

Woods: We're going to talk about climate change, but more specifically carbon tax issue today. Particularly because of this back and forth you've been having with Jerry Taylor of the Niskanen Center. It's very, very interesting the arguments that are made on both sides. I mean, I'm an oddball, but I love following back-and-forth exchanges between people on the Internet because it's lively. It's more lively than it would be in the pages of a magazine, where you have to wait three weeks in between installments.

I don't really know where to start here. I'd kind of like to start, if you don't mind, with something that is not directly related to your exchange with him over carbon taxes, and that is an article that you sent me by Taylor called "libertarian Principles and Climate Change." Is it okay if we start there?

Murphy: Sure.

Woods: What he's basically saying in this article is that in fact there's no reason that libertarians, in particular, should be opposed to government action against climate change. He goes through and tries to answer the various arguments that libertarians have made opposing government action on climate change. He answers the claim that the science is not adequate to justify the kinds of approaches that are being proposed against climate risks.

It addresses the argument, this will hurt the economy, it will produce fewer benefits than costs, it will make government larger and so on and so forth. He says, look, if you're a libertarian, it shouldn't matter to you whether protecting private property rights against aggressors creates or destroys jobs or produces fewer or more benefits. This is completely irrelevant to a libertarian. If there is a property rights violation, if there is damage being done to people, that's the issue. Whether or not the science is adequate is of course not a libertarian issue per se at all. What was your overall response to that article? We'll link to it on the show notes page, TomWoods.com/389.

Murphy: Well, sure. That by itself, the stuff you just said, I actually wouldn't have had much of a problem with. The reason his post annoyed me is that it's in the context of he, at the Niskanen Center in particular, is leading in one of their main signature issues now. It's a relatively new D.C. think tank. I think they started in 2014.

Woods: Is that the same Jerry Taylor who used to be at the Cato Institute?

Murphy: Yeah, same guy. The same guy who used to be very against action against, you know, in the name of climate change he would quote Niskanen when he was the president of Cato to say like, hey, look at these Greens and how they're trying to hurt capitalism when the science really doesn't justify it.

Woods: And I used to quote Jerry Taylor.

Murphy: Yeah.

Woods: It's the same guy. Okay. All right.

Murphy: For one thing let me say, it doesn't mean his arguments are wrong. Of course, people are allowed to change their minds, but there's plenty of people, I won't name names, but there are plenty of people, Bruce Bartlett is the most obvious and David Frum, they will flip their position on something and then write excoriating pieces challenging the moral fiber of people who are espousing the things that they used to be the cheerleaders for five years ago.

Woods: Yeah.

Murphy: Without letting the readers know that, you know what I mean? It's fine to change your mind, but you know. The analogy, Tom you and I, of course, are quite open about the fact that we used to be in favor of certain U.S. foreign policy and that's why I don't, so anyway. Okay.

Woods: Yeah. It's a similar situation. All right. Go ahead.

Murphy: In that context that's why his piece annoyed me is because he's using it as part of his overall steamroller attempt to get libertarians and conservatives to be open to the possibility of a U.S. federal government carbon tax thinking that, oh yeah, this might not actually be such a bad idea. So him trying to sell that. Like I said, the specific argument, yes, it is true some libertarians have put all their eggs in one basket when it comes to the climate change debate and saying, oh yeah, this is just a hoax. You know, those Climategate emails proved it. Al Gore's a big liar and this is crazy. That's kind of how they rested the case.

I certainly hadn't been doing it. For years, I had been arguing on the point of, hey, let's stipulate the science, you know, the physical relations of the physics and the chemistry and the projections about what would happen with emissions and so on. Does it follow that therefore you need states to use their power to go ahead and do X, Y, and Z? I would argue that no, it doesn't. That's the issue on this one particular thing where it's yes, it is true that some of the arguments used by certain libertarians in the climate change debate really aren't great arguments, but they certainly don't justify what Jerry Taylor thinks ought to be done, namely having the U.S. government impose a carbon tax.

Woods: So in other words, for the sake of argument, you're saying, let's say that the science on this, that they say is the mainstream science, let's say that's correct. Let's even stipulate that for the sake of argument and then show that these interventions being proposed are still a bad idea.

