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**MIKE LIVERMORE:** Welcome to the *Free Range* podcast. I'm your host, Mike Livermore. This episode is sponsored by the Program on Law, Communities, and the Environment at the University of Virginia School of Law. With me today is Shi-Ling Hsu, a professor at the Florida State University College of Law. We're here to talk about his new book, *Capitalism and the Environment, a Proposal to Save the Planet*, which was recently published by Cambridge University Press. Shi-Ling, thanks so much for joining me today.

**SHI-LING HSU:** Well, thanks so much for having me on.

**MIKE LIVERMORE:** Before digging into the book, I'd be interested to hear a little bit about what drew you to the intersection of law and environmental economics. You have a JD and an economics PhD, which is common enough, as you know, for law professors, but not so much in the area of environmental law. So I was just curious what brought you to this somewhat unusual background that you find yourself with.

**SHI-LING HSU:** After law school but before going to graduate school, I practiced law. And I was a deputy city attorney for the city and county of San Francisco. And it was a pretty good job. In most cases, we were kind of regulated but we were representing the city as a regulated party.

And it struck me that a lot of the things that we did to comply with environmental regulations were OK but not fabulous there certainly seem to be better ways of achieving environmental outcomes and that was the beginning of my own journey to coming to the conclusion that lawyers didn't always have the best answers to solving environmental problems. So I kind of cast about for another way of thinking about things and eventually hit upon economics, went to graduate school, got my PhD, and you kind of know the rest of that. It just started to build my academic career around blending my two areas of training.

**MIKE LIVERMORE:** Yeah. It's really interesting, starting with that law practice and grounding the economics in that practice. It actually strikes me that would have been really an interesting background to have in an econ graduate program.

**SHI-LING HSU:** I would-- it is true. When I went to graduate school, not many people were there with JDs. Everyone kind of said something like couldn't you make more money in practicing law. And I could. I had a story similar to many other lawyers of my cohort. It wasn't a lot of fun. Studying economics and the environment, that was fun.

**MIKE LIVERMORE:** Yeah. Yeah. That's cool. Well, thanks so much for the wonderful book, *Capitalism and the Environment*. As you might guess, I'm pretty favorably disposed to most of the arguments in there and what you've written so I'm going to try to play the devil's advocate a little bit today. But these are arguments that I'm really very amenable to. But maybe just before we kind of really get started, you could give the kind of elevator pitch. What's the 90 second overview and the high level message of the book?

**SHI-LING HSU:** I think I was driven to write this book in part because there's a lot of misunderstanding about what capitalism is. And for that matter, as a fellow environmental law professor, you also appreciate there's quite a lot of misunderstanding about economics generally in our professoriate.

So part of the reason for writing this book was to try and set the record straight about a few things. And the biggest thing I wanted to get across was that capitalism is not an ideology. People seem to think that capitalism, once you have this system set up, makes people do things that they don't want to do. My book is about trying to explain how capitalism isn't steering people's decisions.

People make decisions and capitalism has a way of amplifying the impacts of those decisions. But it doesn't actually drive the economy or people's behavior in any particular way. The only reason capitalism has gone bounding off in one direction is because we never had made a conscious decision that this is what our society should look like. And so we have a lot of pollution problems. We have a lot of social problems. And people blame it on capitalism but it's not capitalism that caused these things to happen.

**MIKE  
LIVERMORE:**

So part of what strikes me in the book, and as you're reading through it, and, obviously, part of your big pitch-- not obviously, but part of your big pitch is that one of the ways that we need to deal with environmental problems, a major way that we should be dealing with environmental problems is through environmental taxation, internalizing externalities rather than through a shift to centralized planning. So maybe just to get the background on the table, explain what is the relative advantage of something like environmental taxation. Why is that consistent with a capitalist system, a capitalist economy, and what are the advantages, and why does that make sense as opposed to something more like a centrally planned approach?

**SHI-LING HSU:**

Yeah, I think capitalism is so efficient because decisions are not made centrally. Decisions are made on the basis of prices. And it's really amazing. I think Hayek got a lot of things right when he centered his own writings on the power of prices. But it's amazing what you can do if the prices are just a little bit different.

So capitalism is kind of something that I think can change our fossil fuel based economy very quickly. If we tax the pollution and the greenhouse gas emissions from fossil fuel combustion, then I think we'd get a very quick changeover from a fossil fuel based economy to something else. Central planning, like legislation that seems to make its way to Capitol Hill all the time-- I consider it central planning when we spend a lot of money trying to pay actors to do certain things, I mean we're kind of making this decision in Congress or in the White House that this is something good that we like, that is sometimes OK.

