



## Would Hayek Want a Carbon Tax?

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For some time now, a small but vocal group of writers have tried to convince the base of libertarians and conservatives that a carbon tax is actually consistent with their principles. Although I disagree with their arguments, I'm happy to have such a debate, as I think the case against a carbon tax is very strong.

However, what I find disheartening are more recent attempts to hijack the legacies of deceased libertarians in order to bolster support for a carbon tax, even though these icons would probably recoil from this association of their names with the proposal.

The latest example is Ed Dolan's recent essay for the Niskanen Center that argued Friedrich Hayek would have supported a carbon tax. As I will show, there is no foundation for such a claim; in fact Dolan himself admits that Hayek never wrote on the issue. Beyond that, I'll provide evidence that Hayek was skeptical of top-down correctives from government officials as a way to address negative externalities.

### Dolan on Hayek on Carbon Taxes

Dolan's first sentence alerts us that his entire article is speculative: *"As far as I know, Friedrich Hayek never wrote a word about climate change..."* Yet Dolan presses on: *"...but two of his most famous works contain arguments that bear directly on this key issue of environmental policy. Judging from what he wrote about the role of science in public policy and the use of knowledge in society,"* Dolan goes on to claim Hayek *"might have supported a carbon tax."*

Specifically, Dolan analyzes Hayek's thoughts on two key areas: (1) assembling expertise on scientific matters and (2) using the price system to mobilize "dispersed knowledge." After reviewing Hayek's comments on these areas, Dolan concludes: *"Going by what he wrote about the proper roles of scientific and dispersed knowledge, I have to conclude that he would have favored a carbon tax over doing nothing."*

Let's put aside Dolan's stacking-of-the-deck by using the phrase "doing nothing." By the same token, interventionists who want to, say, help the poor could tout huge government welfare programs on the one hand, and contrast them with the "doing nothing" approach of relying on capitalism to lift people out of poverty; surely Hayek would see through *that* rhetorical sleight of hand.

On his two substantive claims, I also disagree with Dolan. I cover each in turn.

### Hayek on Scientific Experts

Dolan quotes Hayek, who wrote:

It may be admitted that, as far as scientific knowledge is concerned, a body of suitably chosen experts may be in the best position to command all the best knowledge available—although this is of course merely shifting the difficulty to the problem of selecting the experts.

Dolan then alludes to Hayek's famous essay, "Why I Am Not a Conservative," in which Hayek complains that conservative intellectuals too often reject some new finding of science because of its political or moral implications. (For example, Hayek thought it was absurd to doubt the evidence of Darwinian evolution *merely* on the grounds that its acceptance would lead to immoral consequences.)

So far, so good. Yet Dolan then extrapolates Hayek's quotations into the following statement, which actually doesn't follow from Hayek at all:

[S]ince there will be differences in findings among credible scientists, we should test our policy recommendations against a full range of views. If our policies make sense only for a limited part of that range, or only for views that lie outside the current scientific consensus, we should say so.

To repeat, the above quotation is *Dolan* talking, as if he were merely paraphrasing Hayek; and yet, Dolan never quoted Hayek saying anything to that effect. For all we know, Hayek might have endorsed this opinion, but in terms of his essay, Dolan just made that principle up and attributed it to Hayek.

But let's grant that the above *is* Hayek's view. The whole point of Dolan bringing this up, is to discredit commentators who (in his view) cherry-pick scientific findings outside the mainstream consensus. To show how fair and balanced he is, Dolan picks an example from both the progressive and libertarian sides of the spectrum, namely Joe Romm and a paper by me (and two co-authors).

Here is Dolan's case for arguing that Hayek would not have heeded the writings of Romm or the Cato critique of a carbon tax that I co-authored:

...[C]ompare this paper by Joe Romm on *ThinkProgress* with this one by Robert Murphy, Patrick Michaels, and Paul Knappenberger for the Cato Institute. Both papers emphasize the importance of a parameter known as equilibrium climate sensitivity (ECS), which means the amount by which equilibrium surface temperature in degrees C would increase following a doubling of the level of atmospheric CO<sub>2</sub>. Both papers begin from a widely publicized IPCC estimate that ECS is "likely" to be in the range of 1.5°C to 4.5°C.