Murphy: Exactly. That's totally been my strategy because again, I do a lot of work for the Institute for Energy Research on this topic and just the way that climate works, as an economist, I

certainly can't come out and say, I've looked at the debates between Richard Lindzen and these other guys and my opinion Lindzen's right and therefore the parameters of global warming. They would just say, well, you're an economist. You don't know what you're talking about. That wouldn't get any currency. What I have done is used the IPCC's own documents. I'll use the models that the Obama administration selects to calibrate the settings for global warming and I'll just point out things, showing on its own terms this stuff doesn't follow.

Just to give you one example, it's very popular to pick a goal of limiting global warming to 2 degrees Celsius. A lot of people say that's not enough. We should do 1.5 degrees Celsius as a ceiling. Using William Nordhaus's own model that 1.5 C warming limit would cost humanity many trillions of dollars in net damages compared to doing nothing. That guy, William Nordhaus, he's the guy who co-authored the book with Samuelson for some of the editions of that popular textbook. This is not some rabid free-market ideologue. This is a huge interventionist who's a pioneer in this field. Yet their own models show that these goals that the environmentalists are grabbing, that now just sort of become commonplace, cannot be justified using their own model. I'm doing that within that framework.

Just to give you another example, Tom, of what Jerry Taylor's doing in this piece. He'll say things like, hey, if something is a rights violation, like if you don't have the right to emit greenhouse gases and cause people in Bangladesh to suffer rising water levels, ocean levels, well then don't give me some kind of utilitarian cost-benefit analysis. How is that libertarian? And that's true. And Murray Rothbard wouldn't like that kind of argument. But Rothbard also hates the argument that says, oh, but if there is this externality, let's assume that that makes sense, that therefore the solution is to have federal bureaucrats put a tax on it and decide the optimal amounts of the rights violations that maximize social utility. Which is what Taylor's response is, right?

If you say, yeah, people are robbing banks, the solution certainly wouldn't be for the federal government to put a tax on robbing banks to give the optimal amount of bank robbery, but yet that's what Taylor's solution is. Again, he is right narrowly just looking at it that certain libertarians and their arguments is not something that would come out of Murray Rothbard's mouth when it comes to pollution, but by the same token the whole enterprise of what the Niskanen Center is trying to do on this topic also would be anathema to Murray Rothbard, so it's very disingenuous.

Woods: Can you, for the layman and without all the technical stuff, just go through the basic case that he's making for his particular proposal for a carbon tax? Because he's pitching it to conservatives in particular.

Murphy: Sure. Again, from a 30,000-foot view, and I know you're good about putting links if people want to learn more details.

Woods: Yeah, every article we're talking about, your whole back-and-forth with him will be linked to TomWoods.com/389, so you can take that for granted.

Murphy: The basic case here, and this isn't unique to Taylor, this is the standard for people who are trying to tell conservatives or libertarians, hey guys, let's stop having this knee-jerk aversion to environmental issues. Let's think through this logically. And they'll say, standard textbook economics says that the market works well when cost and benefits are internalized, so that people are bearing the full brunt of the consequences of their activities and they're capturing all the benefits. When things deviate from that then you get problems.

If you're doing an activity that showers all kinds of benefits on others and you can't collect payment from them, then you're not going to do enough. There's a prima facie case for a subsidy, which is why government subsidizes education or whatever, because it helps people if everybody's educated beyond just the individual, so people might not privately spend enough on education, okay, or military defense are the standard stuff.

On the other hand if there are things that cause harms on others and because of the existing intuitional structure they can't stop you and they can't demand payment from you for those harms then people engage in too much of that activity, so there's a prima facie case for a tax. And this is following on the tradition of A.C. Pigou, the economist, it's called a Pigovian tax, so people know that term.

There's that and so Taylor and others will say, hey, we're not claiming to be scientists here, but it certainly looks like there's a general consensus that humanity is omitting too much greenhouse gases and it's going to cause problems certainly down the road, so in terms of free-market principles, you're not allowed to just dump chemicals in the river. You can't just say in the name of corporate progress more TVs and cars is good even if it's dumping chemicals in the river that's hurting homeowners downstream. By the same token, if it really is true that emitting carbon dioxide and other things is going to cause damages to people, we can't just ignore that. That's not scientific. That's certainly not conservative or libertarian.

Then they say, there's a benefit here even if you don't go along with that, even if you're agnostic about the exact magnitude of those damages and so on, guess what? The U.S. tax code right now is so inefficient, with taxes on labor and capital, that if we imposed a big carbon tax, we could use that revenue not to fund new spending, but to cut those other tax rates and those other things.

