

Conservatives ask: What would Milton Friedman do about warming?

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If the late free-market economist Milton Friedman were alive today, he'd probably support pricing carbon.

That was the argument made by two economists on a panel today at the University of Chicago, where Friedman taught for more than 30 years.

Steve Cicala of the university's Harris School of Public Policy and Michael Greenstone, a former adviser to President Obama who holds a chair named for Friedman, argued that the anti-regulatory economist would have supported government policies aimed at protecting and compensating victims of man-made warming. Friedman, who died in 2006, would have viewed climate change as a negative externality associated with burning fossil fuels and would have believed that society was entitled to recover its losses from those who emit carbon to advance their economic interests, they said.

While there is a market for the products that are associated with greenhouse gas emissions -- like electricity, fuel and steel -- there is no market for the pollution inflicted by their manufacturers on the public.

"It is theft," said Cicala. "That's a loaded term, but if someone else has a better term for taking something from someone without their consent and without compensating them, I'd be happy to hear it."

"We do have a climate policy, and it's just that it's fine to pollute," said Greenstone, who now directs the Energy Policy Institute at the University of Chicago.

The way to internalize greenhouse gas emissions is for the government to create a market for emissions and then get out of the way, he said. The cost to emit should track with a rigorous estimate of the social cost of carbon -- the incremental cost to society of each additional metric ton of CO₂ emissions. The Obama administration's often-controversial figure is \$37 per metric ton.

The panel was moderated by former Rep. Bob Inglis (R-S.C.), whose stance on climate change contributed to his 2010 loss in the Republican primary. He now heads the Energy and Enterprise Initiative at George Mason University.

Inglis, who still describes himself as a conservative, argues that his colleagues on the right would be more receptive to the issue of climate change if there were a conservative policy model to address it. His initiative proposes a revenue-neutral carbon tax, which would return all the revenue from a levy on emissions to the public in the form of other tax cuts.

Inglis said any carbon tax that could garner support from conservatives like himself would have to include border protections to keep emissions from relocating overseas and would have to be revenue neutral.

Cicala said the key was to give high-emitting industries in other countries an incentive to reduce their emissions rather than just hitting them with a border adjustment cost that might spark a trade war.

While it may be difficult to persuade developing countries to tax their fossil fuels resources, he said, taxing consumption in wealthy countries will cover most emissions for the simple reason that rich countries consume more.

"For a carbon policy to be most effective, you're going to have to have a carbon price around the world," Greenstone acknowledged, though he said that quickly developing countries are unlikely to adopt policies they view as detrimental to their growth.

But the United States should still act to control emissions, he said. "We ran an experiment of America not leading, and it didn't work too well," he said.

Any international agreement on climate change can encourage developing countries to participate by offering technology transfer to help them rein in emissions, he said.

A small group of Republican former officials have almost single-handedly kept the idea of a carbon tax alive in recent years at a time when climate change legislation of any kind is considered dead on arrival in Congress.

Four U.S. EPA administrators who served under Republican presidents, former Secretary of State for President Reagan George Shultz and Treasury Secretary for President George W. Bush Henry Paulson have all expressed support for a revenue-neutral model.

Paulson in particular has devoted considerable time to the issues of climate change and conservation since leaving public life in January 2009, co-chairing the Risky Business Project with Democratic hedge fund manager Tom Steyer and ex-New York Mayor Michael Bloomberg, a political independent.

The Risky Business report unveiled in June sought to tally climate change's economic risks -- something Paulson has said his fellow Republicans undervalue when they focus on the cost of administration action ([Greenwire](#), June 24).

In a *New York Times* column published a week before the report was released, Paulson compared climate change to the credit "bubble" that set up the 2008 economic collapse. But political gridlock is preventing the United States from taking steps to avoid the coming "climate bubble," he said.

"This is a crisis we can't afford to ignore," he wrote. "I feel as if I'm watching as we fly in slow motion on a collision course toward a giant mountain. We can see the crash coming, and yet we're sitting on our hands rather than altering course."

A handful of center-right think tanks have also joined the fray, including the R Street Institute.

In an op-ed in *The Oregonian* over the weekend, the group's California office director, Ian Adams, asked conservatives in Washington and Oregon to think twice before opposing their states' adoption of a revenue-neutral tax on emissions.

Oregon has launched a feasibility study to consider the implications of a tax, while Washington's climate activist Gov. Jay Inslee (D) has commissioned an advisory task force to consider the relative benefits of a state cap-and-trade model or a carbon tax.

Adams, a former aide to Rep. Bruce Hanna, the Republican co-speaker of Oregon's evenly divided House in 2011 and 2012, acknowledged that both "carbon" and "tax" would be hard sells for Northwest conservatives.

"To be clear, so long as conservatives remain unconvinced of the threat posed by rising carbon emissions, the environmental value of a carbon tax will escape them," he wrote. "However, if conservatives can be convinced of the value of pegging government revenue to a stable, controllable and ultimately reducible phenomenon, they might just come to the table to discuss climate-change solutions."

And the carbon tax option offers considerable side benefits, he noted, including the chance to eliminate other taxes on labor and wealth and the chance to comply with EPA's existing power plant rule "in a much less economically destructive way."

EPA has signaled that it will accept a state plan for the draft rule that relies on a carbon tax.

Ray Lehmann, a senior fellow at the R Street Institute's Washington, D.C., office, said the think tank's staff is talking to state officials in Oregon and Virginia about the option of using a revenue-neutral tax to comply with the June 2 proposal and would be open to expanding its outreach to other states.