



QuantEcon, Inc.

Economics and Finance Consulting

DATE Sunday, February 9, 2020
TO Senate Committee on Environment and Natural Resources
FROM Randall Pozdena PhD CFA <pozdena@quantecon.com>
RE SB 1530, SB 1574, and HB 4159: "Cap-and-Trade Bills"

I am a PhD economist who has practiced in that field for nearly 50 years. I have done so at the highest levels of academia, the Federal Reserve System, private consultancy and government service. **I strongly urge you to reject the "Cap-and-Trade Bills" currently before you in the 2020 Short Session and seek immediately to pursue a Revenue Neutral Carbon Tax (RNCT).** Oregon will regret its failure to address climate issues through a RNCT. The cap, trade and spend scheme represented by these Bills will put both the Oregon economy and the climate at peril.

Advantages of a Revenue Neutral Carbon Tax

- ◆ It is simple, understandable by markets, and is quickly implemented.
- ◆ It leaves the efficient, private economy largely untouched, but for a simple, uniform tax on carbon content.
- ◆ It rebates the tax revenues through credits to personal and corporate income taxes. This approach returns most spending power to the hands of those whom have the greatest incentive (and can afford) to make carbon sparing investments.
- ◆ It minimizes the uncertainty of both prices and emissions levels.
- ◆ British Columbia's RNCT has reduced emissions without injuring the economy. It has been called, "The world's most comprehensive and transparent carbon tax."

The Cap-and-Trade Approach has Many Fatal Flaws

- ◆ It requires three, complex bureaucracies, one to administer sizing, the pricing and granting of carbon emission allowances, a second to support trading of allowances and offsets, and a third to spend the revenues in a non-wasteful way.
- ◆ It is demonstratively prone to cronyism, political gerrymandering, and outright corruption at all three levels. This is already apparent in the myriad exemptions, etc.
- ◆ The trading approach exaggerates volatility of both pricing and carbon impacts. This makes business and investment decisions more difficult and the policy less likely to maximize employment and economic output of the economy.

Oregon Should not Blindly Follow California

- ◆ Oregon is modeling itself after California and its cap-and-trade approach. But the rate at which emissions are declining under California's scheme is no faster than the rate observed in the US as a whole—without cap-and-trade.
- ◆ Oregon's argument for cap-and-trade is that regulating emissions allowances is needed because a carbon tax alone is not powerful enough to meet carbon targets. That is simply untrue. Both approaches use carbon pricing to reduce carbon emissions. The difference is that cap-and-trade is opaque, volatile, bureaucratized and diverts income from the private sector. The RNCT does none of these things.
- ◆ Many believe that public sector is prone to wasting public funds. It is not just bad fiscal policy to do so; it is bad climate policy. This is because it takes two pounds of carbon, on average, to produce each dollar of private income. Thus, if government wastes, say, \$10 million dollars of that income, in effect, 20 thousand tons of carbon has been emitted having benefited neither the taxpayer nor the climate.

For these reasons, please spare the Oregon economy and climate the burden of the cap, trade, and spend approach. Do not hesitate to call or write me if you have questions or wish to receive more information.

Respectfully yours,