# The Problem With Putting a Price on the End of the World

Economists have workable policy ideas for addressing climate change. But what if they're politically impossible?

By DAVID LEONHARDT APRIL 9, 2019

On a Saturday afternoon in early December, inside a soaring auditorium on the campus of Stockholm University, William Nordhaus gave the crowning lecture of his half-century career as an economist. The occasion was his acceptance of the Nobel Prize in economics, which Nordhaus, a trim, soft-spoken Yale professor, had been jointly awarded. The title of the lecture was "Climate Change: The Ultimate Challenge for Economics."

As a young professor on a sabbatical in Vienna in the mid-1970s, Nordhaus happened to share an office with an environmental researcher, who helped spark his interest in the emerging issue. While there, Nordhaus came up with the target, now famous, of holding global warming to two degrees Celsius above preindustrial levels. He chose the target, as he recently explained to me, because he believed that the earth has experienced similar fluctuations before and that humans had tolerated them.

The Nobel was a tribute to the originality and influence of his work developing economic models that help people think about how to slow climate change. It also seemed to be a *cri de coeur* from the Swedish academics who choose the economics laureates: Climate change is a threat like no other. Fatal heat waves, droughts, wildfires and severe hurricanes are all becoming more common, and they are almost certain to accelerate. Avoiding horrific damage, as a United Nations panel of scientists recently concluded, will require changes in human behavior that have "no documented historic precedent."

In his speech, Nordhaus explained that people use too much dirty energy because they don't have to pay the true costs it imposes on the world: pollution-related health problems in the short term and climate change in

the long term. Economists refer to these costs as externalities, because they are not naturally part of the market system. “We have a climate problem,” Nordhaus said, “because markets fail, and fail badly, in the energy sector.” The only solution, he argued, was for governments to raise the price of emissions.

Economists and other policy experts have long focused on this idea of carbon pricing. It can take the form of a carbon tax, as Nordhaus prefers. Or the pricing can be embedded in a system of permits known as cap-and-trade, as President Barack Obama and other Democrats proposed in their 2009 bill to address climate change. Either way, the underlying concept is simple. When a product becomes more expensive, people use less of it. Carbon pricing is an elegant mechanism by which market economics can work on behalf of the climate rather than against it.

But if the idea’s straightforwardness is its great economic advantage, it has also proved to be its political flaw. Energy, for utilities and transportation, is a major cost of living. And across the industrialized world, the middle class and the poor have been struggling with slow income growth. As Nordhaus acknowledged in his speech, curbing dirty energy by raising its price “may be good for nature, but it’s not actually all that attractive to voters to reduce their income.”

The timing of Nordhaus’s Nobel Prize highlighted this political problem. While he was onstage, demonstrators in France were marching against gas-tax increases in raucous protests — the so-called yellow-vest movement — that shut down the Louvre and the Eiffel Tower. This is “the ultimate challenge” that Nordhaus was describing. Climate change may be an existential crisis, but in their day-to-day lives, many people are more worried about the problems created by the most obvious solution than by climate change itself.

Which helps explain why climate activists have recently begun to change their political strategy. The cherished idea of economists, carbon pricing, is losing favor and being supplanted by ideas that seek to invert the political logic. Rather than broadcast the necessary sacrifices, as taxes and cap-and-trade schemes do, the alternatives try to play them down and instead emphasize the benefits of less pollution. These alternatives — like clean-energy mandates and subsidies — are less efficient than carbon pricing, as

skeptics like Nordhaus point out. They don't harness market forces to the same degree, and they don't necessarily affect the entire economy. But they still have the potential to make a real difference, and in some places, like California, they already have. The question is whether any policy is both big enough to matter and popular enough to happen.

**Carbon pricing's recent** losing streak arguably began in the United States during the first two years of Obama's presidency, in 2009 and 2010. Those years were the most successful period for progressive legislation since Lyndon B. Johnson's Great Society. Obama signed a huge federal stimulus bill, toughened Wall Street regulation and extended health insurance to some 20 million people. The one major piece of Democratic legislation that failed was the climate bill, which was sponsored in the House of Representatives by Henry Waxman of California and Ed Markey of Massachusetts.

Since that failure, some progressives have wondered if Obama and other party leaders could have passed the bill if only they had tried harder. The answer is unknowable, but I think the evidence suggests that the bill died for more fundamental reasons. Spending federal money to prevent a depression is popular. So are cracking down on Wall Street and expanding health insurance. Raising the price of energy is not.

