioral responses, but still, we are talking about trillions of dollars here, for the RFF proposal. Do Ip and the rest of the Wall Street Journal staff really think it's responsible to tell Americans the impact of this massive of a new tax, when assuming that it doesn't increase federal spending by one penny?

"Something worse could come along."

Moving on from his insurance analogy, Ip argues that appeasing the proponents of carbon dioxide regulation through a carbon tax is better than additional carbon dioxide regulations. He writes:

Since public opinion favors action on climate change, something is probably going to happen. Better that it be a carbon tax, such as the one Washington state will vote on in November, which returns the money to taxpayers, than burdensome regulations, ad-hoc bans such as of the Keystone pipeline, and subsidies for technology that may never be profitable.

As I've argued repeatedly, the existing command-and-control regulations make no cost/benefit sense even compared to doing nothing. So it's not as if the people who supported, say, rules on power plant emissions or bans on Keystone, really just wanted there to be a "price on carbon" but gosh darn it, those intransigent conservatives and libertarians wouldn't give it to them. No, these people are actively telling us they *don't* want to settle for a "revenue-neutral carbon tax." Ip himself, in the quote above, links to his own discussion of this very fact that in Washington State green activists oppose the proposed revenue-neutral carbon tax and want the money spent in other ways.

"Other countries will act."

Next Ip argues that imposing a carbon tax makes American more competitive. This is where Ip's arguments really go off the rails. He writes:

Even if the U.S. takes no action on climate change, other countries increasingly will. That will change the sorts of products and services that sell well in their markets.

Take cars. Toyota's Prius owes its success in no small part to the fact it was introduced in Japan, where gasoline costs roughly $4.50 per gallon. The two top-selling cars in Japan are both Prius models. If American companies are forced to design goods and services in a domestic market with a carbon tax, they'll be better placed to compete in foreign markets that also penalize carbon content. [Bold added.]

Look carefully at the part I put in bold. This is why I titled this IER post the way I did. Ip thinks he's giving an argument for why skeptics should support a carbon tax, but he just blew up his whole case. For people who are only somewhat worried about climate change—i.e. the very people Ip is appealing to in his article—the best situation of all would be for the United States to *not* impose a carbon tax while *the rest of the world does.* (The U.S. is projected to emit a small fraction of future global carbon dioxide emissions.) Then Americans can have their bountiful energy cake and eat their mitigated climate change too, on the very grounds that Ip has set up for the debate.

As we at IER have pointed out repeatedly (relying for example on this convenient calculator from Cato), *unilateral* U.S. action on climate change is essentially pointless. For example, even if the U.S. went to *zero* carbon dioxide emissions by the year 2050, and held them there for another fifty years, if the rest of the world followed "business as usual" then the global temperature in the year 2100 would be a mere 0.1 degrees Celsius lower than it would be with no U.S. policy intervention—and this assumes the standard settings on "climate sensitivity" and so forth. China will have *three times* the emissions of the U.S. between now and 2100, according to standard models.

Because of results like these, supporters of a carbon tax typically argue that the U.S. must show "leadership." They warn that if the U.S. doesn't adopt a stiff carbon tax, then Chinese and Indian leaders won't either.

In this context, then, we can reiterate just what a devastating admission Ip gave in the block quote above. (I thank Oren Cass for pointing it out.) Remember, Greg Ip just argued that the rest of the world would *ignore* the U.S. if it refrained from imposing a carbon tax, and would go ahead with their own policies. But in that case, Americans will be spared the brunt of climate change damages (since almost 90 percent of the total global emissions comes from outside the U.S. between now and 2100), and they won't have to impose a burdensome new carbon tax. We might argue about the *fairness* of such an outcome, but Greg Ip is writing as if this would make us poorer. No, it would be the best of all outcomes, if one were worried about moderate climate change but didn't want to harm U.S. economic growth.

Before leaving this section, I must also point out that even on his own terms, Ip's argument makes no sense. If foreign governments impose policies that change their public's demand for certain kinds of products, then U.S. manufacturers will respond accordingly. Does Ip seriously think the U.S. federal government can help U.S. exporters optimize product design by slapping them with a huge new tax? If it's actually efficient for the U.S. to switch to more fuel-efficient cars, produce more wind turbines, and so on, because of the huge new markets in Europe and Asia, then it won't take a government edict to force that conversion. On the contrary, U.S. manufacturers can run the numbers and decide if it's profitable to invest in the new products to cater to the predicted foreign demand.

"There are non-climate-related benefits."

Wrapping up, Ip writes:

Even if you dispute the harm of carbon dioxide, there is no dispute that burning fossil fuels release all sorts of other pollutants: particulate matter (soot), sulfur dioxide, nitrogen oxides and mercury. While a carbon tax is not the most targeted way to reduce such pollutants, it still reduces the need for other mitigation measures.

Fossil fuels also kill people more directly: coal mines collapse, gas pipelines explode and rail cars filled with oil catch fire. Furthermore, imported oil props up unsavory regimes. Whether or not you believe carbon-dioxide emissions are harmful, a carbon tax reduces all these collateral costs.

Again, it is depressing that an economics writer for the WSJ is engaging in these appeals. All of the things listed about "direct" killings are easily *internalized* costs. For example, coal miners get paid higher wages because the job is more dangerous than being a librarian. Energy companies suffer losses if pipelines explode. These are not "negative externalities" that spill damages onto the broad public, but are costs that the companies involved directly bear, one way or the other.

As far as the non-CO_2 emissions that Ip mentions, here too there has been much exaggeration. For example, in this IER piece I show just how dubious the alleged social costs of "particulate matter" are. In any event, Ip himself admits that you would not adopt a carbon tax if your goal were to address these specific worries, so it's a bit odd that he's citing them to appeal to people who—by construction in Ip's argument—do not think climate change is a big threat.

Conclusion

Greg Ip often writes thoughtful analyses of government policy and the market in his perch at the Wall Street Journal. However, his latest piece pitching a carbon tax shows just how weak the case really is. In particular, one of Ip's arguments actually made a slam-dunk case *against* U.S. action, since Ip claimed that the rest of the world would limit their emissions with or without American participation. If that's Ip's forecast, then we don't need to worry: Even relying on the "consensus" literature, humanity will be fine as the rest of the world limits its emissions, without the U.S. economy needing to sacrifice an iota of conventional growth. Since that's what Ip's own forecast implies, I invite him to reconsider his support for a U.S. carbon tax.