NEWSOK

Time to junk government's "social cost" estimates

July 19, 2017

Sen. James Lankford, R-Oklahoma City, has filed a bill to prohibit the federal government from using so-called “social cost” estimates to justify expensive major regulations. This change is long overdue and should be quickly adopted by Congress.

Social cost estimates generate theoretical measurements of future costs or economic impact from various emissions. These costs are counted as offsetting “savings” created by otherwise economically expensive federal regulations imposed on citizens and businesses.

For example, a social cost estimate may assume a regulation will reduce future global warming, and people will therefore save on their air conditioning bill in the summer. The future predicted “savings” is used to justify current new regulatory expenses.

But those estimates are the product of a process that involves many leaps of logic and that, as Lankford noted, “lacked transparency and oversight.”

The flawed nature of the process was highlighted in 2013 when Howard Shelanski, then with the federal Office of Information and Regulatory Affairs, appeared before a U.S. House subcommittee. Shelanski said that “social costs of carbon” estimates accounted for “changes in net agricultural productivity and human health, property damage from increased flood risk, energy system costs, and the value of ecosystem services lost because of climate change.”

As we noted at the time, that meant government officials were trying to put a price tag on highly speculative events that might never occur, or might occur regardless of regulatory changes.

Shelanski also said the estimates were based on a combination of three models that are continually being changed by their developers. That last tidbit is a tacit admission that even the developers of these models have found them to be flawed. Yet Americans are supposed to think basing major regulations on a combination of three flawed models is a valid way to determine if a regulation creates more cost than benefit.

In 2016, an article by Jason Scott Johnston, an adjunct scholar at the libertarian Cato Institute, noted other problems, including the fact that “social cost of carbon” models falsely assume “a fixed relationship between climate and productivity” in agriculture.

In reality, Johnston noted, “Farmers choose crops and crop-growing practices that are optimal for a particular climate.” In contrast, federal models assume farmers will plant the same crops and employ the same farming methods no matter what.

Similarly, Johnston noted, “A quick look at historical time series data does not suggest that rising average surface temperature has been accompanied by aggregate economic harm.”

Or, put another way, federal officials are predicting economic impacts from greenhouse gas emissions that are literally unprecedented.

President Trump has already issued an executive order requiring agencies to review the use of social cost estimates. But having a law that bans use of these farcical processes would be far more consequential, and beneficial, to the national economy.

When the scientific validity of the federal government's “social cost” predictions is only marginally greater than what one might get from a fortune teller with a crystal ball, regulatory reform is long overdue.