

CLIMATE TALK

Addressing Climate Change: An Economic Win-Win

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Alarms keep sounding. Extreme weather events have become our new normal. The human and economic costs of increased wildfires, flooding, droughts, and migration keep rising. Last month, the UN's international panel of climate scientists reported that due to rising levels of carbon emissions caused by human activities, temperatures will rise more quickly and have more severe economic consequences than earlier thought.

Then last week, a report from 13 federal agencies gave the starkest warnings yet. If we do not take immediate actions on climate change, our economy will experience hundreds of billions of dollars in economic losses. How do we avoid such an outcome? First, we must reduce carbon emissions both through regulation, and changes in taxes or subsidies that will alter market prices and affect our decision-making. Economists regard these as short-term policies since they employ existing technologies and resources and have their desired effects relatively quickly. Second, we need what economists call long-run policy actions, which require new physical capital, technologies, and human resource skills.

Citizens' Climate Lobby's carbon fee and dividend (CFD) proposal is an attractive short-run policy option. It places a fee on fossil fuels, but all of the revenues are returned American households. Studies indicate that most moderate- and low-income households will receive more than enough in dividends to offset price increases in carbon-based goods.

The work of recent Nobel Prize winners in economics supports CFD. This year William Nordhaus was honored for his work on the importance of carbon taxes in addressing climate change, and last year Richard Thaler was recognized for showing how psychological factors affect market decision-making. For example, receiving a regular cash dividend might well reduce opposition to carbon fees. Even those who would pay more might be "nudged" (Thaler's term) to support CFD if they believed it promoted their long-term interests or values.

The work of Paul Romer, the second recipient of this year's Nobel economic prize is also very relevant. He emphasized how "technological spillovers" between firms and industries today positively affect growth and job creation. Yet as economists have long known, when the benefits of new technologies cannot be fully captured by a single firm or industry, private investments may not be forthcoming.

Government has a critical role to play in addressing this problem. Both through spending, and through taxes and subsidies aimed at influencing investment by the private sector, government can provide the needed capital stimulus. This is what occurred during WWII, with the building of the interstate highway system, and with the nuclear energy and space programs. Not only did these past mobilizations achieve their direct goals, but they also promoted decades of overall prosperity for Americans.

The mobilization required now is to develop the technological, physical, and human capital resources needed to mitigate and adapt to climate change. This means government support, directly or indirectly,

for green technologies, direct investment in public infrastructure projects, and encouraging the private sector to do the same.

Finally, in addition to our policies being bold, they must be bipartisan. This is how past mobilizations succeeded. If we make climate change a “bridge issue,” something we can all agree upon, it will be an all-around win. We will lessen global economic disruptions while invigorating our own economy. And perhaps most importantly, we will relearn a fundamental lesson of earlier generations: that any idea of “American Greatness” must begin with a respect for science, our fellow citizens, and the institutions of an open and democratic society.

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