The slogan here is they say to tax bads, not goods. Meaning tax something that you know is an activity that you want there to be less of, namely emissions and greenhouse gases, and reduce the taxes you think you want there to be more of, namely work, and saving and investment. Then they can point to studies trying to estimate those impacts and so on to say, well what if we had a big carbon tax and all the revenue was used to

lower the corporate income tax rate. Wow, look at that. The economy might grow even in conventional terms, plus we'd get all the savings on terms of avoiding environmental damage, so it's a win-win. That's the general position they'll give.

They'll say, even if you're not really sure about the global warming stuff, why don't we strike a deal with people on the left and say, we'll go along with the new carbon tax like you want, but you can't use it to fund your green boondoggles. Instead use it to reduce taxes on like corporate income and so forth. Because in your view the fate of humanity is at stake here. Clearly you don't hate capitalists that much, right? You'd be willing to go along with us and give a tax cut to capitalists if we agree to a carbon tax.

Woods: We'll tell the Progressives, look, we'll get rid of the tariffs in exchange for the income tax. We got to get rid of the tariffs and we'll give you our income tax. Therefore, from now on we'll have only an income tax and there'll never, ever again be a tariff, which came back five years later or eight years later. What is the guarantee that that deal would be frozen in place forever?

Murphy: Can you elaborate on that because I know what you're talking about, but I don't think some of your listeners got your analogy there.

Woods: Yeah. By the way, thank you for pointing that out, because I'm usually trying to explain what my guests are saying, so I should explain myself. Yeah, I'm talking about the case of the income tax.

It was said initially that we'll have an income tax. That'll be a tax on wealth and we will lift the tariff because at that time the tariff was thought to be the enemy of the common man, where today the tariff is portrayed as the savior of the common man, so don't get confused. It was thought we'll get rid of this tariff that's regressive and bad for the common man and instead of that we'll have the income tax and that's a tradeoff we can all be happy with. But by the early 1920s, so about eight years later, they brought the tariff back too, so you had the income tax and the tariff and so much for the deal that would swap one for the other. That's not how government works in the long run.

Murphy: Right and it's funny. I'm glad you brought that analogy up, Tom. That's part of what I've been doing here is to say just how naïve these arguments are. It's really irksome to be coming out of the Niskanen Center, which is named after one of the pioneers of Public Choice theory, William Niskanen, right? That's one of his contributions, so for people to be talking so naively about, no, there's no danger introducing this whole new category to taxation as long as there's a deal to use all the revenue to offset other ones. Gosh darn it. They better stick to the deal this time because, yeah, you're right.

I even went back and looked at some of that time when I was doing a piece on this. There were people arguing on the floor of the House or whatever, when they were saying, why don't we bring in this new federal income tax and people were worried

about well, geez, it might get out of hand. The rates initially are going to be modest, but what's to stop the government from jacking up these rates? That's a big deal, to be directly taxing individuals. Let's think before we jump in here. Some people actually said, no don't worry: because the individual will be directly be getting taxed by Washington the people will have an interest in frugality.

They expected this would lead to lower government spending. That's what their argument was, that if you introduce a federal income tax, the federal budget will go down because now the citizens will be more, you know, hawks watching every penny being spent because they're directly, individually being taxed to fund it. Whether they believed that or not at the time, that certainly isn't what happened in practice.

That's how I feel when I see some of these arguments about oh, don't worry. Just on the face of it, Tom, just to show how absurd it is, everybody agrees a tax on carbon dioxide emissions, prima facie, if nothing else is done, will directly hurt poor people the most because it will raise energy prices. Poor people, obviously a larger fraction of their budget is devoted to their electric bill or their natural gas bill in the winter and so on than it is for rich people. To make these models work economically to show that GDP's going to grow and blah, blah, blah, they have to assume that this new tax, which is going to slam poor people, the revenues in there are then going to be used to give tax breaks to capitalists. Do you think Thomas Piketty would sign off on that? I mean this is absurd.

Woods: Now he's saying though that we should, 'we' being conservatives and libertarians, ought to support this because the fact is the federal government is going to limit carbon emissions anyway. But they're going to do it in their old clumsy 1970s command-and-control style, whereas his plan is more market-friendly and more efficient. Given that it's coming anyway, we might as well accept his approach. You've responded to that. Well, actually I don't want to take away your punch line. How have you responded to that?

