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Comment on Clean Cars Minnesota
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The foremost justifications offered by the Minnesota Pollution Control Agency (MPCA) in its Statement of Need and Reasonableness (SONAR) for the adoption of the California rules on low emission and zero emission vehicles are that adoption (1) would reduce greenhouse gas emissions that contribute to climate change and (2) would increase vehicle choice for Minnesota consumers. In the section of the SONAR subtitled "General reasonableness of the proposed rule amendments as a whole," MPCA alludes specifically to the state's collaborative project known as the Pathways report, which identified as key themes a climate crisis and Minnesotans' desire for more transportation options.

MPCA fails to convince the Institute for Energy Research that it is either capable of or prepared to address these two key themes via the adoption of the California rules.

On emissions reduction and climate change damages, MPCA inadequately presents the costs and benefits of the proposal. On transportation options, MPCA suggests it is more capable than Minnesotans are of making vehicle purchase decisions.

Emissions Reductions and Climate Change Damages

MPCA estimates that under the proposed rule by 2034 annual well-to-wheel emissions reductions will be 1.4 million tons of greenhouse gases. Even if accurate, this figure does not eclipse any threshold of significance when Minnesota's transportation emissions are put into the context of the global economy.

In the most recent year on record, 2018, global emissions were around 40 billion tons. That total is likely to climb yet higher through 2034, meaning that Minnesota's transportation reductions would bring global totals down by less than one-one hundredth of one percent. The emissions reductions, even in the best-case scenario, will be so trivial on the global scale as to render measurement of the policy's success impossible, in terms of the key theme of a climate crisis.

Despite this, MPCA estimates the total reduction of emissions resulting from the proposed rule over the first ten years of implementation would equate with an economic benefit of approximately $500 million. This figure requires far more context than MPCA offers in the SONAR.

According to the SONAR, the $500 million in economic benefits is based on MPCA's use of "the federal social cost of carbon (fscc) produced by the Interagency Working Group (IWG)," which for the purposes of its analysis was set at $51. MPCA fails to inform Minnesotans that the social cost of carbon is a metric rife with contention.

The IWG figure used by MPCA is the estimate generated by President Obama's environmental regulators during his second term in office and recently adopted on an interim basis by the current administration. The Obama-cum-Biden figure has faced sharp criticism for its selective following of clear rulemaking guidance on the use of a key parameter known as the discount rate.

The Executive Branch Office of Management and Budget (OMB) writes instructions for federal agencies in regulatory analysis. These instructions are delivered in the form of OMB "circulars." OMB Circular A-4 establishes clear guidelines for making rules with intergenerational effects, such as the social cost of carbon, directing agencies to employ constant discount rates of both 3 percent and 7 percent. (https://obamawhitehouse.archives.gov/omb/circulars_a004_a-4/)

As described by the Obama administration in its Technical Support Document for the social cost of carbon, "According to OMB's Circular A-4, it is appropriate to use the rate of return on capital when a regulation is expected to displace or alter the use of capital in the private sector. In this case, OMB recommends Agencies use a discount rate of 7 percent. When regulation is expected to primarily affect private consumption—for instance, via higher prices for goods and services—a lower discount rate of 3 percent is appropriate to reflect how private individuals trade-off current and future consumption."[1]

Despite this instruction, the Obama administration opted to omit the 7-percent estimate. The result of this omission was profound, controversial, and now reverberates in this Minnesota proposed rule. MPCA claims the federal social cost of carbon "is the most credible estimate of the global damages from the emissions of one ton of carbon in any given year" yet fails to communicate to Minnesotans that estimates vary wildly. Suggesting that an estimate of $500 million as indubitable is to ignore the very process that MPCA deems "most credible."

Amid the controversy sparked by the Obama administration omission of the OMB-directed 7 percent discount rate, Dr. David Kreutzer and Dr. Kevin Dayaratna of the Heritage Foundation produced a research paper addressing the elements of confusion.[2]

Utilizing the DICE model of Nobel-winning economist Dr. William Nordhaus, Kreutzer and Dayaratna found that the 7-percent discount rate reduces the estimate of the social cost of carbon

[1] Interagency Working Group on Social Cost of Carbon, United States Government. (2010, February). Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866. https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf

[2] Dayaratna, K., & Kreutzer, D. W. (2013, November 21). Loaded dice: An EPA model not ready for the big game. https://www.heritage.org/environment/report/loaded-dice-epa-model-not-ready-the-big-game

by more than 80 percent. Under identical climate change parameters, while a 3-percent discount rate yields the MPCA cited figure of $51, a 7-percent discount rate yields less than $10.

MPCA's context-dropping deployment of its $500 million in damages figure does an injustice to the field of climate economics. A range of estimates can be reached by following federal government guidelines. Minnesotans deserve to see that range, rather than just the figure MPCA finds most convenient.

Lest readers of this comment fall under the misapprehension that this is a controversy solely in the minds of politically conservative Beltway operatives, consider the way the social cost of carbon discussion has been characterized by Dr. Noah Kaufman, appointed recently to President Biden's Council of Economic Advisors. On August 17, 2020, Kaufman was the top-billed author of a paper appearing in the journal *Nature*, in which the social cost of carbon was essentially tossed to the analytical rubbish bin. Kaufman wrote that the social cost of carbon "cannot be credibly estimated with sufficient precision to provide practical assistance to policymakers" and that "large uncertainties come from parameters that are inherently uncertain, such as the appropriate discount rates, risk aversion levels, issues around inequality and attempts to assign monetary values to non-economic climate damages."[3]

Kaufman will now be among the leading drivers of the Biden administration's refiguring of carbon regulation, rendering MPCA's claims about the credibility of the federal social cost of carbon effectively null and void.

On Consumer Choice

The second claim lacks even the first claim's modicum of validity. Meaningful consumer choice emerges from the complex web of economic decisions that only free actors can make. Forcing a product onto a market, on the other hand, is rank paternalism.

The Institute for Energy Research recognizes that some vehicle purchasers will find electric vehicles (EVs) appealing, but it stresses that government intrusion into the vehicle marketplace yields economic distortions that tend to benefit the wealthier segment of consumers for whom electric vehicles are a prudent choice. MPCA believes it has special knowledge that Minnesotans are unable to see for themselves. But there are good reasons why many will not leap towards EVs and why manufacturers and auto dealers will thus be reluctant to feature them as prevalently as other vehicles.

Electric vehicles perform poorly in the cold weather that Minnesotans experience each winter, electric vehicles have shorter range than most internal combustion engine vehicles, and electric

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[3] Kaufman, N., Barron, A., Krawczyk, W., Marsters, P., & McJeon, H. (2020, August 17). A near-term to net zero alternative to the social cost of carbon for SETTING carbon prices. https://www.nature.com/articles/s41558-020-0880-3

vehicles cost more than comparable alternatives. For example, the MSRP of the 2021 Hyundai Kona Ultimate is close to $47,000, while the gasoline version has an MSRP of $15,000 less.

Lastly, California is a peculiar state for Minnesota to attempt to replicate. The geographies of the respective states could not be more different. One is coastal and mountainous, while the other is continental and has a maximum elevation of 2,300 feet. One has its population centers in mild climates; the other's population center is among the coldest major metropolises in North America each winter. Further, California, once an emblem of the American Dream, has become largely unaffordable for the middle class and has begun to suffer from out-migration of residents squeezed by policies such as it has implemented in transportation.

In conclusion, the Institute for Energy Research finds MPCA's SONAR unconvincing in its presentation of two main justifications for the adoption of California vehicle rules.