

BY JOHN MULLIN

An Economist's Green New Deal

Yale University's William Nordhaus won the Nobel Prize in economics in 2018 for his work on the interplay between economics and the environment. One of his main contributions was the development of the Dynamic Integrated model of Climate and the Economy (DICE). The model has become an important tool for analyzing the costs and benefits associated with climate policies, including the proposal favored by Nordhaus and many of his fellow economists: the establishment of a global tax on carbon emissions.

The Spirit of Green presents Nordhaus' case for a global carbon tax using language that is likely to be accessible to a general audience. He argues for a point of view that he calls "the Spirit of Green," which he differentiates from alternative viewpoints on the political left and right. On the left side of the spectrum stands "deep green," which includes those environmentalists and scientists who, in his view, place an inordinate value on the preservation of nature at the expense of human welfare. At the far right of the spectrum stands "muck brown," which consists of "incentivized skeptics" who have economic or political motives to oppose green policies. And on the moderate right stands "free market," a viewpoint that is sometimes too narrow, from Nordhaus's perspective, to properly account for the spillover effects — known as externalities — that private activity can have on the public.

For Nordhaus, private markets are key to the efficient provision of private goods, but government intervention is needed to correct for externalities. This means that society needs robust markets for private goods, supported by laws to enforce and protect

property rights and contracts — but it also means that efficient environmental regulation requires imposing taxes to raise the private cost of activities that have negative spillover effects on the environment. Efficient management also requires public support for investments in research and development, green and otherwise, that create positive spillover effects for society.

While Nordhaus agrees in principle that there are many possible mechanisms for dealing with environmental externalities, he is skeptical about the efficacy of many of them. He recognizes that liability laws can discourage pollution in some cases but argues that these laws have serious limitations when property rights are not well defined, such as with air pollution. "Command and control" measures, such as auto emissions standards, may have played a positive role in the past, but they are rather crude tools that generally do not accurately reflect the costs and benefits of pollution abatement. He argues that cap and trade policies have had problems in practice, pointing to the case of sulfur dioxide, where U.S. emissions caps were set so high that the market price of emissions permits eventually declined to the point where "emissions were essentially free."

Nordhaus is highly critical of the Green New Deal resolution proposed by Rep. Alexandria Ocasio-Cortez (D.-N.Y.) and Sen Edward Markey (D.-Mass.) in February 2019, largely due to its lack of grounding in cost-benefit analysis and its absence of market-based approaches. He regards its goals as arbitrary and unrealistic — particularly the proposal to attain zero net global greenhouse gas emissions by 2050.



THE SPIRIT OF GREEN: THE ECONOMICS OF COLLISIONS AND CONTAGIONS IN A CROWDED WORLD

By William D. Nordhaus, Princeton, N.J.:
Princeton University Press, 2021, 355 pages

According to Nordhaus, the Green New Deal "avoided the inconvenient truth that climate-change policies... would require aggressive price-raising measures, probably through carbon taxes." Moreover, he criticizes the Green New Deal for making no mention of international coordination. According to Nordhaus, a global climate compact is needed — with penalties for nonparticipants — to overcome the "free rider" problems associated with carbon abatement.

The Spirit of Green covers a great breadth of additional topics, including green national accounting and the ethical responsibilities of individuals and corporations. Yet Nordhaus' exposition may have benefited from more elaboration in one specific area: the methodology used by economists to estimate the marginal external cost of carbon emissions — and hence the appropriate rate for a global carbon tax. This is a crucial estimate for policy purposes, and Nordhaus' prominent role in developing the models underlying it puts him in a great position to discuss their mechanisms. But that omission is understandable in a book aimed primarily at nonspecialists. **EF**