

# INSTITUTE FOR ENERGY RESEARCH

## Actually, Plenty of Intellectuals Oppose a Carbon Tax

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As is his wont, Nobel laureate Paul Krugman recently chided Bret Stephens, who had been lamenting the intellectual downfall of American conservatism. Krugman agreed with Stephens that today's right-wing personalities are no substitute for the late Bill Buckley, but Krugman argued that there really never *was* a "golden age" of conservatism. These guys have always been morally bankrupt and low-brow thinkers, in Krugman's book. He went on to list four key policy areas in which conservatives, according to Krugman, have either fumbled the ball or have been awful all along. One area in which Krugman thinks conservatives have regressed is environmental policy. "The use of markets and price incentives to fight pollution," Krugman wrote, "was, initially, a conservative idea condemned by some on the left. But liberals eventually took it on board — while cap-and-trade became a dirty word on the right."

On his popular blog, economist Tyler Cowen pushed back against Krugman, with the apparent intent of defending conservatives' intellectual honor. But rather than herald the sophistication of conservative critiques against cap-and-trade and carbon taxes, Cowen countered Krugman by dismissing the notion that conservatives oppose those measures. Oddly, Cowen argues that "[c]onservative *intellectuals* never have turned against the idea of a carbon tax, as evidenced by Greg Mankiw's leadership of the Pigou Club." But here, Cowen is simply mistaken. Plenty of conservative (and libertarian) intellectuals have indeed publicly come out against carbon taxes, and some of these are academics with more training in environmental economics than Greg Mankiw.

In the rest of this post I'll highlight some examples, and argue that Krugman is *right* when he says that over time, the conservative movement has crystallized its opposition to carbon taxes. Where I differ from Krugman is in my *defense* of this opposition as being not just consistent with conservative (and libertarian) principles but also eminently reasonable according to the peer-reviewed economic analysis, *if you delve into the literature dealing with realistic complications*.

### **Krugman vs. Mankiw on Conservatives and the Environment**

Here is the full passage in which Krugman discussed the conservative movement's alleged descent into hackery when it comes to environmental issues:

On [the] environment, a similar turn took place a bit later. The use of markets and price incentives to fight pollution was, initially, a conservative idea condemned by some on the left.

But liberals eventually took it on board — while cap-and-trade became a dirty word on the right. Crude slogans—Government bad! — plus subservience to corporate interests trumped analysis.

To reiterate, Tyler Cowen thought Krugman was being unfair in the above characterization. Cowen responded:

I believe [Krugman’s description] is pretty far from the reality, here are a few points:

**1. Conservative *intellectuals* never have turned against the idea of a carbon tax, as evidenced by Greg Mankiw’s leadership of the Pigou Club. Cap-and-trade is somewhat less popular, but that is probably the correct point of view, given the time consistency problems with governments that increase the supply of permits, as has happened in Europe.**

2. Water economics is a big part of environmental economics. “Raise the price” and “define property rights better” remain central ideas in that field, commanding a lot of attention. David Zetland is one recent exemplar of these ideas...

7. Applying property rights analysis to animal herds, animal ownership, and the tragedy of the commons remains a significant conservative idea. You will note throughout I don’t like calling these “conservative” ideas, they are simply good ideas or bad ideas. [Bold added.]

Interpreted literally, Cowen is clearly mistaken when he argues that the existence of the Pigou Club (a group that advocates higher gasoline taxes and other mechanisms to correct what they perceive as “negative externalities” in the framework developed by A.C. Pigou) means that Krugman is wrong about conservative intellectuals. Surely Krugman wasn’t claiming that *every last conservative on Earth* is adamantly opposed to a carbon tax. Rather, Krugman was arguing that he had noticed the conservative movement in general had crystallized its opposition, coming to view the carbon tax as another example of “big government.”

And on this, I *agree* with Krugman. After all, a carbon tax (or its kissing cousin, cap-and-trade) was a fairly wonkish idea that took a while to grow in popularity enough for the rank and file conservative to even take note of. But when they *did*, conservatives’ instincts kicked in: Since when do conservatives sign on to massive new taxes, because PhDs are telling them scary things about computer simulations in the year 2100?

To repeat, my description above is the kind of “low-brow knee jerk hostility” to carbon taxes that Krugman is mocking. I disagree with Krugman on this point; I think the conservatives’ gut instincts are eminently sensible. But in the rest of the post, I’ll explain why I disagree with Cowen as well: There are many economists and other intellectuals who are fully versed in the literature, and oppose a carbon tax for very sophisticated reasons. It is actually economists like Greg Mankiw who (to my knowledge) have not responded to challenges coming from “right wing” economists on these matters. It is Mankiw who is offering a very simplistic analysis.

