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Reclaiming a Federal Lead on the Social Cost of Carbon

By Saqib Z. Hossain and Beth A. Viola*

The authors of this article discuss the regulatory history of the social cost of carbon and President Biden's action in this realm since taking office.

The social cost of carbon ("SCC") has a checkered regulatory history spanning nearly 40 years, but it now has been thrust back onto the federal stage, front and center.

Among President Joe Biden's first acts in office was a directive to publish interim social costs for carbon, nitrous oxide, and methane within 30 days of his executive order,[1] "Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis," along with the final social costs by January 2022.

BACKGROUND

The executive order reassembles the Interagency Working Group on the Social Cost of Greenhouse Gases ("Working Group")—the regulatory apparatus first established by the Obama administration in 2009 for the purpose of standardizing a valuation of the monetized damages associated with incremental increases in greenhouse gas emissions. A single methodology for determining the dollar figure for the SCC enables federal agencies to fulfill part of their obligations under President Ronald Reagan's Executive Order 12291 of 1981 by incorporating that amount in the cost-benefit analyses of their intended regulations.

The Trump administration disbanded the Working Group in March 2017 through Executive Order 13783, thus scrapping a government-wide estimate for SCC and instead allowing federal agencies to independently calculate the SCC. At that time, despite the discontinuance of federal climate change policies, the states, led by New York and California, were ramping up their

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[1] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-protecting-public-health-and-environment-and-restoring-science-to-tackle-climate-crisis/.

efforts. And the rollback of a SCC standard would likely lead to federal agencies headed by former President Donald Trump appointees using a lower figure.[2]

As expected, within months after Executive Order 13783 was issued, the U.S. Environmental Protection Agency ("EPA") substantially reduced the SCC figure from $52 per ton of carbon dioxide to between $1 and $7.[3] In turn, the U.S. Government Accountability Office ("GAO") was tasked with examining the EPA's methodology, and the GAO published its report June 2020.[4]

The GAO concluded that the EPA changed two key assumptions from President Barack Obama's SCC methodology. The EPA accounted only for domestic (rather than global) economic impacts from climate damage, and also used a higher range of discount rates of three percent to seven percent (rather than 2.5 percent to five percent) to convert future damages into present dollars.

PRESIDENT BIDEN'S ORDER

President Biden's executive order clearly signals his intention to reinstate at least one of the methodologies used by the Obama administration, as it emphasized the importance of factoring global damages: "It is essential that agencies capture the full costs of greenhouse gas emissions as accurately as possible, including by taking global damages into account. Doing so facilitates sound decision-making, recognizes the breadth of climate impacts, and supports the international leadership of the United States on climate issues."

The executive order also requires the Working Group to recommend a process to ensure that social cost calculations of greenhouse gas emissions are updated based on the best available economics and science, and adequately factor climate risk, environmental justice, and intergenerational equity.

Notably, the executive order specifically instructs the Working Group to consider the recommendations of the National Academies of Science, Engineering and Medicine ("National Academies") as reported in Valuing Climate Damages: Updating Estimation of the Social Cost of Carbon Dioxide (2017). This report was prepared for the benefit of the Obama administration Working Group, but the recommendations from the National Academies were never realized as President Trump disbanded the Working Group shortly thereafter.

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[2] *See* "In Trump Era, States Take Lead on Social Cost of Carbon," *Law360*, May 8, 2017.

[3] *See* Updating the United States Government's Social Cost of Carbon, University of Chicago, Becker Friedman Institute for Economics Working Paper No. 2021-04, Tamma Carleton and Michael Greenstone, Jan. 14, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3764255.

[4] *See* Social Cost of Carbon: Identifying a Federal Entity to Address the National Academies' Recommendations Could Strengthen Regulatory Analysis, U.S. Government Accountability Office, June 2020, https://www.gao.gov/assets/710/707776.pdf.

Among other things, the National Academies recommends moving away from the fixed discount rate model as utilized by both of the preceding administrations. A variable discount rate, according to the National Academies, will help account for the relationship between economic growth and discounting rates over time.[5] Alternatively, economic experts have also argued that if a fixed discount rate is used, it should not exceed two percent.[6]

CONCLUSION

Although it remains to be seen how precisely President Biden will determine and implement federal SCC policies, the end result will almost certainly differ from the Trump era.

Indeed, this administration may ultimately depart from certain methodologies established by President Obama.

Either way, the current executive order has laid a foundation for reshaping SCC policies of years past.

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[5] *See* Report Recommends New Framework for Estimating the Social Cost of Carbon, the National Academies of Sciences, Engineering and Medicine, Jan. 11, 2017, https://www.nationalacademies.org/news/2017/01/report-recommends-new-framework-for-estimating-the-social-cost-of-carbon.

[6] *See* Updating the United States Government's Social Cost of Carbon, Carleton and Greenstone, Jan. 14, 2021.