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## **Climate Damages, Globalism, and Federal Regulation**

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Arthur Fraas , John D. Graham , Kerry Krutilla , Randall Lutter, Jason Shogren & W. Kip Viscusi, 'Climate Damages, Globalism, and Federal Regulation' (2023) 46 Regulation 10 Please note: citations are provided as a general guideline. Users should consult their preferred citation format's style manual for proper citation formatting.

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## BRIEFLY NOTED

A free and open market for ideas, such as emerged in Europe in the sixteenth century, leading eventually to the Enlightenment and a cultural transformation that created a new set of attitudes toward useful knowledge did not develop in China.

If it is true that the institutions and accompanying morals that developed in the West are a necessary condition for continued economic progress and for the general welfare of ordinary people, it would follow that efforts to maintain them are important. The maintenance of liberal institutions is a special challenge because they rest on an ideal of individual liberty, which can relatively easily be used by those intent to subvert it or ignorant enough not to care. (See “An Enlightenment Thinker,” Spring 2022.) But we should recognize the challenge and try to meet it.

Another implication relates to the developing countries in Asia and elsewhere. If the welfare of their inhabitants is to be served, those states should practice cultural appropriation and borrow from Western ideals and institutions. In the case of China, we should hope that its state will return to the opening that Deng Xiaoping encouraged following Mao’s death, instead of continuing Xi Jinping’s current backpedaling to authoritarianism. (See “Getting Rich Is Glorious,” Winter 2012–2013.) In the West, we should make sure that our own governments don’t intentionally hinder this process, nor embrace a similar backpedaling to pre-modern times. **R**

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# Climate Damages, Globalism, and Federal Regulation

✦ BY ARTHUR FRAAS, JOHN D. GRAHAM, KERRY KRUTILLA, RANDALL LUTTER, JASON SHOGREN, AND W. KIP VISCUSI

**T**he U.S. Environmental Protection Agency recently proposed for public comment new higher estimates of damages from greenhouse gas (GHG) emissions. The estimates, called the social cost of carbon (SCC), are “the monetary value of the net harm to society of emitting a metric ton of carbon dioxide to the atmosphere in a given year.” Ranging from \$120 to \$340 per metric ton of carbon dioxide (CO<sub>2</sub>) emitted for 2020, these estimates represent harm to *everyone* on earth from a metric ton of CO<sub>2</sub> emissions, and therein lies a key issue. Recent administrations have split on whether the U.S. government should assess damages from GHGs using effects on the entire globe or just on the United States.

This question matters because the SCC plays a key role in implementing the Biden administration’s ambitious plans to address climate change. The EPA and other agencies use the SCC to estimate benefits of climate and energy regulations, such as limits to power plant emissions or standards for vehicle fuel efficiency. Higher benefits estimates generally justify more costly regulations.

We believe that developing and reporting estimates of climate damages for *both* the United States and the entire globe would better inform the public than the global estimate alone, as the EPA has proposed. Both estimates should be used separately in calculations of benefits and costs of climate-related regulations and related policies.

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We agree with the EPA that the domestic SCC should not be the only measure of the SCC. As the EPA mentioned, an exclusive domestic focus would undermine U.S. policies that encourage global cooperation and would not capture the effects of climate change on supply chain disruptions that affect U.S. welfare or on U.S. business and military infrastructure abroad. Using the domestic SCC in addition to the global SCC would increase transparency about who receives the benefits, foster policy discussions about fairness and equity, furnish agencies with the flexibility to prepare analyses consistent with their statutory mandates, and provide important distributional information to help in international negotiations.

The EPA’s proposal presents estimates for climate effects occurring physically within the United States for a limited set of damage categories but also claims these estimates cover only a subset of total damages, do not capture spillovers or indirect effects, and do not reflect benefits for U.S. citizens and residents. The EPA gives these shortcomings as major reasons for presenting only global damage estimates.

We disagree. In fact, a rich set of economic and environmental data is available to support relatively complete estimates of damages to the United States.

Presenting climate-control benefits to the United States is consistent with the Biden administration’s commitments to consider the equity effects of environmental policies. An exclusive focus on the global SCC is at odds with President Biden’s memorandum calling for more

distributional analysis regarding “disadvantaged, vulnerable or marginalized communities” in the United States. The development of a domestic SCC estimate is a prerequisite for a distributional analysis of the effects on such communities.

The EPA’s proposal asserts that the U.S. use of a global estimate of damages will encourage other nations to reduce future emissions. But this seems like wishful thinking. Most countries are already failing to meet their pledged non-binding commitments under the 2015 Paris Agreement. It is longstanding practice in U.S. regulatory analysis to incorporate only those changes in behavior required by current law or binding agreements, not goals or pledges. In addition, focusing strictly on global SCC presumes that U.S. policymakers are indifferent about whether climate-control benefits occur in the United States or elsewhere in the world. Such indifference would be surprising news to members of Congress and to U.S. taxpayers and voters, who have a right to know the benefits of GHG emissions cuts to the United States and the rest of the world.

The choice to develop domestic as well as global SCC estimates affects incentives to both the EPA and the outside academy to improve such estimates. The EPA has chosen to develop a global SCC estimate, a summary measure of a dauntingly complex reality. The agency’s failure to provide a domestic SCC estimate might effectively chill efforts to improve the technical quality of such estimates.

The EPA should consider and report estimates of the benefits to the United States from GHG emissions reductions. Focusing solely on global benefits of such reductions without considering the corresponding benefits to the United States provides inadequate transparency to Americans who will bear the costs of emissions restrictions adopted by U.S. regulators. **R**

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## Is a Child’s Life Twice as Valuable as an Adult’s?

BY THOMAS J. KNIESNER AND W. KIP VISCUSI

**T**he rise of interest in evidence-based policymaking has created incentives for regulatory agencies to demonstrate the overall benefit–cost merits of their policies. An agency can use evidence to choose more cost-beneficial policies, or it can create the appearance of desirable policies by changing the ground rules by which it assesses a policy’s merits.

The Consumer Product Safety Commission (CPSC) recently chose the latter course when monetizing the benefit of mortality risk reductions for children from a proposed safety standard for operating cords on custom window coverings. The cords are currently estimated to be responsible for nine fatal injuries annually. Each of those deaths is a tragedy, but together their loss as measured by typical value of a statistical life (VSL) estimates would not justify the cost of the proposed standard. Instead of accepting that calculus, the CPSC changed its policymaking rules to double—and considers tripling—the VSL to analyze the proposed rule.

#### Equitable VSL / Mortality costs comprise

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the most prominent share of life-saving policy benefits, and risks to children are a major focus of CPSC efforts. Doubling the rate at which regulations’ benefits are valued can result in major swings in regulatory policy attractiveness.

Agencies throughout the government use VSL estimates to monetize the mortality risk reductions of policies. The underlying principle guiding benefit assessment for mortality risks and other policies is that it is based on individual willingness to pay for the risk reduction. The principal source of willingness-to-pay values consists of data drawn from actual decisions that people make with respect to mortality risks. Most of the revealed preference estimates are drawn from studies of wage premiums workers receive for mortality risks. There is almost a half century of economics literature documenting the magnitude of the wage premiums workers receive for health risks.

Agencies use this information to apply an average VSL in the range of \$11 mil-