I mean, we oftentimes hit the right mark or are too far off the mark. But we miss a lot of things while we do that. I've always felt, this is kind of a libertarian message, that markets have a lot more ability to suss out the things that work best. We just have to tell the markets what we want them to do. And a system of environmental taxes, that's telling markets what we want them to do in a way. So in a way, I'm kind of getting away from this idea of a Pigouvian tax that we're actually internalizing harm. But we're just trying to steer the economy in a different direction.

**MICHAEL  
LIVERMORE:**

And so we could get into that interesting distinction between the notion of internalizing harm versus steering the steering the economy via prices. But one of the things that struck me was just, 20 years ago, and this is partially in reading your book and partially just observing the broader kind of scene around environmental politics. 20 years ago, 10 years ago, I think a lot of the arguments that you make would be pretty well-received amongst many leaders in the environmental community, the idea that environmental law environmental policy can be consistent with a vibrant market, the notion of using market incentives versus command and control or a central planning industrial policy kind of approach.

This was the bread and butter of many environmental groups. But it does seem that the politics on a lot of these issues has changed. So what do you think happened? How did we get from the point where most of, if not all of the major environmental groups supported a cap and trade system to deal with greenhouse gas emissions to where we find ourselves today?

**SHI-LING HSU:** That's a great question. What happened to kind of market based mechanisms in environmental law? I think part of it is that environmental law has gotten caught up with a broader growing suspicion of all things economic. I think that's a misunderstanding too, or based on a misunderstanding too. But I'm not sure environmental law, the professors, the policy makers, the think tanks, have actually grown sour on the role of economics or on market based mechanisms.

I think that there is a swelling distrust of economic analysis and of economists. And environmental law has kind of gone along for the ride. And in the meantime, it becomes easy-- there are these social problems that also seem very pressing. I think it's kind of easy to say, see, I told you so. Economics was never going to provide the solutions for our problems. And now look at everything that's going on. The environment's the worse off for it too.

**MICHAEL  
LIVERMORE:** So just kind of so you think what's going on is a more general antipathy towards economic reasoning, economists, and capitalism writ large.

**SHI-LING HSU:** Yeah, I think so. I think maybe in the last five or 10 years just upset over economic inequality has gone up several levels. And that just has raised the temperature of everything, I think. So environment, yeah, I think that becomes part of what's wrong with something that people don't like.

**MICHAEL  
LIVERMORE:** So yes, I mean I think there's a lot of interesting questions that we could get into. But just raising the issue of inequality and broader kind of critiques of capitalism or a thoroughgoing market based economy, what are your thoughts there? I mean, obviously you're focused in this book on the intersection of capitalism and the environment. That's right in the title.

And so what I take your claim to be in part is look, whatever the ills of capitalism or whatever the ills of a market based economy, that it leads to environmental destruction is not one of them. That's just contingent on our politics.

**SHI-LING HSU:** Yep.

**MICHAEL  
LIVERMORE:** But there are these other issues that are part of our political culture around things like inequality, the accumulation of massive amounts of wealth that's now easily transferred across generations kind of building up this economic aristocracy in the states. Obviously you have just hyper wealthy people who are just very productive or have managed to earn a lot of money in their lives. But then there's also the intergenerational wealth [INAUDIBLE].

There are consistent concerns about poverty, again intergenerational poverty. People have complaints or concerns about economic insecurity that is very bound up with operation of the marketplace, right? Part of what you discuss in the book and the value of market capitalist based approaches is that they're disruptive. They can make big changes very quickly.

But of course, that leads to people losing their jobs, at least it leads to communities being hollowed out. So what are your thoughts more generally on these concerns about economic insecurity or inequality? And do you see them having purchased or any relationship to environmental policy? Or should we think of these broader critiques as just kind of different and not really related to concerns about environmental quality?

**SHI-LING HSU:** I think these critiques do have to relate to the environment. I think we're going is that you can't embrace capitalism and solve environmental problems while still ignoring that it creates other social problems, right? Is that kind of--

**MICHAEL** Sure. I think that's fair.

**LIVERMORE:**

**SHI-LING HSU:** Yeah. Well you I'll say this there's some merit to that. Because I think that there absolutely does not have to be any correlation between capitalism and environmental degradation. But I do think there's going to be inevitably some tension between capitalism and social or economic inequality or some tension between capitalism and equality. That though, I think, could be managed.

