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The Winning GOP Climate Answer: Carbon Pricing

By George P. Shultz and Ted Halstead

THE Republican Party's position on climate change is rapidly evolving, with Senate Majority Leader Mitch McConnell (R-Ky.) saying that we need conservative solutions and House Minority Leader Kevin McCarthy (R-Calif.) warning that the party ignores the issue at its own peril. Just Thursday, House Republican leadership, in its first policy conference of the year, presented a new climate strategy to GOP House members.

The newfound Republican climate position can be summarized as follows: The climate problem is real, the Green New Deal is bad and the GOP needs a proactive climate solution of its own. Our big question is what form it should take.

There are essentially three ways to reduce emissions — regulations, subsidies and pricing. The first is the worst of all options for a party committed to free markets and limited government. Many Republican legislators are, therefore, gravitating toward the second option: tax credits and research-and-development spending to promote innovation. Those now introducing legislation along these lines deserve praise.

Republicans are correct to focus on clean-energy innovation as a crucial driver of climate progress. But while subsidies are an important steppingstone in fostering nascent technologies, they are hardly the best way to stimulate innovation across the whole economy. As numerous studies show, subsidies are a costly means to drive clean tech deployment at scale, requiring ever-higher taxes and deficits to get the job done.

The winning Republican climate answer is the third option: carbon pricing. Just as a market-based solution is the Republican policy of choice on most issues, so should it be on climate change. A well-designed carbon fee checks every box of conservative policy orthodoxy. Not surprisingly, this is the favored option of corporate America and economists — including all former Republican chairs of the president's Council of Economic Advisers.

On Thursday, the two of us released a report titled "The Pricing Advantage" that outlines the top 12 reasons carbon pricing outperforms regulations and subsidies on all counts and should become the cornerstone of U.S. climate policy. Chief among these are that carbon pricing offers the most cost-effective and fiscally conservative solution and would unlock all facets of clean-energy innovation.

Nevertheless, carbon pricing still encounters opposition among some GOP lawmakers, albeit a shrinking number. They fear that putting a price on carbon could hurt ordinary Americans, grow the size of government and harm the competitiveness of American manufacturers.

These concerns are legitimate but are based on a false premise: that all carbon taxes are poorly designed. The carbon pricing approach we propose would turn each of these concerns on its head, transforming potential liabilities into major advantages.

Let's start with the worry that a price on carbon would hurt working-class families and reduce living standards. We propose returning all the net revenue raised directly to the American people through equal quarterly checks. Under this model, the vast majority of American families would win financially. That makes carbon pricing quite popular: A poll by Luntz Global found that Americans in general support this carbon dividends concept by a 4-to-1 margin, and Republican voters under 40 by a 6-to-1 margin.

Thus, our carbon fee would be self-financing and revenue-neutral, making it the fiscally conservative choice while eliminating any risk of a fiscal drag. Instead of growing the size of government, our approach would "finance" the transition to a low-carbon future by harnessing the power of the market and leveraging the vast resources of the private sector for innovation and investment.

In fact, carbon pricing could actually shrink the size of government by rendering less efficient regulations unnecessary. This would provide businesses the regulatory certainty they need to make long-term investments in clean energy, further turbocharging the innovation engine.

In the absence of national climate policy, we are already witnessing a proliferation of state and local energy mandates and regulations, sure to be compounded at the federal level under a future Democratic White House. The Green New Deal offers a preview of the heavy-handed and growth-inhibiting alternative that may lie ahead. The best antidote is a meaningful carbon fee, which justifies replacing and preempting less cost-effective carbon regulations of this type.

Finally, border carbon adjustments that extend the reach of domestic carbon pricing to imports and exports would protect the competitiveness of U.S.-based companies. Because businesses in the United States are more carbon-efficient than companies in high-emitting countries such as China and India, U.S. manufacturers would actually gain a competitive advantage. No other climate solution offers this benefit.

Without an ambitious national climate plan, Republicans risk hemorrhaging younger voters who care disproportionately about climate change. The party has everything to gain from embracing the inherently conservative idea of carbon pricing as its own, immediately taking the high ground on a matter of increasing public concern.

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