However, in further discussion of the implications of ECS for public policy, Murphy et al. focus on recent estimates that place the lower bound as low as a fraction of one degree, maintaining that such estimates "have come to dominate the contemporary scientific literature on the topic." Romm, on the other hand, acknowledges those same lower estimates, but maintains that they omit "slow feedback" pathways and consequently greatly underestimate the likely warming from a given increase in CO<sub>2</sub>. "Anyone who tells you the recent literature suggests things will be better than we thought hasn't read the recent literature," he goes on to say.

We do not need to know who is right here to see that we are a long way from Hayek's ideal, in which policy analysts of all ideological persuasions would work from a common range of scientific findings. Instead, we see those with progressive political inclinations highlighting estimates from the pessimistic end of the scientific consensus while those with conservative inclinations highlight optimistic estimates.

The only problem with Dolan's move here is that he completely mischaracterized the argument in my Cato paper. Ironically, in that paper *we are doing exactly what Dolan wanted*, when we criticized the Obama Administration's 2013 estimate of the "social cost of carbon."

I realize this is a technical issue and I don't want to get too deep in the weeds in the present essay; the interested reader should refer to **pages 3-6 of our Cato study**. But here's the quick version of our argument:

(1) In order to calculate the "social cost of carbon"—which is used by the federal government to estimate the "social benefits" of regulations that reduce greenhouse gas emissions, and also serves as a guide to the "optimal" level of a carbon tax—the Obama Administration established an Interagency Working Group (IWG). It first gave an estimate of the "social cost of carbon" (SCC) in 2010, and then updated the numbers in 2013.

(2) The Obama Administration's IWG made several adjustments to the parameter inputs into the three computer models it relied upon to calculate the SCC. Yet it did *not* tune down its input of the Equilibrium Climate Sensitivity (ECS) parameter, even though the peer-reviewed literature was showing that the estimate of this parameter was trending downward. Various recent studies were provided to show that the figure used by the Obama Administration's IWG (which relied on a 2007 analysis by Roe and Baker) overstated the amount of warming being generated by the computer simulations.

(3) As an independent piece of evidence to bolster this claim, in the Cato study we pointed out that from the 2007 Intergovernmental Panel on Climate Change (IPCC) report to the 2013 report—which were the Fourth and Fifth assessments, respectively—the "likely" range of the ECS went from 2°C – 4.5°C (in the 2007 IPCC report) down to 1.5°C – 4.5°C (in the 2013 IPCC report). In other words, the epitome of the "scientific consensus"—namely, the UN's own periodic report on the climate science—**had reduced the lower range** of its estimate of the "likely" sensitivity of the global temperature to an increase in CO<sub>2</sub> concentrations, when contrasting the state of the literature in 2013 vs. 2007.

Notice that what we did in the Cato study is thus the exact *opposite* of what Dolan alleged. (Note: I was of course the economist of the trio of co-authors; climate scientists Pat Michaels and Paul Knappenberger were responsible for these particular arguments.) Dolan alleged that the Cato study started out with the "consensus" IPCC estimate of Equilibrium Climate Sensitivity, and then cherry-picked recent studies with low-ball estimates in order to sow doubt upon the official number. Because of this allegation, Dolan thought Hayek would have dismissed the Cato authors as ideologues who feared to go where the science led.

But as we've seen above, that's the exact opposite of what happened. No, the Cato study pointed to the latest literature to show that *the Obama Administration's estimate* of the social cost of carbon was out of date. In order to demonstrate the objectivity of our claims, in the Cato study

we showed that the IPCC *agreed* that the new literature coming in since 2007 meant that the previous estimates of the parameter had been too high.

Now that I have clarified the argument, I anxiously await for Ed Dolan to admit that Hayek would have rejected the Obama Administration's official pronouncements of the social cost of carbon as being ideologically motivated, relying on unduly pessimistic estimates of the ECS parameter.

Dolan Thinks Hayek Would Have Supported Government Prices Without a Market (!)

In the previous section we saw that Dolan's own argument would discredit the Obama Administration's estimates of the social cost of carbon. In this section, we'll see the weakness in his approach to Hayek's concept of "dispersed knowledge" and the importance of the market price system in giving that information to everyone. Here's Dolan's conclusion:

Markets without prices are what we have now. We have markets for energy, capital goods, and consumer goods. Within each of those markets, producers and consumers make choices based on their own knowledge of time and place and on the prices of labor and materials—but with no prices to carry knowledge of scarcities that exist at the planetary level. As producers, should we use electric power from the coal-fired grid or install solar panels?...There is no carbon price to help us make up our minds.