Murphy: Right. I'm glad you brought that up because, yeah, I did miss that element when I was summarizing his case. That is a big part of his case is to say, as you said, right now because you conservatives and libertarians are being such obstinate jerks about this and just flipping the table over and storming out because you're not getting your way, the left is going ahead with regulations.

It's not that you're maintaining a free market, free of government intervention in the name of climate change, we're getting these top down commands. Things like automobile CAFE standards, direct EPA regulations on coal-fired power plants, da, da, da, da, da. You name it. Across the board all these interventions, which are being justified in part because of the threat of climate change. If we had this so-called market solution, you price carbon correctly, you let the polluters internalize the externalities and they're either paying out of pocket for the damage they're causing to future

generations, then the case for all these other interventions falls away, so that can be part of our grand deal with these people.

There my response is to say among other things, again, what would William Niskanen, the Public Choice theorist, have to say about that, that once a bureaucracy is formed are they just going to say, oh, you mean our original mission went away, okay, well I'll resign now. Thanks. You know, get rid of our budget. That's not going to happen. They're going to come up with ways to stay in power. Moreover, what the EPA is doing in terms of coal-fired power plants, it's funny. Taylor was citing studies showing that their regulations cost way more in terms of economic compliance costs than what the Obama administration says the damage from emitting a ton of CO₂ is. Even on their own terms, they're hurting the U.S. more than they're helping humanity with these regulations.

My point was it's not that they're doing it because their hands are tied and they're doing the best they can to save humanity, notwithstanding the obstinacy of these conservatives, who won't give them the tool they really need. What they're doing makes no sense. It would be better to do nothing than for the EPA to be doing these particular interventions against coal-fired power plants. Again, not using the Heritage Foundation's numbers, using the Obama administration's own numbers.

Clearly, this is not about that these environmentalists are up at night worrying about, oh gee, how do we maximize utility for people three generations from now. No, this is clearly they want more government intervention in the energy sector. They think Americans consume too much period. Of course all the other groups who are going to be in the gravy train getting once these trillions of dollars start flowing, who realize they're going to have access to that. This is not about they want to just do their darndest to follow a textbook economic model and litigate climate change damage and geez, they really wish they could use a market solution, but now they have no choice but to go these regulations. That's not what's going on. Why if we gave them the carbon tax, would they all of the sudden agree, okay, yeah, we'll get rid of all these crazy regulations now? Those regulations exist for other reasons.

Woods: There's a part of what you said that I think would not resonate with the average American. Well, you know, the whole show doesn't register, the whole Tom Woods Show.

Murphy: Particularly women.

Woods: That's right. This time let me explain the guest's comment. That's a reference to the demographic survey that I did and we got about 1,700 responses. It turns out the audience is 93% men and 7% women. That's even worse than a typical libertarian conference, but that's okay: it just makes the women feel like they're part of an elite.

Murphy: [Inaudible22:43] Actually, Tom, it's 93% men and 4% boys, so keep that in mind.

Woods: That's right. Indeed, indeed. I think some people would say, given the apocalyptic scenarios that are often described to us regarding what the world would look like in the absence of any action on climate change, it's hard to imagine that we could think that no matter how clunky the EPA's intervention is, that it could possibly be worse than doing nothing. Yes, it may slow down the U.S. economy, but we're not all dying because of rising sea levels.

Murphy: Right, so there's two ways in dealing with that. One is to say, if the point is just to say, hey, we can't quantify this stuff. This is awful. This is cataclysmic. We really need to totally reduce global emissions very quickly or else there's a good chance billions of people are going to die. How do you put numbers on that? Okay. That's fine, but then why do they go through the farce of having a working group that goes and establishes the so-called social cost of carbon that popped out at \$42 a ton or whatever the number is depending on the time period and the interest rate you're using and so on. They go through this illusion to make it look like they're being real scientific and quantifying stuff and oh, this is just market principles. You can't talk about establishing a carbon tax to make people internalize the externalities and blah, blah, if you don't actually have numbers involved and it's just this qualitative, we're all going to die unless we do this right away.

That's one thing that the rhetoric doesn't match. That they're trying to grab textbook economics to make it look like these are just principles of efficient use of resources when it's just this apocalyptic thing that hey, this is the end of the world unless we do such and such. That's one thing.