Capitalism is not just an American thing. It's a Scandinavian thing. It's an Asian thing. It exists in many different forms in different countries. It's even an authoritarian thing in China and in Singapore. And inequality may be to some extent a necessary part of capitalism.

But I think it could be managed. I think if certain social policies are in place, a social safety net, then the tension can at least be politically reconciled between kind of an energetic, robust capitalism and the downsides, the wreckage left behind.

**MICHAEL** So this takes us. I think it's a kind of a broader set of questions around the intersection of economics or the marketplace, commerce, which we kind of, again, where we're really thinking about, when we're thinking about environmental issues is, what are the negative environmental side effects of industrial activity and consumer choices and so on and the world of law and politics. And I think one of the critiques that you address in the book, but is a powerful and in serious one to deal with is the claim that the marketplace, or kind of capitalism in general is going to necessarily infect politics in ways that are undermining of broader social goals, but including environmental protection.

So you deal with this in a pretty serious way. So one of the concerns that you discuss is around what I would kind of think of as path dependency, sunk costs and the idea of grandfathering in kind of existing incumbent actors. And so the idea here generally, is that once capital has been invested in certain industries, here in the environmental context we're talking about fossil fuel consumption or extractive industries or whatever, then there's going to be a concentrated group of relatively wealthy folks, companies, individuals, families who will use the political process to protect their status as incumbent actors and will therefore undermine the marketplace, undermine the operation of the capitalist economy, in order to preserve their preserve the status quo and preserve their place and ability to kind of reap the profits, even if it's inefficient to do so so.

And I think that the concern the big picture concern is that this is like a necessary or it's a process that's just going to happen. It's a predictable process. It's very hard to disrupt. It's very hard to build institutions that are not going to fall prey to this kind of process.

So this is the kind of capitalism-- capitalism might be great in the short term. But over the long term, it undermines your political economy in a way that leads to something that isn't capitalist and is kind of generally very harmful.

**SHI-LING HSU:** Yeah, you it's interesting that was a great summary of the arguments I've made part of the book. To hear you tell it, it almost sounds kind of Marxian, doesn't it? It's a story of inevitability. And the end is not a good outcome.

I think that it's true that there is this necessary infection, I like that kind of phraseology that you've adopted, of capitalist winners infecting politics. I think that's probably always going to be the case. Now, that's a hard one to solve. And this is where I think it gets back to my kind of libertarian instincts. Is that if we could focus on having governmental agencies like the EPA identify things that are harmful and tax them, just tax them, then we can at least not move government in the direction of that necessary infection that you were talking about.

Because a lot of that infection happens when there's an industry that says, we're creating jobs. We're doing good things. You ought to support us by kind of subsidizing us, by giving us trade protection against competitors, by doing these things that are economically inefficient and not really good for the public welfare. That's, I think, where a lot of that infection comes in.

So if we could kind of orient government towards preventing bad things from happening instead of trying to make good things happen, then that's a step. I recognize that's a modest step. But I don't another way to address it. I think what you describe is probably human nature.

People get rich. They want to protect their status as rich people. And I'll say this. It's not an easy problem to solve. But if you look to socialism as a way of solving it, I think, you can kind look at the history of socialist countries and see that that's not going to work out either. That's not a better way of preventing infection of capitalism into politics.

**MICHAEL LIVERMORE:** Right. And of course, some of these terms get used in ways that are all over the place, capitalism, socialism and terms like these. Bernie Sanders and other folks in the broad Democratic coalition will refer to themselves as socialists, but presumably they'd be pretty happy with an economy like Sweden's, right? I don't think the idea is that they wanted to go and turn the US into a Stalinist state. I mean, I don't take that to be their arguments.

It seems that even on the left--

**SHI-LING HSU:** I think that's right.

**MICHAEL LIVERMORE:** Yeah, even on the left of the political spectrum, what people are talking about is more like a Scandinavian model than anything else.

**SHI-LING HSU:** Yeah, I think that's right. I mean, is it socialist? I don't think so I mean really fundamentally socialism is when resources are allocated by central fiat and not market forces. And that happens even in a pretty authoritarian state like China. I mean, market forces are still kind of moving yen one way one direction or another.

