Last week, the Biden White House released proposed changes in the way the government does cost-benefit analysis. CBA has been a key part of rule making for forty years. The proposal is very technical and low-key, but the upshot will be that efforts to reduce carbon emissions will get a leg up. In particular, the changes will support higher estimates of the harm done by each ton of carbon emissions (the "social cost of carbon" in econ. lingo).

One controversy has been whether the analysis should include climate impacts outside the U.S. Leaving out those impacts was the way the Trump Administration slashed the social price of carbon to almost nothing. The Biden proposal makes it clear that foreign impacts should be included when there's reciprocity between our government and other nations. Obviously, they won't take our climate harms into account if we ignore theirs. The change in the guidelines supports the approach that Biden and Obama have taken on this issue, as opposed to Trump's effort to slash the social cost of carbon by ignoring all impacts within the U.S.

A second point involves discounting. My students' eyes tend to glaze over when I try to explain discounting, so I'm going to stick to the key point: Cost-benefit analysis uses something called the discount rate to account for lags between a regulation's costs and its future benefits. The discount rate proposed by the Administration is dramatically lower than those in existing guidance. The effect is that the future impacts of climate change will get more weight. The proposal suggests that the discount rate could down even lower for effects in the far future (going down from 1.7% to 1% over the next 150 years). For the geeks in the crowd, the proposal also advocates use of something called the shadow price of capital, which again will tend to favor investments that produce long-term benefits as compared with the current guidance about capital costs.

A third point involves climate justice. How should we account that the impacts of climate change will fall most heavily on the poor? The guidance seems to encourage consideration of these disparate impacts. Moreover, it goes into some detail about one promising way to do so, the use of an economic technique called equity-weighting.

A final point involves the risks of tipping points. The previous guidelines embodied an assumption of risk neutrality. The proposed guideline allows consideration of risk aversion, which basically means the desire of people to insure against risks. In this framework, agencies can take into account the desirability of providing insurance against tipping points by increasing investments in emissions reductions.

EPA recently proposed a new estimate of the social cost of carbon, which more than triple previous estimates. The new estimate embodies a lot of cutting-edge economics thinking. So far as I can tell, the new guidelines would be entirely supportive of the approach EPA has proposed.

I’m not an environmental economist, but I do read a lot of work in climate economics. My impression is that the proposed guidelines are consistent with the more sophisticated techniques used by economists today, as opposed to those that we in use when the current version of the guidelines was adopted years ago.

I’m sure that there will be a lot of discussion among experts and advocates about the proposed changes. My discussion here is based on an initial reading of the proposed guidelines. I’ll be writing more when there’s been more time for reflection and when more economists have had a chance to chime in. At this point, though, it looks like the changes are in the right direction and should help support vigorous climate action.