The other thing, though, is on their own terms, let me just give your listeners a statistic here. This guy Chip Knappenberger, who is a professional climate scientist, right. He's not just some blogger or something. That's his job. He's trained. He used the IPCC's own models. He said okay, let's plug in and assume and take the projections under the various scenarios of economic growth and whatever that the IPCC puts out. By the way, IPCC is the UN body that meets and publishes the so-called consensus science every few years. That's what that stands for.

He said, what if the U.S. right now went to zero carbon dioxide emissions forever, for the rest of time and then we looked at the year 2100 and we said every other country continues along this trajectory that's in the baseline of the IPCC projections, but instead of the U.S. rising along with its population and the economy and so on, it just goes to zero right now for the rest of the century. In the year 2100, using their own models, the global temperature would be 0.2 degrees Celsius cooler than it otherwise would be.

Okay. My point of going through that is to get people to realize whatever the U.S. government does on the U.S. economy is nothing. It is a drop in the bucket compared to these things. All this stuff that you would have to make an argument and some people

try to do it. They say no, the point of the U.S. government shackling it's coal-fired power plants or putting mileage standards on cars sold in the U.S. and blah, blah, blah, the point of all that is just to get other governments to agree, like China and India, to limit their emissions because they're certainly not going to do it if the U.S. won't even do it. It's a much more complicated argument that if the situation is so catastrophic then cutting back on U.S. emissions 30% or 40%, that's nothing. It just shows I don't believe these people. I don't think they believe their own rhetoric.

See let me just give you one other example of that. A lot of these alarmists, every few years they keep saying, unless we get a global agreement by such and such, we will pass a tipping point.

Woods: Right and we never get it. We never pass the tipping point.

Murphy: Yeah, they'll keep pushing it back.

Woods: And they never say, okay, now it's too late, so forget it.

Murphy: Right.

Woods: They always say, well now if we really don't do it. It's the same thing with Medicare and Medicaid and the social security. If we don't fix this by today, then it's hopeless forever. But they've been saying it for 30 years, so that would mean that either it's not a problem or in the case of the entitlements, it is a problem, but it now is too late. We have passed the tipping point.

Murphy: Right. Another example of what I mean by that, Tom, is if you really believe that it was dire. By the way, they call it the fate of the planet. As George Carlin points out, the planet is going to be fine, possibly humans are, you know, he said dead.

Woods: Right, exactly, yeah.

Murphy: The earth's not going anywhere. This idea that if you really thought our grandkids were going to be underwater or a lot of them are going to be if we don't take drastic action. You can see oh man, these conservatives, all they care about is business and energy prices, well then you would be the biggest proponent of nuclear power because that is zero carbon dioxide emissions. You know what I mean? But yet, just association and correlation, the people who are really big on we need to cut back on coal-fired power plants are pushing solar and wind power. They're not pushing nuclear because they don't like nuclear either. That's what I'm saying is that I don't believe that they believe they're own rhetoric. I think they don't like consumption. I think the U.S. has to high a standard of living and that's not fair, so they just want to lower it

Woods: Exactly. Let me read just a short passage from I think this is your first response to Taylor. You said, "If you were running the EPA, for example, and really just wanted a way to

help humanity deal with the threat of \$55 per ton in climate change from carbon dioxide emissions, it would make no sense for you to impose regulations that cost \$160 per ton in economic damages. Since that's what EPA officials have in fact done, according to Taylor's own numbers, then we have no reason to suppose that they'll be willing to scrap the regulations once a new carbon tax is in place. The existing and proposed regulations on the energy sector are not simply blunt instruments imposed by people who only want to mitigate climate change." And as you're pointing out here, they do in fact have another agenda.

Just thinking back to what we've said so far in this episode and things that we've left unsaid, what are other key points that you feel like Taylor is missing or is mistaken about, like really central to this debate?

Murphy:

Okay, sure. I guess one big one is this issue of participation. That when they say, for example, the social cost of carbon is whatever, \$55 a ton, what they mean is they have models. And these models, I mean, there's computer simulations going out in some cases 300 years to simulate what the global climate is going to be, how countries are going to grow and their populations. They're going to say if you emit one more ton of CO₂ today and add up the net damages over the next several hundred years and then discount them back to today using an interest rate, this is the dollar figure. Just the whole enterprise, I mean Hayek would be rolling over in his grave at that. The idea that this is now what's being pushed on conservatives and libertarians, the hubris behind it is mind-boggling.