**MICHAEL LIVERMORE:** Yeah, so when I interpret some of the language used by folks in the progressive community when they talk about socialism, what I often see that as being, I mean, it's multifaceted, but one of the big parts of it is about economic inequality. And it's about things like taxing wealth, increasing taxes on capital, on corporations, on wealthy individuals, income. And then that gets described as socialist and anti-capitalist. So one is I guess I'd be curious what your thoughts are about that. And then if there's an intersection there between economic inequality and then the political undermining of capitalism that we see as a potential problem.

**SHI-LING HSU:** Oy vey, yeah the way that term gets used. Taxing is not socialism. That has a pretty long history too, of people kind of equating this equating taxation with something kind of more sinister. It happened in Canada when the federal government tried to levy high taxes, pretty high taxes on petroleum. And the province of Alberta, the oil rich province of Alberta, took this to be an affront and an assault on their provincial sovereignty. And the federal government backed down.

Politically that might have been what had to happen. But what wasn't true was that this is kind of a socialist ploy that the government is making a central decision. It's true. If a tax gets high enough it becomes government fiat, right? But that seems to-- I mean, that seems like a slippery slope argument that you can make about a lot of things.

And if we're not at a place where a tax is so confiscatory that it becomes essentially the central government making decisions then let's not call it that. Let's not say this is socialism when it's really just something else, a way to steer an economy that's still driven by decentralized decision-makers.

**MICHAEL LIVERMORE:** Yeah, so I mean, that's part of the issue I think too is that on both sides, folks are kind of mischaracterizing what socialism even is and what capitalism is and so on. And it's very confusing I think for folks who follow this stuff. One point I'd like to just return to a little bit that you raised is the relationship between kind of a libertarian impulse, concerns about capture, and strong market actors affecting the politics, kind of the winners of capitalism, then seeking to protect themselves from future competition.

So this is I think a fairly common argument amongst folks with somewhat libertarian tendencies is exactly this, that we need to limit government because government can become captured by period. The government can become captured by just some political party. It can become captured by some faction of people.

It can become captured by powerful economic interests. And because of this risk that the government can be captured, we should just shrink the government down, reduce the number of tools that the government has at its disposal because ultimately government is going to fall into the wrong hands. Is this kind of along the lines of your thinking? And I guess, the kind of related question is, taxation is a very powerful tool ultimately, as you note.

And so if we're really worried about government capture then taxation seems like one of the tools that people would want to take off the table.

**SHI-LING HSU:** Yeah.

**MICHAEL LIVERMORE:** Or like high taxation. You'd have to have some limited amount of taxation to run the government.

**SHI-LING HSU:** Yeah, no, I think you do. You have to have some taxation just for revenue purposes. I think the phrase, shrink tools, makes me nervous. I think what we want to have some discipline about is spending money and government assistance to industries. That's at bottom what I think is unhelpful. Shrinking government is not necessarily kind of the goal, at least not if we need the government to find out bad things that are happening and tax them.

I also hasten to add that a little bit of government does a lot of good. EPA is a big agency, about 13,000 employees. But I'm not sure I would say it's a behemoth, given all the things that EPA does, I wouldn't say this is like such a big thing that we have to kind of, consistent with the libertarian view, make it smaller. Just to give you an idea of EPA'S kind of value in the global community.

When I worked in Canada, I had occasion to talk to many people in Natural Resources Canada, which is kind of their resources agency and Environment Canada, which is their EPA. And hardly anything ever got kind of pushed without some resort to EPA. Back in 2011, Canada became the first country to impose some regulations on coal fired power plants.

No one ever talks about it, because there are only about 20 or 30 of them in all of Canada. But it was a monumental decision. And it was driven, I swear, I don't have the documentation for it. But it had EPA'S fingerprints all over it.

Just the way that kind of the standards were set and the way it was written and kind of how they would develop a threshold for regulating, it's not something that seemed to me was within the capacity of Environment Canada. So it is kind of a good thing to have a big government agency like EPA around. What EPA kind of does what I think a good libertarian would want to do, EPA doesn't-- it spends some money kind of doing things.

But it's mostly spending money to build like local government or state government capacity. It's mostly finding things that are bad and taxing them. What I think we could have less of are Commerce Department programs to kind of incentivize construction or development in certain kind of industries. I'm a little bit queasy about a push for electric vehicle charging stations and developing a big network. There positive networks analogy to that. So maybe that's a good thing. But I'm a little bit unsure that we should be kind of pushing greenhouse gas reduction in this direction.

