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Rep. Jessica Vega Pederson, Chair
House Committee on Energy and Environment
Oregon State Capitol
Salem, Ore. 97301

April 14, 2015

Dear Chair Vega Pederson and members of the committee,

My name is Ian Adams and I am the Western region director of the R Street Institute. R Street is a non-profit, free-market think tank, headquartered in Washington, D.C. I am based in California and am a graduate of the University of Oregon School of Law. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government. Thus, it is fair to say that we are members of the political right.

Before you today are three pieces of legislation designed specifically to reduce Oregon's use of carbon-based fuels: HB 3250; HB 3252; and, HB 3470. While we support none of these proposals outright, only HB 3250 (cap-and-dividend program) offers a revenue-neutral option that would return funds to Oregonians and thereby create fewer impediments to economic activity. Of the three, it is the best, by far.

The most challenging aspect of addressing climate change at the state level is the reality that solutions that restrict carbon emissions have immediate impacts on energy costs, while their long-term impact on the negative consequences of climate change are, at best, uncertain. Indeed, it is not seriously contended that state-level action in Oregon to reduce carbon emissions will meaningfully impact the level of global carbon output.

For this reason, we at R Street favor strategies that embrace revenue-neutral mechanisms that seek to correct negative economic externalities. Such strategies, known as Pigovian taxes, are preferable to command-and-control regulatory frameworks, like those offered in HB 3252 (revenue-positive carbon tax) and HB 3470 (cap-and-trade), for three reasons:

First, the results of their use are likely to be the same in qualitative terms to command-and-control mechanisms, since meaningful emission reductions would be achieved.

Second, Pigovian mechanisms would achieve carbon reductions in a more cost-effective manner, since they also promote innovation and allow for greater flexibility of implementation and compliance. As a result, though energy costs will increase, a revenue-neutral approach leaves the economy better situated to cope with higher prices.

Third, and most importantly, revenue-neutral Pigovian mechanisms are desirable independent of the fact that state-level action will not meaningfully reduce global carbon emissions. Taxing an activity with a negative social impact, and returning that money to Oregonians, reduces the tax burden of the state outright.

While the best option of the three before you today, we have concerns about the political and practical realities of administering a cap and dividend structure as embodied by HB 3250. The costs of administering a universal dividend program could eat up a fair part of the revenue it might generate. Additionally, there are political concerns too about the distribution of dividends. Still, there is time yet for those concerns to be addressed as this bill moves through the legislative process.

Attaching a revenue-neutral price signal to greenhouse gas emissions has environmental and free-market benefits, both objectively and relative to other policy prescriptions. Unfortunately, because of the politicization of carbon pricing, this policy has not, to date, resonated with those on the political right. Should it pursue a revenue-neutral policy, Oregon is well-situated to create an example that conservatives could follow nationally. Given the current composition of the federal government, is ultimately the most important outcome that this an Oregon-specific effort could achieve.

Thank you for your consideration.

Ian Adams

Western Region Director & Senior Fellow
R Street Institute

CC: Beth Patrino, Committee Administrator