

How to Change U.S. Climate Policy after There Is a Price on Carbon

A Hamilton Project proposal by Robertson Williams of the University of Maryland, the Climate Leadership Council, and Resources for the Future aims to make climate policy more efficient after a sufficiently high carbon price is implemented. Specifically, he puts forward proposals to suspend or modify certain current climate policies that will become unnecessary or inefficient after a carbon price takes effect.

Issue Overview

- **An economy-wide price on carbon** is an important centerpiece of policy for addressing climate change and reducing greenhouse gas (GHG) emissions in an efficient manner.
- **Some existing climate policies** may become redundant, less effective, or inefficient if a carbon price is successfully implemented.
- **Those policies can be eliminated, suspended, or modified** in the presence of a carbon price in order to more efficiently target GHG emissions and market failures while still accomplishing the same climate goals.

The Challenge

An economy-wide price on carbon is an important centerpiece of an economically efficient strategy for addressing climate change and reducing GHGs. If such a price were in place and already reducing carbon emissions, it might make certain types of regulations redundant. After a sufficiently high carbon price is implemented, policymakers should consider removing, suspending, or modifying many other existing policies targeting GHG emissions, some of which will become unnecessary or inefficient.

Policies targeting emissions covered by a carbon price will generally become redundant, or simultaneously less effective (e.g., reducing emissions by less) and more costly (e.g., cost per ton of emissions reductions). An important consideration in whether to modify or suspend regulations is whether policies address other market failures in addition to carbon emissions. If so, it may make sense to keep them.

Dealing with the politics of carbon pricing and non-price policies is part of the challenge for effective reform. Many of those who oppose carbon pricing are also opposed to carbon regulations. As a result, a policy proposal that swaps a carbon price for regulations might win the support of a substantially broader political coalition than a carbon price alone, in the process reducing emissions by more than the current regulatory regime and at a lower cost. However, for such a swap to work, it must be designed to avoid any future policy changes that would result in the loss of both non-price regulations and the carbon price.

The Path Forward

Williams proposes a framework for addressing these challenges, emphasizing the importance of suspending non-price policies (in exchange for a robust carbon price) rather than removing them altogether. Williams then applies that framework to several specific existing non-price policies. He proposes the following path forward:

- 1. Implement an economy-wide carbon tax.** The tax would initially cover all energy-related CO₂ emissions and major sources of process emissions, and would subsequently expand to cover other GHGs, starting with methane. Given uncertainties around the appropriate price, a sensible insurance policy would be to set the price slightly higher than many estimates of the social cost of carbon.
- 2. Ensure that any subsequent policy changes are “reconciliation proof” by making policy suspension contingent on a carbon tax remaining in place.** If the price is repealed by Congress, then the suspended or modified regulations are reinstated.
- 3. Suspend stationary source CO₂ regulations under the Clean Air Act and CAFE standards for light-, medium-, and heavy-duty vehicles.** These policies target CO₂ directly, which would be covered by a carbon price and thus could be suspended if the carbon price was sufficiently high.
- 4. Eliminate tax expenditures related to fossil fuels.** Tax deductions and credits for oil and gas producers likely *increase* emissions and should be eliminated.
- 5. Modify renewable energy tax expenditures to target earlier-stage development.** Portions of the Investment Tax Credit and Production Tax Credit should be allowed to phase down and expire as already scheduled, with the remaining portions of the Investment Tax Credit suspended. These tax credits would be replaced with smaller tax credits that target an earlier stage of development and demonstration.
- 6. Retain energy efficiency standards, motor fuel taxes, and any regulations on non-CO₂ GHG emissions unless the carbon price expands to cover those emissions.** Efficiency standards and motor fuel taxes address a host of market failures unrelated to carbon emissions and should therefore be maintained. GHG emission regulations not covered by a carbon price would stay in place.
- 7. No federal preemption of state carbon pricing programs, renewable portfolio standards, or low carbon fuel standards.** A federal carbon price may encourage states to loosen or eliminate their overlapping regulations. However, states may decide to keep regulations in place to target other market failures.

Williams argues that the modification or suspension of existing regulations in the presence of a carbon tax is both economically and politically sound. If a regulation becomes redundant or inefficient in the presence of a carbon price, retaining the regulation is not helpful for efficiently achieving climate goals. Additionally, swapping regulations for a carbon tax could help to create a broader political coalition than a carbon tax would on its own. Williams’s proposals would make climate policy as efficient and effective as possible after a carbon price is implemented.

About the Author

Roberton Williams is the Chief Economist at the Climate Leadership Council; a professor at the University of Maryland, College Park; a university fellow at Resources for the Future; and a research associate at the National Bureau of Economic Research.