With a carbon tax, we still would not have scarcity prices that were generated in real markets, but we would at least have prices. As the effects of the carbon tax rippled through the price system, it would transmit the kind of knowledge Hayek regarded as essential...

In short, if you can't have both prices and markets, it seems that you choose markets without prices if you think ideologically, but prices without markets if you think pragmatically...

Which side would Hayek have come down on? Going by what he wrote about the proper roles of scientific and dispersed knowledge, I have to conclude that he would have favored a carbon tax over doing nothing.

Let's step back and look at the big picture here. Dolan is claiming that Hayek would have supported a system whereby government officials consult experts and then announce a "price" that is not generated from real market processes. Dolan thinks Hayek's writings on dispersed knowledge show that he (Hayek) would favor such an approach.

Well, to repeat, Hayek never wrote about climate change or carbon taxes, so this is all speculative. But we actually *do* know what Hayek thought about government proclamations of "prices" that come from government officials relying on experts—this is known as "market socialism." And far from endorsing this scheme, **Hayek famously fought it with all his might**, precisely because of his views on dispersed knowledge.

In case the reader thinks I'm being unfair by going to full-blown socialism, let us quote Hayek on the issue of Pigovian pricing in order to correct so-called negative externalities. This is *exactly* the grounds on which Dolan and others are claiming that a carbon tax is a "conservative" or "libertarian" policy solution. And yet Hayek warns us:

Perhaps even more instructive is the case of the late Professor A. C. Pigou, the founder of the theory of welfare economics—who at the end of a long life devoted almost

entirely to the task of defining the conditions in which government interference might be used to improve upon the results of the market, had to concede that the practical value of these theoretical considerations was somewhat doubtful because we are rarely in a position to ascertain whether the particular circumstance to which the theory refers exist in fact in any given situation. Not because he knows so much, but because he knows how much he would have to know in order to interfere successfully, and because he knows that he will never know all the relevant circumstances, it would seem that the economist should refrain from recommending isolated acts of interference even in conditions in which the theory tells him that they may be sometimes beneficial. [Hayek, *Studies in Philosophy, Politics, and Economics*, (London, 1969), p. 264.]

So it's true, Hayek was not in principle opposed to a tax on negative externalities, but as a pragmatic matter he warned that limitations on knowledge should make us very wary of rushing in to "fix" the market outcome when we are operating in a sea of ignorance. This is the exact opposite of Dolan's conclusions from Hayek's writings on knowledge.

### **Conclusion**

This is not the first time that someone from the Niskanen Center has misled readers on the legacy of iconic figures. Jerry Taylor in his "**Conservative Case for a Carbon Tax**," held up Milton Friedman and Murray Rothbard and at least implied to the reader that they were supporters of his (Taylor's) view. In response, **we at IER pointed out**:

(1) Taylor himself in a **1998 piece** said that the viewpoint of William Niskanen (namesake of the Center) meant the case for the Kyoto Protocol was "shockingly weak."

(2) Milton Friedman in **1998 gave a blurb** to a "skeptical" book by writing, "*This encyclopedic and even-handed survey of the evidence of global warming is a welcome corrective to the raging hysteria about the alleged dangers of global warming. Moore demonstrates conclusively that global warming is more likely to benefit than to harm the general public.*"

(3) Murray Rothbard *in literally the next sentence* after the one Taylor quoted (from Rothbard's 1973 essay on pollution) explicitly rejects government efforts to use quotas or taxes to reduce pollution to the "optimal" level. Rothbard explains: "*Not only would these proposals grant an enormous amount of bureaucratic power to government in the name of safeguarding the 'free market'; they would continue to override property rights in the name of a collective decision enforced by the State. This is far from any genuine 'free market'...*"

Turning back to Dolan's more recent piece, I note that he spends a lot of space quoting from free-market environmentalist authors who reject government "carbon pricing." Dolan rejects their worries and concludes that their resistance is merely ideological.

On the contrary, I think it's Jerry Taylor and Ed Dolan who are misunderstanding. It's not a coincidence that so many current conservatives and libertarians reject cap-and-trade and carbon taxes, or that the (correctly interpreted) legacy of famous libertarian icons also cuts against such top-down interventions. Taking into account the dispersed knowledge issues studied by Hayek, and the Public Choice incentive problems studied by William Niskanen, it should be clear why the rank-and-file libertarians are so skeptical of a carbon tax.