But I would say, I'm not sure it's about shrinking government. It's about making sure that it's doing what we actually want it to do, which is to identify bad things and try and prevent them or tax them.

**MICHAEL LIVERMORE:** Right, so I'm just thinking of-- right. So in some ways to take a simplified version of this, you are more inclined towards thinking that taxes are less likely to be misused-- environmental taxes are less likely to result in kind of protection of incumbent actors and the creation of these special interest groups, well-funded special interest groups that then affect the political process, that the taxes are in some sense better than something like subsidies.

**SHI-LING HSU:** Yes.

**MICHAEL LIVERMORE:** So I'm just wondering about this right? Because I'm-- I have to think a little bit about it. But it seems that one could structure a taxes so that they operate a lot like subsidies and vice versa. So take renewable energy, you could tax carbon or you could subsidize clean energy production. It sounds like you're much more positively disposed to the former rather than the latter.

But in a lot of ways there have similar economic effects. For example, we could tax clean energy generation. Now it's not a good idea. But fossil fuel companies could say, look they're intermittent. They're less consistent. And so we're going to tax intermittency.

We're going to tax, oh, they use a lot of land so we're going to tax that. There's all ways that taxation can be used to harm an upstart disruptive industry and protect incumbent actors.

**SHI-LING HSU:** Yeah, absolutely. I think there are a lot of libertarians would kind of be wary of that. You know what I would say to that is, it's true. You could do it that way. But if you're going to have a tax on intermittency.

I think we would have some a process where you have an agency like EPA or Interior engage in a hopefully transparent process of saying, oh, this is the harm from intermittency. These are the costs from intermittency. I think that conversation is susceptible to challenge as long as it's kind of out in the open.

That seems to me different from an administrative law conversation that never even takes place if we make a political decision to subsidize clean coal or carbon capture. Then we don't have this kind of hearing on the merits about whether or not this is harmful or that. So part of an emphasis on tax and understanding the point you're making is that you could kind of make a tax work like a subsidy, is that what I would hope is that the conversation would be different. That administrative law will provide some guardrails against the kind of rent seeking or rent preserving that we are rightly worried about.

**MICHAEL LIVERMORE:** Yeah, let me-- so I'm going to continue playing devil's advocate on this one. Because what I'm thinking about is-- it's not exactly devil's advocate, but I think partly it could be about administrative law. But partly, my instinct is that you're right is that the conversation would be different around taxes rather than around subsidies. But that's exactly because taxes are politically unpopular. And so they need more justification.

Where if you go say, look, we're going to spend money to promote this new technology and to make sure that people have access to reliable electricity, blah, blah, blah. Then that's fairly politically palatable and people don't ask too many questions. Whereas when you say oh, we're going to tax this, that, or the other thing, there's kind of a higher standard in the political process to explain why you're doing the taxation.

So that strikes me as at least part of what's going on. But then we kind of run right into the problem of, well, environmental taxes and taxes in general, but including environmental taxes are politically unpopular. That's exactly part of the reason why we haven't seen more of them. Economists have been telling us for 30 years we should be using environmental taxes.

There's extremely strong arguments for why they're good policy tools. But we just haven't gotten very far because exactly because of the political opposition to environmental taxes. So on the one hand, the tax versus subsidy dimension is taxation is a kind of a quote unquote good tool because it's less likely to be misused. But the reason it's less likely to be used is because it's politically unpopular.

And the fact that it's politically unpopular means that it's very difficult to use when we should be using it, such as in the case of greenhouse gas emissions. So how do we reconcile what we like about environmental taxation, which is that it might be less amenable to a manipulation by special interests with the big challenge, which is that we don't seem to be able to get them deployed in any serious way?



**SHI-LING HSU:** Yeah, maybe-- yes, that's absolutely true. Unpopularity is continuing. Unpopularity is why legislation seems to still center around kind of subsidizing building, investing, maybe a compromise would be to say we've got to subsidize certain nascent technologies. And once some of these technologies have taken off, then there might be a political economy that is more favorable to taxation.

So that it could be that certain renewable energy industries just need a little bit more political power before we start to embrace a carbon tax or other taxes. It could be that meat alternative product, meat alternatives have to be a little bit more politically powerful before we start saying, we've got enough cattle. People can get the equivalent amount of protein and other nutrients from something other than cows. So maybe that is a way of reconciling this very real political problem with what I think you and I share, is a notion that kind of taxation is probably the right way to go on the merits.