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In the years since the bill's failure, the story has repeated itself elsewhere. In Australia, a Labor Party-led government put in place a carbon tax in 2012, only to be swept from office the next year by conservatives who ran on an "ax the tax" platform. In France, to quell the yellow-vest protests, President Emmanuel Macron's government withdrew its gas-tax increase late last year. In the United States, voters in Washington — a blue state — rejected a ballot initiative last year that would have created a carbon tax, by a vote of 57 percent to 43 percent. And in places that have imposed a price on carbon, like the European Union, California and some other states, it tends to be too low to be effective.

Perhaps the most encouraging example for carbon-tax advocates has been Canada. The province of British Columbia enacted a carbon tax in 2008,

and it has worked well. It includes a clever provision to reduce political opposition: Every dollar that is raised is returned to families and businesses through tax credits. An all-star roster of Nobel laureates and former Republican and Democratic presidential appointees — including Treasury Secretaries George Shultz and Lawrence Summers and the Federal Reserve chiefs Janet Yellen, Ben Bernanke and Alan Greenspan — recently signed a joint statement in favor of a similar carbon tax for the United States. But it remains a long shot in this era of government distrust. Even in Canada, the politics have become trickier. A nationwide carbon-pricing plan went into effect this year, and conservative leaders are fighting it intensely.

All these struggles have led activists to have second thoughts about carbon pricing. John Podesta, who helped direct climate policy in the Obama administration, told me that a new political strategy was necessary. The Green New Deal — a progressive wish list on the issue — includes neither a carbon tax nor a cap-and-trade system. Foreign Affairs recently ran an article with the headline “Why Carbon Pricing Isn’t Working,” by Jeffrey Ball, a former energy reporter at The Wall Street Journal. Christiana Figueres, a Costa Rican who spent six years as the top United Nations climate official, told me: “An economist would probably argue that the most efficient way to reduce greenhouse gases is to put a price on carbon. But efficient is not always what can be attained from a political perspective. I would rather move now on what we can do than wait for economists’ perfection.”

When I began writing columns in The Times about climate policy more than a decade ago, I, too, was strongly in favor of carbon pricing as the best strategy for attacking climate change. But two big things have changed since then. The financial crisis and its aftermath intensified many families’ economic problems. Income growth has since been sluggish. Amazingly, the wealth of the median American household has fallen 30 percent since 2007, according to the most recent Federal Reserve data, making higher energy costs an even harder sell.

The second change is political. A decade ago, there was reason to think that carbon pricing could be bipartisan. It borrows from the best traditions of liberalism and conservatism by using the government to address a failure

of the private market while still relying on that market. President George H.W. Bush's administration used a pricing scheme to solve the problem of acid rain. John McCain favored such a carbon scheme.

Today, however, the Republican Party has become radicalized. It opposes once-bipartisan ideas as a matter of course: an assault-weapons ban, Obamacare (which was shaped by ideas from the Heritage Foundation and Mitt Romney) and virtually any effort to slow climate change. The G.O.P.'s radical turn means that climate activists can no longer search for a compromise between the two parties, in the hope that their leaders will try to sell it to skeptical voters. Republicans have made clear that they will instead stoke the skepticism for their own ends. Doing so pleases the oil and coal industries, which are generous campaign donors. It also helps win elections. To a lesser degree, the conservative parties in Australia and Canada are mimicking this strategy.

In response, climate activists are realizing that they instead need to find policies that are popular enough to survive the inevitable attacks on them.

**"The whole question** with climate is, What's your theory of political change?" Tom Steyer, the billionaire hedge-fund manager and Democratic political donor, told me recently. We met for lunch at a cafe on Capitol Hill, ostensibly to talk about the issue for which he has become famous — advocating President Trump's impeachment. But the environment was Steyer's first political focus, and we spent most of the lunch discussing it.

In 2017, not long after Trump's victory, NextGen America, Steyer's climate-advocacy group, went looking for ways to make progress at the state level. With Trump in the White House, it was clear that the federal government would be moving in the wrong direction on environmental policy. NextGen officials decided to choose a few states where success might make a difference and send a political signal. "We wanted to try to get some wins that weren't in very liberal, very Democratic places," said Jamison Foser, a senior adviser at NextGen. They ultimately settled on three states, none reliably blue: Arizona, Michigan and Nevada.

In all three, NextGen and its allies worked to put an initiative on the ballot that would require local utilities to use much more renewable energy, like solar and wind. The proposed increases were big: Every state would need to

more than double the share of its renewable energy by 2030. This kind of requirement is known as a performance standard, and it has a long history of success in many fields, reducing house fires, medical errors, deaths in car accidents and the use of lead paint and asbestos.

