

ORAL TESTIMONY OF KARL HAUSKER, PHD.**PUBLIC TELECONFERENCE, EPA/SAB ECONOMIC GUIDELINES REVIEW PANEL, APRIL 23, 2020**

Thanks for this opportunity to comment. I'm Karl Hausker, Senior Fellow at the World Resources Institute. I've worked for over 30 years on climate change, including 3 years as Deputy Asst. Administrator in EPA's policy office.

My comments focus on issues related to how the Guidelines will be applied to what is widely considered the biggest market failure in human history: the massive loading of GHGs into the atmosphere.

My comments address 3 issues:

1] Discount rates [sec. 6]

I want to compliment the writing team on this section. It captures the breadth of thinking on this incredibly complex topic as well as the recent evolution in thinking among leading climate economists. Notably, the recommendations are specific in stating that for a policy with a long time horizon (such as climate change):

- 1. Analysis should not use the 7% discount rate based on the opportunity cost of private capital. (this is in contrast to the current Admin., which included it)
- 2. Analysis should include either a declining discount rate (DDR) or a discount rate lower than the standard 3% based on the consumption rate of interest.

I recommend that the Guidelines be further strengthened by adding more explicit directives on appropriate DDR schedules and lower interest rates to use, particularly with regards to estimating the Social Cost of Carbon (SCC).

2] Geographic scope of analysis (Sec. 5.1.1)

This section is disappointing. The Guidelines are nearly silent on the critical issue of when the geographic scope of a benefit-cost analysis (BCA) should extend beyond U.S. borders. Climate change is a "global commons" problem, and the U.S. has worked for decades with the other countries through the UNFCCC and other fora to address it. If each country considers benefits and costs only within its borders as a basis for action, countries collectively will fail to reduce carbon and other greenhouse gas emissions to the degree justified by the extent of global damages. Both textbook economics and common sense point to this conclusion (notably the current Admin. rejects it). The Guidelines should provide explicit direction to broaden the geographic scope of analysis beyond U.S. borders when U.S. policy is aimed at solving a transboundary or global commons problem, and, of course, to take a global perspective on estimating the SCC.

3] Uncertainty and risk aversion (Sec. 5.6)

This section of the Guidelines appears to endorse a "risk neutral" approach to dealing with uncertainty, which would be in keeping with Office of Management and Budget (OMB) Circular A-4, but A-4 recognizes that risk aversion is an issue in BCA.

The Guidelines should address explicitly how BCA should deal with problems where society is not "risk neutral" with respect to a range of uncertain outcomes. Climate change is clearly one of those problems. It poses uncertain but potentially catastrophic damages, especially if warming exceeds 3 degrees C.

Widespread risk-aversion among individuals is observable everywhere. People routinely purchase insurance to protect against a variety of high-impact outcomes (e.g., death, disability, long-term medical care, loss of property, etc.), as do firms and organizations of all types. This reality should be explicitly recognized in the Guidance, and it should require that SCC estimates incorporate a range of risk-aversion assumptions. EPA has a chance here to do pioneering work, building on work by Anthoff, Tol, Kopp and others.

Thanks again for the opportunity to comment.