

The Big Green Test

Conservatives and Climate Change

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[Paul Krugman](#)

On Sunday Henry Paulson, the former Treasury secretary and a lifelong Republican, had an [Op-Ed article](#) about climate policy in The New York Times. In the article, he declared that man-made climate change is “the challenge of our time,” and called for a national tax on carbon emissions to encourage conservation and the adoption of green technologies. Considering the prevalence of [climate denial](#) within today’s G.O.P., and the absolute opposition to any kind of tax increase, this was a brave stand to take.

But not nearly brave enough. Emissions taxes are the Economics 101 solution to pollution problems; every economist I know would start cheering wildly if Congress voted in a clean, across-the-board carbon tax. But that isn’t going to happen in the foreseeable future. A carbon tax may be the best thing we could do, but we won’t actually do it.

Yet there are a number of second-best things (in the technical sense, as I’ll explain shortly) that we’re either doing already or might do soon. And the question for Mr. Paulson and other conservatives who consider themselves environmentalists is whether they’re willing to accept second-best answers, and in particular whether they’re willing to accept second-best answers implemented by the other party. If they aren’t, their supposed environmentalism is an empty gesture.

Let me give some examples of what I’m talking about.

First, consider rules like **fuel efficiency standards, or “net metering” mandates requiring that utilities buy back the electricity generated by homeowners’ solar panels.** Any economics student can tell you that such rules are inefficient compared with the clean incentives provided by an emissions tax. But we don’t have an emissions tax, and fuel efficiency rules and net metering reduce greenhouse gas emissions. So a question for conservative environmentalists: Do you support the continuation of such mandates, or are you with the business groups (spearheaded by the Koch brothers) [campaigning](#) to eliminate them and impose fees on home solar installations?

Second, consider government support for clean energy via subsidies and loan guarantees. Again, if we had an appropriately high emissions tax such support might not be necessary (there would be a case for investment promotion even then, but never mind). But we don’t have such a tax. So the question is, Are you O.K. with things like loan guarantees for solar plants, even though we know that some loans will go bad, Solyndra-style?

Finally, what about the Environmental Protection Agency’s proposal that it use its regulatory authority to impose large reductions in emissions from power plants?

The agency is eager to pursue market-friendly solutions to the extent it can — basically by imposing emissions limits on states, while encouraging states or groups of states to create cap-and-trade systems that effectively put a price on carbon. But this will nonetheless be a partial approach that addresses only one source of greenhouse gas emissions. Are you willing to support this partial approach?

By the way: Readers well versed in economics will recognize that I’m talking about what is technically known as the “[theory of the second best](#).” According to this theory, distortions in one market — in this case, the fact that there are large social costs to carbon emissions, but individuals and firms don’t pay a price for emitting carbon — can justify government intervention in other, related markets. Second-best arguments have a dubious reputation in economics, because the right policy is always to eliminate the primary distortion, if you can. But sometimes you can’t, and this is one of those times.

Which brings me back to Mr. Paulson. In his Op-Ed he likens the climate crisis to the financial crisis he helped confront in 2008. Unfortunately, it’s not a very good analogy: In the financial crisis he could credibly argue that disaster was only days away, while the climate catastrophe will unfold over many decades.

So let me suggest a different analogy, one that he probably won’t like. In policy terms, climate action — if it happens at all — will probably look like health reform. That is, it will be an awkward compromise dictated in part by the need to appease special interests, not the clean, simple solution you would have implemented if you could have started from scratch. It will be the subject of intense partisanship, relying overwhelmingly on support from just one party, and will be the subject of constant, hysterical attacks. And it will, if we’re lucky, nonetheless do the job.

Did I mention that health reform is clearly working, despite its flaws?

The question for Mr. Paulson and those of similar views is whether they’re willing to go along with that kind of imperfection. If they are, welcome aboard.