**MICHAEL LIVERMORE:** And what I often will say in class is just like look, it's the internalizing externalities thing, like it's creating harm. And that's how you get to efficiencies, you tax it. That's it. Subsidies just don't get you there.

But again, just to make this as complicated as possible, once we put subsidies on the table, and then we say, oh, we're only going to use them for politically unpopular, industries. Well, is, that really realistic because subsidies are now on the table. And who's going to be in the position to take advantage of those subsidies? Who's going to be in a position to direct those subsidies in particular ways?

I mean look, the coal folks would say, well, coal capture and storage is a nascent industry. How do you define these things? And they lawyer up. And ultimately the subsidies end up helping incumbent actors and then don't get directed in ways that actually lead to facilitating competition.

**SHI-LING HSU:** Yeah. Yeah. That's a tough one. I don't maybe that's just kind of the cost of living in a democracy. And maybe that's just a political problem I can't solve. Further to your point, while I think about a response is, we think about renewable energy subsidies. And I believe that ExxonMobil was just knocked out of the Dow Jones Industrial index by NextEra, the parent company of Florida Power and Light, which now has the highest amount of renewable energy generation capacity in the country by a lot.

That's not subsidizing a vulnerable little company. But I don't know. I think it's true kind of taxing is just this enormously unpopular thing. One thing we might do is work on education. I know that sounds kind of like pie in the sky. But maybe part of this endeavor is all about getting people to understand that costs matter. So here's one thing.

I believe that Senator Manchin probably knows this. But we could have a carbon tax and mining industries in his home state will be driven out of business. We could subsidize renewable energy, and mining industries in his home state are going to be driven out of business. Either way, it's going to happen. It's just that with a carbon tax, you know, there are certain things you have to go through to get it done.

And Senator Manchin could well have grabbed a share of those carbon tax proceeds as a cost of his support. Maybe this is the sort of conversation that just has to have. We've been kind of having it in our kind of environmental law and policy cognoscenti for a long time. But maybe what has to be done is just to really impart upon people, there are real merits to having a tax and real costs to subsidizing kind of technologies that we think.

It's just so ingrained, this idea that government should be doing good things. And it's such an anathema for people to think, oh, government should be focusing on preventing bad things from happening.

**MICHAEL LIVERMORE:** Yeah, I mean, I think, a couple of things there. So one is obviously, the question of how you spend the revenue with environmental taxes. And that's come up quite a bit. And people talk about well, we should focus on the spending part not on the tax part as a matter of political messaging. My own view is that ultimately people are not tricked by this.

I mean, we saw this in Washington State with the multiple efforts to get some kind of carbon tax. Promoted, and you could say, we're going to lower the sales tax and that's going to be it's going to lower people's tax burden. We're just shifting around how the tax burden works. We're going to increase this tax rate and lower that tax and actually people will be better off, more people will be better off.

That actually doesn't fly. For whatever reason, people are not interested in it. I mean, you could say, oh, we're going to do a carbon tax but we're going to spend all the money in all these wonderful ways that people want to see. And it turns out that that's not all that politically popular either. So it seems that it's just very difficult, the politics of these taxes.

Again in some ways that's a feature rather than a bug because it's less likely to be captured by special interests. But when we really need to change the status quo, the fact that the policy tool that we're kind of putting on the table is very unpopular, that's a problem. And that's a problem that we've seen play out in real life in the last couple of decades.

I mean I think the idea of education is interesting. Maybe we could put some flesh on the bones of that. Is the proposal that we reform the grade school curriculum or is it a matter of trying to improve the quality of civil and political discourse, which that seems like an awful awfully heavy lift.

**SHI-LING HSU:** Right, this will make critical race theory look like algebra.

**MICHAEL LIVERMORE:** Exactly, so then what do you do?

**SHI-LING HSU:** Yeah, I think part of it is maybe we should be curious about why carbon taxes work or have been implemented in a handful, let's be fair a handful of other developed, wealthy Western countries. Political culture is different. We can't just kind of graft political strategies from Sweden or the UK or Germany onto the United States. But maybe we could be curious about how that actually happens, why people think differently about that.

**MICHAEL LIVERMORE:** Now, of course, just in all fairness, if we take other, looking at Europe they have a lot of industrial policy over there.