But let's put that aside. Let's stipulate it all. Even so, it's doesn't follow that whatever that number is, that therefore the U.S. government ought to impose a carbon tax of the same magnitude. Because for one thing, if the U.S. government does that, industries can just relocate to other countries. Really what that means is, if you had a global government or if all the governments around the world had a synchronized implementation, a uniform policy, then possibly you can make sense of that, but that's not what we have right now. You have individual governments leveling restrictions on the people in their jurisdiction. Even on its own terms, it doesn't follow that that's the right thing to do. In fact the case would be much weaker.

Another huge element in this is what's called the tax interaction effect. You could get really deep into this, but it's very counterintuitive at first. The idea is in the standard textbook to say, if people are doing an activity that causes \$50 in damage to everybody else, the government should come along and tax them \$50. Then that makes the incentives right for social optimality, but that assumes there was no taxing in the first place. What if instead you have a situation where right now someone is doing an activity that causes \$50 in damage to other people, but there is a very distorting tax on capital and tax on labor? It does not follow that you should impose a tax of \$50 on that activity then because it interacts with the pre-existing taxes and magnifies their distortions. It

weakens the case for a carbon tax. A lot of people think given what the U.S. government's doing right now, the tax code is so crazy, surely we can bring in a new source of revenue, taxing something we should be taxing and use it to reduce these other taxes. Surely, that's got to help. Actually, that intuition's wrong or at least it's possibly swamped by this other factor.

Let me just re-say the case again here. When you put a tax on carbon dioxide emissions that raises energy prices and by making things more expensive, it exacerbates the harms or what's called the deadweight loss of the taxes on labor and capital. Because now if you're a worker, your paycheck doesn't buy as much. It's like implicitly your tax rate has gone up, and we know that that's bad even just using standard models.

Again, it's very flippant and glib where these people come along and say, I don't even care if Al Gore's making this stuff up, you conservatives, if I can get you \$100 billion cut in the corporate income tax, you're on board, right? So what if we tax carbon dioxide emissions? We know we're pumping too much stuff up there. We might not know how much, but who cares? Let's talk bads, not goods. I'm saying, no, that is too simplistic, that the taxes interact with each other even on their own terms. This isn't fringe stuff. This is standard stuff in the literature of climate change that the proponents of a carbon tax pay lip service to, but they don't really get into the numbers. That's a huge effect.

The last thing is just again, this is so naïve I almost sometimes feel like it's conceding too much to get into the nitty-gritty of these arguments. That even if it did make sense in terms of a blackboard demonstration to go ahead and do all this, we know they're not going to obey it. Look at what happened to the rates on the federal income tax once the U.S won World War I. It went up to astronomical levels. If the American public had known what they were going to do with the federal income tax just in a few years, they wouldn't have supported it. The same thing here. It's absurd to think that they're going to calibrate this carbon tax based on what PhD economists tell them. No, they're going to use it as a source of new revenue. I can't believe I have to argue that point with someone from the Niskanen Center.

Woods:

I have two more things I want to get to before we wrap up. It's funny, by the way: I was just looking at the list of episodes – you and I talked about “Climate Change and Liberty,” that was the name of the episode, back on episode 123. Here this is episode 389. Again, I remind people TomWoods.com/389 is where first of all, I'll link to that discussion that's not focused so much on the carbon tax issue, but on climate change and libertarianism and economics more generally, but also to the different articles that we've been talking about there, the exchange between Bob and Jerry Taylor and so on.

Two of the things I want to get to. I'm going to tell you them both right now, so you can pace yourself. One would be, I want to talk about the revenue-neutral aspect of the plan

that's being pushed by Jerry Taylor, because that I could not believe how he responded to your critique of that. That blew me away.

The other thing would be, some people arguing to say, look Bob, if your approach is to say, as an economist I'm going to take the science for granted, which may be wrong, but that's not my role as an economist and nobody would listen to me if I objected to it anyway, but I'm going to analyze the situation. They would say to you, all right, well, the mainstream science from the U.N. seems to be saying potentially dire things could happen and you're saying a carbon tax is not the way to go about it. There must be something that can be done. You're saying we don't need the state to do this. We don't need this tax. What would be that thing? Those are the two things: the revenue neutral aspect and then what do we do if not this.