### **Conservative and/or Libertarian Intellectuals Against a Carbon Tax**

At the risk of narcissism, let it begin with myself: I have a 2009 peer-reviewed critique of William Nordhaus’ case for a carbon tax. My critique was certainly not, “Government bad!” à la Krugman. The interested reader can peruse my article, where I walked through the assumptions

and methods Nordhaus used in his DICE model to generate his policy conclusions. Maybe I'm right and maybe I'm wrong, but I certainly did more than write, "Me no like taxes."

More recently, I am the co-author (along with climate scientists Pat Michaels and Chip Knappenberger) of a [comprehensive critique of carbon taxes for the Cato Institute](#). We cover the latest climate science literature, and we review the historical examples of a carbon tax (to show that they do not live up to the promises of advocates). We also explain the tremendous importance of the "tax interaction effect," something that many casual supporters of a carbon tax do not understand. (See [my explanation here](#).)

There is also the panel of experts we assembled for an IER event on carbon taxes back in the summer of 2013. First [I outlined some surprising facts](#) about "the social cost of carbon." Second, [Ross McKittrick explained](#) why the "double dividend" was so elusive in practice and that the "optimal" carbon tax could be roughly \$0. Third up was [Ken Green, who explained why he had initially supported](#) a carbon tax but then changed his mind. Finally [David Kreutzer explained the results](#) of some of the modeling his group had done for the Heritage Foundation, and why he opposed a carbon tax.

The case of Ross McKittrick is particularly instructive. [McKittrick is the author of a graduate-level text](#) on the economics of environmental issues. He has written extensively on the interaction of a new carbon tax with existing taxes and regulations, and indeed in July [came out with a new working paper](#). Here is the abstract:

This paper makes two contributions to the economics of pollution policy. First, many studies have looked at the effects of emission taxes in the absence of regulations and vice versa, but the implications for optimal tax design when one is layered on top of the other have been ignored, even though the practice is commonly observed. I develop a model of multiple polluting sectors capable of providing a tractable characterization of this case. Second, numerical modeling has shown that tax interactions can yield a positive damage threshold below which any emission tax is welfare-reducing even if marginal damages are positive, but this has largely been ignored in both the theoretical and policy literatures. I show that a positive damage threshold occurs when the policy is not revenue-raising and/or the rest of the tax system is not optimized, but can also occur in a second-best context with optimal taxes and full revenue-recycling, a result not previously shown. Introducing a pollution tax when one firm is already subject to an emissions constraint yields a positive damage threshold that goes up, the more the regulation distorts the income tax base. **Hence, under more general conditions than have previously been realized, pollution taxes are not guaranteed to raise welfare even when marginal damages are positive and revenues are fully recycled.** [Bold added.]

Say what you will about McKittrick's paper, but he's not burying his head in the sand and ignoring the science.

For another example, David R. Henderson is an excellent economist (whose political views would best be described as libertarian, not conservative) who teaches a course on energy economics. He is by no means a "science denier," but thinks that even if manmade climate change is occurring, [it doesn't necessarily follow that governments need to "do something"](#) about

it. (In the WSJ article that I've linked, Henderson is joined by John H. Cochrane, another excellent economist but about whom I do not know his background in the economics of climate change.)

Finally, consider Oren Cass, a Senior Fellow at the Manhattan Institute. He has researched and written extensively on the economics of climate change. He is opposed to a carbon tax not out of knee-jerk opposition to taxation per se (indeed I personally probably disagree with Cass' philosophy on the proper role of the federal government), and not because he refuses to read up on the science. No, Cass uses "the consensus science" to show that the standard arguments for aggressive government action in this sphere have not been justified.

Specifically, Cass calls the proposals for a U.S. carbon tax a "shell game" because its proponents tout one alleged virtue of a carbon tax, only to undo that virtue when patching up one its flaws raised by the critics. (For example: "The same revenues are rhetorically spent to achieve multiple ends, even as the different promises made to each constituency would be rejected by the others.")

### **Conclusion**

Paul Krugman is right that conservatives over the years have crystallized their opposition to a carbon tax, and that this position fits "naturally" with the rest of their views. However, Krugman is wrong for arguing that this somehow proves conservatives are ignoring the facts.

At the same time, Tyler Cowen missteps when he tries to rescue conservative honor by arguing that the *intellectuals* are on board with a carbon tax. No, not all of them. And as I've shown in this article, there are several prominent, expert economists (with political persuasions that are conservative and/or libertarian) who reject carbon taxes after conducting much deeper analyses than Greg Mankiw and others who think a Pigovian tax is the no-brainer solution to an alleged negative externality.