**SHI-LING HSU:** Yeah, yeah, yeah. No that's true.

**MICHAEL LIVERMORE:** If you take Germany, how did they reduced greenhouse gas emissions. I mean a huge amount of that. They've been subsidizing and building that industry for decades.

**SHI-LING HSU:** Yeah. Yeah. You what I think? The one candid answer to your question, I guess you're the problem that you're posing is maybe we're not just there yet. Maybe we haven't actually reached a moment of crisis where people are clamoring for something. And maybe that's the point at which we just say, we don't even have the money anymore to kind of subsidize things that we think are good.

All we could do is tax things that we think are bad. Maybe like we just-- climate change is not sufficiently of concern to people. I mean, maybe it's just something that they're more worried about than five years ago, 10 years ago. But we're just not ready for a tax.

**MICHAEL LIVERMORE:** We might be ready for subsidies. I think that's the argument of the folks in the Green New Deal camp is that we tried the cap and trade stuff. We tried pricing the externality. The politics just haven't worked. And so we have a better shot because taxes are unpopular and because subsidies actually and industrial policy more generally is popular, like why do we as the environmental community have to take that politically attractive solution off the table.

Whereas the folks on the other side are more than happy to take advantage of every handout from the government that they could get their hands on.

**SHI-LING HSU:** Yeah. You know, truth be told, I think a lot of things in the Green New Deal, maybe we should do them it's not what I would do if I were an authoritarian environmental czar. But it could be that the climate crisis is such that the harm is going to climb so steeply that some of the things that are in the Green New Deal, some of the subsidies, as inefficient and distasteful as they are, is just things we have to do.

And you know again, maybe that would be part of a glide path towards taxing. Maybe once we subsidize desirable technologies and industries, and once we diminish the political power of fossil fuel industries, along the way, we're going to discard worthy alternatives to kind of utility scale solar and wind. But you know what? That's kind of the way it goes.

Maybe in another cycle of capitalism, socialism, authoritarianism, democracy, that maybe in a future cycle we'll rediscover the merits of some technology that kind of we left on the shelf while we were pursuing utility scale solar. But maybe that's just kind of the way it has to be.

**MICHAEL LIVERMORE:** One analogy is in the case of smoking, I think, where just thinking of the regulation versus prices kind of thing, if in 1985 a big tax was proposed on cigarettes doubling or tripling the price of cigarettes, there wasn't going to be a whole heck of a lot of support for a measure like that as the primary tool to address smoking.

So instead we start to see a regulatory regime put in place around labeling and then around restricting age and then restricting advertising and then restricting smoking in the workplace and restricting smoking in certain other indoor spaces, airports, et cetera. And this kind of building this quite a substantial regulatory regime around-- and then kind of the last thing that happens and actually then we have tort liability even before.

And then finally at the end you start to see a tax regime in place where prices are being used to tamp down on cigarette consumption. Is there an analogy there? Is that a good-- I mean is that an optimistic story? It seems kind of a sad story in a way.

**SHI-LING HSU:** I know it's sad. But that's an awesome analogy. I wish I'd thought of that. I wish we had this conversation a year and a half ago. That sounds a lot like that glide path compromise that I have been talking about when you've pressed me to have that conversation. I think that's right. And yeah, it's too bad it took such a long time. But things take a long time in democracies.

They don't in authoritarian regimes. So if that's what we want, then I think we'll have to accept some of the other losses, like in civil liberties. But I think if we're going to keep government in the form that I think we want to keep it, it just may take a while to do some of these things.

I think that we might have to settle for the second bests that you're talking about. But I'm kind of reminded that

This is a quote from Milton Friedman that I have in my book. "It's become something that I like a lot. Whenever I say something that seems politically controversial, maybe even unpalatable, is that Milton Friedman himself once thought he was an underdog. And he wrote, only a crisis produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. I believe our basic function is to develop alternatives to existing policy and keep them alive and available until the politically impossible becomes the politically inevitable."

Isn't that something? Milton Friedman used to think that his ideas were kind of way out of the mainstream, that he was just trying to keep them on kind of a respirator until somehow they could explode until a president like Reagan could bring them to the fore. Maybe that's what I was trying to say when I think, gosh. We might not be there yet. And what I'm trying to do is to keep this idea alive.