Murphy:

Okay, sure. As far as the revenue-neutral thing, for people who aren't in the D.C. policy wonk stuff, when people talk about changes to the tax code a thing they often throw in there is to call it revenue neutral. What they mean is this is not going to affect the absolute total number of dollars in taxes that the U.S. government takes in. It's just changing the composition or the mix of the sources of it. They're arguing that hey, there's better ways to raise revenue and there's stupid ways to raise revenue and let's do it a smart way.

When it comes to a carbon tax one of Taylor's big things was, the Niskanen Center released a fairly lengthy study from Taylor, I think it was called "The Conservative Case for a Carbon Tax." Here's an excerpt from that. This is from page 21. This is Taylor talking. "Many conservatives resist carbon taxes because they believe that increases in federal revenues will increase the size of government, but virtually every proposed carbon tax put on the political table includes offsetting tax cuts to ensure revenue neutrality. Revenue neutral carbon taxes will not increase the size of the federal treasury."

What Taylor is telling his readers, hey, don't worry. Yes, these proposed carbon taxes are going to bring in trillions of dollars over a decade or two timeframe, which is the way they score these things, in new revenue. If they calibrate the taxes the way people are recommending, it's going to be a huge new tax increase. But he's saying, don't worry: that's not going to fuel more spending because all the serious proposals that people are recommending say take all that revenue and do offsetting tax cuts. It's not a net tax increase. It's just changing what you're taxing.

I pointed out in response to his original paper: Mr. Taylor, the proposal you just put forward earlier in your paper is not revenue neutral. It at least is a \$695 billion net tax hike, right, because he was forwarding a tax proposal by Adele C. Morris of the Brookings Institution. There's lots of numbers floating around. It was going to take in \$2.7 trillion in new revenue. Then it was going to use a lot of that to refund things. Give

\$1.6 trillion in corporate tax reduction da, da, da. But no matter how the numbers plug out at least 695 billion over a 20-year horizon would go to what's called deficit reduction. That deficit reduction, what they mean there is that's a net tax increase. More revenue's coming in, meaning the deficit is going to be that much lower, so that is not revenue neutral, that's the government taking in more money.

I pointed out: Mr. Taylor, you don't know or I was actually talking to conservatives and saying, don't trust a single thing coming out of this guy's mouth. Either he doesn't know what he's talking about or he's misleading you, but the proposal he just put forth earlier in his own study is hugely not revenue neutral and yet he's assuring you, don't worry, all the serious proposals are revenue neutral. That was ridiculous.

Woods: Then you pointed this out and in response he said, oh my gosh. Okay. You know what? I admit Murphy got me on this one. This was a careless mistake on my part and I honestly don't know how it got past everybody. I'm sorry. I will amend my remarks. Is that how it came out?

Murphy: Tom, you have no career in a DC think tank. That's not what he said.

Woods: Oh, no. You're kidding me. What did he actually say?

Murphy: Let's just make sure your listeners get what's going on here. Jerry Taylor comes out with I think it was a 30-page study, something like that. Early in the study he pushed forward this proposal of a carbon tax. He said, look, it's something like this. Conservatives can certainly get behind something like this from this expert at the Brookings Institution. This is really great. Look at all this. There's corporate tax cuts, blah, blah, blah. Later in his study he dealt with the objection that oh, wait a minute, but won't a huge carbon tax grow the government? He said, no, guys, don't worry. Every serious proposal on the political table is revenue neutral. I came along then and said, actually the one Taylor just pushed is not revenue neutral, so I can certainly find one that's not. It's a huge net tax increase of at least \$695 billion.

Now the ball's back in his court; how does he respond to that? He says, Murphy notes that no serious carbon tax proposal yet forwarded is completely revenue neutral, which Murphy claims tells us all we need to know about political intent. First of all, he's incorrect. Then he links to a revenue-neutral carbon tax proposal. But even were he correct, that doesn't necessarily tell us anything about the support that might exist in Democratic ranks for a revenue neutral tax for regulation swap. I know it's hard for people just hearing me read that, but he didn't acknowledge that he screwed up. He made it sound like I was claiming there's no such thing as a revenue-neutral carbon tax and then he links to some example, not the one he put forth.

Woods: Right, not the one he put forward.

