Carbon Pricing

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Eakinomics: Carbon Pricing
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Carbon pricing has seen increased interest from regulators recently. Last week, the Federal Energy Regulatory Commission (FERC), an independent agency headed by a bi-partisan panel of commissioners, hosted a technical conference regarding "Carbon Pricing in Organized Wholesale Electricity Markets." The full-day conference focused on states' adoption of mechanisms to price carbon dioxide emissions. These practices fall within the FERC's jurisdiction when states belong to organized wholesale electricity markets, such as regional transmission organizations or independent system operators (RTO/ISO).

Historically, states have taken the lead in implementing mechanisms, particularly cap and trade programs, to reduce emissions. The conference served as an opportunity for the FERC to determine the federal government's role in the adoption of carbon pricing mechanisms moving forward. As you can imagine, the many expert panelists who participated provided nuanced and highly technical insights throughout the eight-hour duration of the conference, but one thing seemed clear: Panelists pointed to a carbon price as the most effective way to reduce emissions.

Earlier in September, a subcommittee of the Commodity Futures Trading Commission, another independent agency headed by a bi-partisan panel of commissioners, issued a report discussing the risks climate change poses to financial markets. They found that instituting an economy-wide carbon price is necessary for financial markets to best allocate resources to activities that reduce greenhouse gas emissions. The report didn't suggest a pricing mechanism but did make it clear that establishing it "is the job of Congress." The Clean Economy Jobs and Innovation Act recently passed in the House makes no mention of carbon pricing, however. Instead, while the bill seeks to spur innovation and fund technological development to address climate change, it comes with additional regulatory burden.

Instituting a carbon tax as a pricing mechanism would not only set the price on carbon that we need but would also remove regulatory burden. As the namesake of Eakinomics has written, "A well-designed carbon tax would replace the regulatory approach. It would involve federal pre-emption of carbon regulation under the Clean Air Act, Clean Water Act, Endangered Species Act, National Environmental Policy Act, and myriad other laws. The fact that carbon-intensive products would be relatively more expensive would give incentives to shift away from those products and to innovate products that have lower carbon content. If you have no faith in the power of economic incentives — that is, if you are part of the progressive left — you will not believe that the carbon tax will really work. Those politics say that it is better to have the carbon tax and the regulatory approach."

As the Senate considers the Clean Economy Jobs and Innovation Act and legislators plan on how to address climate change in the future, it should consider the relative benefits of a carbon price compared to top-down regulations.