**MICHAEL  
LIVERMORE:**

Yeah I mean, I think it's interesting. I wonder if Friedman's ideas were ever really anything other than an underdog, in the sense that maybe he got trotted out to justify certain things kind of essentially when it was politically convenient to do so. And I think this is part of your project is to show all of the ways that people who argue that what they're doing promotes the market or promotes capitalism, actually is exactly the opposite. It's just protecting incumbent actors and actually undermining market competition.

So that's one of the-- I do worry sometimes that these ideas get trotted out when they tend to favor the politically powerful and then get put on the shelf when they don't.

**SHI-LING HSU:**

Yeah, interesting. It's kind of true that there are these economists that have stood for-- they had first principles and they were faithful to them. And sometimes they were convenient to some industries and inconvenient to others. But I guess I'd be inclined to think about where their ideas go after that.

It's true like it's inevitable in a democracy like ideas get co-opted and distorted. But those ideas and those of Bob Niskanen, I think they endure. You they're both dead. But I think there are certain things that we remember because of them. I'm not going to rise to the level of a Niskanen or a Friedman of course.

But if I could be part and I know you'd be a soldier in that one too, Mike, of kind of a conversation, of an assertion, of a school of thought about environmental economics, then I think that would be OK. I think that would be I would be happy if that were kind of the legacy of this book.

**MICHAEL  
LIVERMORE:**

Yeah, I think part of what I see the project here too is, when I was kind of reading through the book is, really maintaining and supporting a perspective that is a little bit out of favor these days, but has been more in favor in the past, kind of the market based mechanism, market driven approach. I mean this in a way as we started the conversation, represented a mainstream, a point of political compromise at the intersection of kind of where the moderate forces within the Democratic party were and moderate forces within the Republican Party.

And what we've seen is this divergence where on the one hand, there's kind of the argument that we've been going through where many in the environmental community have said, look let's actually wrap up environmental concerns. There's a lot of concern about climate change. There is a concern about other environmental harms. Let's wrap those up in a broader critique of capitalism around things like inequality and economic insecurity to make a political package that will sell to the American public and hopefully gain enough political power to implement a policy agenda, which isn't going to include environmental taxes, but will include subsidies and industrial policy and this, that, and the other thing.

On the other hand, we've seen the Republican Party basically, which used to carry the torch for market-based mechanisms, cap and trade and the like, at least some people in the Republican Party, has kind of totally gone off the almost entirely gone off the out of the range of what I would think of as sensible political discourse around environmental issues and climate denial and all that stuff. So that middle ground there seems to have been lost. So part of what I take the quote from Friedman is that maybe we can find that middle ground again.

But in the interim, just as a matter of politics, is your book pitched to people on the right to say look, if you think capitalism is inconsistent with environmental protection, you're completely wrong about that. Or do you see-- and therefore you ought to kind of come back into the fold and re-embrace market based mechanisms and environmental taxation as a way of addressing environmental problems. Or do you see yourself arguing to folks on the left to say, look, don't wrap up environmental protection in a broader critique of capitalism.

Because that broader critique is never going to get traction politically or it's just kind of substantively wrong. Or is it just kind of a placeholder to say, look, there is a middle ground here to be had. No one seems interested in it. But at some point when folks are interested in moderating their views and moving to the middle, here's some territory that you might occupy.

**SHI-LING HSU:** I think the placeholder is entirely consistent with the two scenarios that you're painting about who I'm appealing to. Yes, I'm appealing to progressives and trying to get progressives to say, capitalism's not the problem. We make different political choices. But capitalism is not the problem.

And you know what? Frankly I don't that anything in any policy area is going to get better until the Republican Party changes back to something more like what it used to be. When that happens I'm appealing to the quite substantial number of, let's call them establishment Republicans, not in the derisive tone that extreme Republicans call them, but in the sense that they were willing to make compromises in something of a less nihilistic world than the one we live in today.

I'm trying to appeal to both of those camps. And Yeah I think to pull them into this place that you're kind of describing as some place where we need a placeholder, I think where we can meet up.

**MICHAEL LIVERMORE:** Yeah, well it's a wonderful project obviously these are ideas that I find very attractive. And it's a wonderful book. I encourage folks to buy it and read it. And I hope it is discussed and taught as part of that broader educational process that we were talking about, maybe even in high school, environmental economics classes. Maybe that's the future that we can hope for.

But thanks so much for joining me today. Shu-Ling, it's been a fun conversation.

**SHI-LING HSU:** Thanks so much, Mike. It has, as it always is with you, a fun conversation. Thanks for having me on.