

TESTIMONY

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H.B. 939: The Regional Carbon Cost Collection Initiative

Oral Testimony

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H.B. 939: THE REGIONAL CARBON COST COLLECTION INITIATIVE
Hearing on 5 March 2018
Testimony: Roberton C. Williams III

Thank you for the opportunity to speak today. My name is Roberton Williams. I am a professor at the University of Maryland, College Park (where my research and teaching focuses on environmental economics), and a senior fellow with Resources for the Future (a non-partisan, non-advocacy research institution in Washington, DC). I have been studying the economic and environmental effects of carbon pricing for more than two decades. My comments today represent my own professional opinion: I am not speaking on behalf of the University of Maryland (which has not taken a position on this bill) or Resources for the Future (which does not take organizational positions on policy issues).

As other panelists have said, carbon pricing is broadly recognized as the most cost-effective way to reduce emissions (that is, it achieves a given reduction in emissions at the lowest possible cost). Carbon pricing provides a clear and consistent incentive to reduce emissions, and gives firms and consumers the flexibility to decide how best to respond to that price signal.

Economic models consistently show that the macroeconomic effects of well-designed carbon pricing policies are very small – so small that if you look at aggregate economic data (such as GDP or employment figures) over time, the effect of imposing a carbon price will be lost in the noise.¹ That result comes both from simulation modeling and observed data from places that have implemented a carbon price. So you should not believe claims that carbon pricing will kill the economy (or that it will provide a huge economic boost).

It is important, though, for the policy to be well-designed. I want to discuss four key principles of carbon pricing policy, and how this bill connects to those principles.

First, the carbon price should be set equal to our best estimates of the damage caused by carbon emissions. That price ensures that individual decisions take into account the true cost of emitting carbon, which yields environmental benefits and maximizes economic efficiency. By that measure, the carbon price path in HB939 is a bit too low, but that can make sense for a policy enacted by a single state. But to the extent that a broad group of other states also enact carbon prices, the carbon price should rise.

Second, the policy should apply the same price to as broad a range of emission sources as possible. Exemptions for particular industries or fuels make the policy both less effective in reducing emissions and more costly for a given level of emissions.

¹ For a review of research on the macroeconomic effects of carbon pricing, see Roberton C. Williams III and Casey J. Wichman, “Macroeconomic Effects of Carbon Taxes” in I. Parry, A. Morris, and R. Williams (eds.), *Implementing a US Carbon Tax: Challenges and Debates*, International Monetary Fund and Routledge Press, 2015.

HB939 does very well here, applying the price very broadly to all energy-related CO2 emissions, as well as to some other greenhouse gases.

Third, the carbon price signal should be the major driver of emissions reductions under the policy. Including narrowly targeted additional measures to close gaps in the carbon price can make sense, but under a well-designed carbon price, broad additional measures generally harm cost-effectiveness and should be avoided. HB939 does well here: the carbon price signal drives the vast majority of emissions reductions.

Fourth, the majority of carbon price revenue should be used in a way that efficiently and broadly benefits households (such as household rebates, broad-based tax cuts, or possibly high-value public spending with broad benefits), and a smaller portion targeted to disproportionately affected firms and household groups. All of these should be structured to avoid diluting the carbon price signal or creating other bad incentives. HB939 generally does well here, with the bulk of revenue used for household rebates, plus provisions to shield disproportionately affected firms and households (though some minor elements, such as the extra rebate for households that use fuel oil, may provide bad incentives).

In conclusion, carbon pricing cost effectively reduces greenhouse gas emissions. And this bill does well in following key principles for efficient and equitable carbon pricing policy design.

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