On energy, California is a good case study. Its cap-and-trade program has been disappointing. Its performance standards have worked better. In 2005, Gov. Arnold Schwarzenegger, a moderate Republican, committed the state to reducing its carbon emissions to their 1990 level by 2020. He and state legislators later gave regulators the authority to require more clean-energy use by local utilities.

This sort of mandate is not the most efficient way to reduce carbon emissions, as economists like to point out. It requires regulators to choose reasonable benchmarks for different companies — or to set a uniform one that all must meet. Carbon pricing, if aggressive enough, encourages bigger reductions from companies that can cut their emissions more cheaply.

But the downsides of performance standards are often exaggerated. Most Americans are surely happy to pay a small amount more for their homes, for instance, if their children no longer have to ingest lead paint. And the initial skepticism about California's plan appears to have been misplaced. Critics predicted that the state wouldn't be able to meet its goal without hurting its economy. They were wrong: The state met its goal four years early, by 2016. The costs to consumers were modest and hard to notice. John Podesta told me he considered California's approach a model for future federal action.

The key political advantage is that performance standards focus voters on the end goal, rather than on the technocratic mechanism for achieving it. Carbon pricing puts attention on the mechanism, be it a dreaded tax or a byzantine cap-and-trade system. Mechanisms don't inspire people. Mechanisms are easy to caricature as big-government bureaucracy. Think about the debate over Obamacare: When the focus was on mechanisms — insurance mandates, insurance exchanges and the like — the law was not popular. When the focus shifted to basic principles — Do sick people deserve health insurance? — the law became much more so.

Even some strong advocates of carbon pricing have come to see this point.

Nathaniel Keohane, the head of the climate program at the Environmental Defense Fund, which helped design the original cap-and-trade program for acid rain, puts it this way: “If we’re going to succeed on climate policy, it will be by giving people a vision of what’s in it for them, a positive vision of how it matters for their life and their kids.” Too often in the past, he said, climate activists failed to do that. “We really led with, and let us ourselves be defined by, the policy mechanism rather than the outcome we were striving for. You need to be able to inspire people.”

In Arizona, Michigan and Nevada, Steyer’s group was trying to put a simple question in front of voters: Should their state use more clean energy? According to the polls that Foser and his NextGen colleagues studied, as many as 80 percent of Americans say yes to that question.

This framing is crucial. When voters think about clean energy rather than climate change, some of the usual partisan patterns break down. Even many Republican voters support clean energy. In Michigan, the recently departed Republican governor, Rick Snyder, helped negotiate a 2016 deal that created performance standards for utilities. After signing the bill, he claimed it would reduce energy costs.

The Michigan ballot initiative’s goal was to make the 2016 law more ambitious. And the politics looked so favorable that the two largest utilities basically dropped their opposition. Months before Election Day, they pre-emptively agreed to increase their renewables share to 25 percent by 2030. It wasn’t quite the 30 percent level in the initiative, but it avoided the risk of defeat and let activists focus elsewhere. The activists took the deal and canceled the initiative.

In Nevada, the measure did get on the ballot, and the campaign in favor of it has some lessons for winning future fights. The messages were simple and powerful. They focused on the immediate benefits from clean-energy use, like fewer health problems, lower medical costs and more jobs that pay well. As Steyer said to me, “If you don’t talk about health issues and jobs, then you’ve got nothing to talk about.” In one ad, a white-coat-clad doctor in Carson City describes the damage air pollution does to the lungs and brains of her patients in northern Nevada. “It’s just a disaster, health-wise,” she says. In another ad, a woman named Jennifer Cantley becomes teary-eyed when talking about having to check the air quality each day before

letting her son, who has asthma, go outside to play with his friends.

This approach does not eliminate opposition. A conservative coalition ran a campaign against the measure, claiming that it would increase energy costs. But the state's largest utility, NV Energy, mostly stayed out of the fight. It will still be able to earn big profits from renewable energy, albeit probably not quite as big. In the end, the initiative passed, 59 percent to 41 percent.

The story in Arizona was very different. The utility there, Arizona Public Service, is powerful and aggressive, and it fought hard against the initiative. Crucially, the office of the state's attorney general, who has received campaign donations from the utility, added five words to the ballot question: "irrespective of cost to consumers." "They basically placed an ad against the measure in the measure," Steyer said. It failed to pass, 69 percent to 31 percent.

That loss shows that there are no guaranteed formulas for success in climate politics. If the oil and coal industries decide to fight, they can expend a lot of money and power. But the experiences in Arizona, Michigan and Nevada — not to mention California — at least clarify the political dynamics. When the debate is about the cost of living, climate activists are in trouble. When it's about clean energy or people's health, they have a much better chance.