Murphy: It's like him saying all dogs are poodles and he just showed a selfie of him posing with a Labrador or something. And I said, no, the dog that you just said wasn't. And he said, Murphy just said that all dogs are Labradors. What an idiot. Here's a poodle. I don't know.

Woods: All right. Given that you did cover this in episode 123 and probably a lot of listeners really remember that in very, very great detail, you don't have to go into tremendous detail, but what would be your overview of imagine that this really is happening; imagine that this really is a threat, what would be a free-market or a libertarian response?

Murphy: Okay, sure. Again the standard disclaimer when we talk about stuff like this, whether it's poverty or terrorists or illiteracy or people who are getting a contagious disease, because there's some social problem out there, things that hurt humans, and someone comes along and says, I know. Let's give a monopoly to guys in Washington with guns and nuclear bombs and so on and let them throw people in cages who get in their way and that will probably help that problem. You're doing a service by coming along and saying no, that will not help. That in fact will probably make all these other things worse or even exacerbate the very problem you're talking about. You're doing a service just by pointing it out. It's not your responsibility to then solve the underlying problem. I don't have to solve world hunger to point out giving money to the U.N. or something is a bad idea, giving money to warlords running these corrupt governments.

But I know people say, yeah, come on but tell me more. There are plenty of free-market reforms. Things that free-market economists support anyway that would lead to much lower carbon dioxide emissions. If you're concerned about that, that's low-hanging fruit. For example, privatizing all the roads and highways and so forth in the United States, would greatly cut down on traffic congestion, so you wouldn't have all these cars in major areas in rush hour every day just sitting in bumper-to-bumper traffic emitting carbon dioxide. Another thing is one of the biggest emitters of CO₂ is the U.S. military. If they follow Rand Paul's foreign policy recommendations, the U.S. government's emissions would go way down. There's things like that.

As far as broader things Murray Rothbard pointed out, the conventional story when it comes to traditional air pollution and water pollution is exactly backwards. The standard leftist position is evil capitalism came along and only cares about profits and doesn't care about dumping stuff in the river. Then we need a benevolent government to come in and try to put the brakes on that. Rothbard pointed out that no, historically, the traditions of law that came over from England and so on, a homeowner could go get an injunction against a factory dumping stuff in the river and it was coming out under her backyard or whatever. She could go and stop that and it was governments who said no, we want to promote industrialization and so they overturned that stuff. They freed major companies from the traditional legal responsibilities and framework that was

there all along. That was the government intervening in the name of promoting industrialization. Empirically we know this is true. Look at the Soviet Union. The Soviet Union was very heavily polluted in certain areas because again the central planners thought it was more important to promote heavy industry rather than to worry about the welfare and the cancer rates amongst some of their people. Those are some general things.

As far as, well gee, suppose the entire earth were an anarcho-capitalist thing and everyone loved Rothbard, I have written elsewhere, this gets kind of fanciful, but suppose it really were true people realize, scientists realize that oh my gosh, if we keep emitting according to this trajectory real bad things are going to happen. I think there is a way you could somehow bring a legal framework in there. Just like before people knew about the electromagnetic spectrum, there couldn't have been property rights in spectrum. It wouldn't even have made sense, but perhaps once they learn that technology maybe even in a purely free market with private judges giving opinions, perhaps things could have evolved where if I'm trying to listen to the radio, my neighbor can't do something that jams it. Maybe that's somehow interfering with my property rights.

The point is, there is a framework by which you could have private-sector judges rendering these opinions. People say, well, we don't have that right now. Okay. Fine. But then if you propose something in lieu of that alternative where private judges are rendering opinions on what your legal rights are in this global regime of Rothbardianism, then at least it should make sense. Again, they're kind of saying, if that's your first, best solution, we're not going to have that, Murphy. That's impractical. We don't have Rothbardian judges, where homeowners can bring a case against someone emitting CO₂ and so therefore the state has to come in for the lack of a better solution. There I'm just going to point out, well, no. What you're proposing would make things worse using your own numbers. That's how I'm vetoing that.

Woods:

Well, as I said, I'm going to link to episode 123 where we talk about this in more detail. But of course the real clearinghouse for this episode is the show notes page TomWoods.com/389. Everything we've talked about back and forth both by you and Jerry Taylor. That will all be there plus a couple of other extra pieces, the one we mentioned in the very beginning and then your piece from December 2014, "The Case for a Carbon Tax is Much Weaker Than You Think." We'll put that all up there.