
Don’t Discount States for U.S. Climate Progress.

The Biden administration should look to states as a laboratory for innovative climate action.

All climate policy eyes are on Washington, D.C., these days and for good reason. The fact that President-elect Joe Biden puts climate change among his top four priorities promises significant progress at the federal level, with or without the Senate. But don’t forget states as a crucial driver of climate progress.

During the four years of the Trump administration, states have served as a backstop, while federal climate action has been backsliding. Yet states’ roles go well beyond that. They often serve as a laboratory for new ideas as well as a conduit by which federal agencies make progress.

California is typically held up as the state with the most progressive climate agenda. It is, but it is hardly alone. Per the Center for Climate and Energy Solutions, 23 states plus the District of Columbia have their own greenhouse-gas reduction targets. States as diverse as New York, Montana, and Louisiana have net-zero greenhouse-gas emissions targets by midcentury. Ten Northeastern states have a power-sector emissions trading system that caps their emissions and establishes a price per metric ton of CO_2, albeit a low one. Virginia is poised to join in 2021 as the eleventh, while California has its economy-wide system plus additional ambitious sector-specific policies.

Meanwhile, 29 states and the District of Columbia have renewable portfolio standards, which require a certain portion of the state’s electricity mix to be low- or zero-carbon. These standards drive emissions reductions by as much as 10% to 25% below where they would otherwise be. Economists are quick to remind us that these reductions come at a cost. A recent analysis by University of Chicago economists Michael Greenstone and Ishan Nath concludes that costs range from between almost $60 to $300 per metric ton of CO_2 , well above California’s and even the European Union’s economy-wide carbon prices of around $17 and $32, respectively.

This only shows that the power-sector standards are significantly more ambitious than existing cap-and-trade systems and also achieve more emissions reductions. The higher prices paid may well be worth it. They are, after all, within the range of the latest cost-of-carbon estimates of $100 and often much higher.

State-level electricity sector policies are also an important part of federal climate policy. The Federal Electricity Regulatory Commission (FERC) is an independent body charged with regulating interstate electricity transmission, and with reviewing energy infrastructure projects. Its legal charge is economic regulation, which makes it an all-the-more powerful voice in the climate fight.

FERC’s power – and, thus, threat to fossil interests – was brought to the fore with the recent demotion of Neil Chatterjee, a former energy advisor to Senate Majority Leader Mitch McConnell and Trump appointee. He was replaced as chair in retaliation for supporting “state-determined carbon pricing” in wholesale electricity markets. While the Biden administration is poised to seek a more expansive role for FERC in advancing climate action, a significant part of that impact will still rest on state-level policies.

States are also an important laboratory for new ideas. California, while often out front, is far from alone. In 2018, Washington State saw a state-level carbon pricing initiative fail at the ballot box, to a large part because of stiff fossil fuel industry opposition. The oil industry spent $31 million to defeat the measure, led by $13 million from BP alone.

The campaign in Washington State is continuing, this time with a potentially important post-pandemic twist: the carbon tax is tied to green bonds focused on investing in a green economic recovery. The state has had prior experience with similar bonds, raising over $50 million in 2015 to invest in a number of energy efficiency and conservation efforts.

The additional benefit: The idea of green bonds tied to a new revenue source helps solve binding state-level fiscal constraints. It also ties nicely into Biden's "building back better" mantra. While Washington State's idea may not serve as a template for Washington, D.C., directly, versions of the idea may well be duplicated in other states, facing similar fiscal situations.

Most of these state-level efforts are indeed bottom-up, developed organically in municipalities and states. Yet there, too, might be a role for the Biden administration. The principle of testing large government policies in multiple local and regional pilots before a nation-wide implementation is not as ingrained in the U.S. as, for example, in China. There, the concept of shidian (试点), a focus on local entry points and testing for national policies, is indeed at least partially formalized. U.S. federalism – and the European Union's subsidiarity principle – allow for a version of this. Learning from local experiences ought to be an important component of more centralized efforts.

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