**The highest-profile** current attempt to redefine climate policy is the Green New Deal. In February, two Democrats — Alexandria Ocasio-Cortez in the House and Ed Markey in the Senate — released a 14-page resolution calling for a huge federal effort to fight climate change.

The Green New Deal, as the name suggests, is essentially a program to create good jobs and simultaneously expand the use of clean energy, mostly through federal spending and performance standards. The resolution quickly became a symbol of the Democratic Party's insurgent progressives, attracting criticism from the right and the center. Some of the criticism was fair. The resolution is too vague to be rigorously analyzed; it's a statement of principles, not a detailed policy. In places, the Green New Deal puts more emphasis on left-wing priorities than on fighting climate change. It mentions "repairing historic oppression" yet omits nuclear power.

Still, the core idea in the Green New Deal is one shared by the left and the establishment center-left. (Remember that Markey, who is hardly a socialist, also had his name on the Obama-era cap-and-trade bill.) Even Nordhaus says, “I laud the spirit of the Green New Deal.” The idea also happens to be popular with the public, polls show. Most voters support clean energy and, after four decades of slow-growing living standards, also support federal action to create good jobs.

Rhiana Gunn-Wright, a 29-year-old Rhodes scholar, works for the think tank New Consensus and helped design the Green New Deal. When I spoke with her, I was struck by her sense of political realism and how different it was from the old definition. For a long time, environmental activists have shown an almost compulsive — and in many ways admirable — honesty. They have chosen policies, like carbon taxes, that emphasize the downsides: Energy prices will rise. The Green New Deal and the recent clean-energy ballot initiatives do the reverse. They emphasize the benefits of clean energy and minimize the downsides. “There is a lot of anxiety and uncertainty in America today,” Gunn-Wright said. “Any solution that is tied to tangible economic benefits is going to have a better chance of passing.”

The Green New Deal obviously cannot wish away the costs of replacing dirty energy. Government subsidies for clean energy require tax dollars, and performance standards for utilities will almost certainly cause prices to rise. But as the experience in California, among other places, has shown, a switch to cleaner energy is not as expensive as many people fear. The price of solar and wind power has fallen sharply in recent years and will most likely fall further. The problem with the failed carbon-pricing schemes of recent years has not been the actual price increases they would inflict on families but the perceived price increases. Either a carbon tax or a Green New Deal would impose manageable costs, but those incurred by the Green New Deal are likely to be less visible.

And the potential benefits are large, as real-world examples attest. Other countries, especially Germany and China, have rapidly expanded their clean-energy production through public subsidies. The United States could do the same. When Washington has invested in nascent industries in the past, the return has been fantastic. The successes have easily paid for the failures. The internet, the pharmaceutical industry and fracking (its

environmental impacts aside) are among many examples. In addition to research funding, a Green New Deal could also expand performance standards to sectors beyond utilities, like transportation.

If the next president were able to sign an ambitious version of the Green New Deal, it would not be nearly enough to solve the climate crisis. The problem is enormous and global. But most scientists believe that a large reduction in carbon emissions over the next few decades could greatly reduce the destruction — and a large reduction in emissions remains possible.

**And what about** putting a price on carbon?

To Nordhaus and some other economists, it remains the only policy powerful enough to be worth the effort. I understand where they're coming from. Carbon pricing would affect every industry and every household. It would have cascading benefits, giving the private sector an incentive to invest more in clean energy. But recent history offers reason to be skeptical that focusing entirely on pricing would make its achievement any more likely.

The better bet seems to be an "all of the above" approach: Organize a climate movement around meaningful policies with a reasonable chance of near-term success, but don't abandon the hope of carbon pricing. Most climate activists, including those skeptical of a carbon tax, agree about this. Gunn-Wright says she is open to a price on carbon. NextGen's Foser says he thinks the next federal climate bill should err on the side of ambition. Podesta, who has spent as much time as anyone thinking about how to pass federal legislation on climate change, says he thinks a carbon price needs to be in a bill, so long as it isn't the focus. One option, he suggested, would be a carbon price that was both delayed until future years and initially low, increasing later. Such a price could still have a major effect on investments in clean energy, because those investments tend to be long-term.

The sad truth is that climate politics are probably not going remain as they are today. The future will almost certainly bring increasing harm, though more extreme weather. Eventually, some Republican politicians, especially in coastal states, may be willing to break with party leaders on the issue. Eventually, Americans may decide to punish politicians who deny or play

down climate change. By the time a price on carbon took effect, it might not be so unpopular anymore. But we can't wait for the politics to change to begin taking action.

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