

Subject: Comment on ETAAC report

From: Severin Borenstein <borenste@haas.berkeley.edu>

Date: Mon, 03 Dec 2007 08:15:01 -0800 (PST)

To: Steve Church <schurch@arb.ca.gov>

CC: Alex Farrell <aef@berkeley.edu>

Hi Steve:

I sent these comments to Alex Farrell and John Weyant. Alex asked me to forward to you so they could be considered by the whole committee.

Severin

----- Forwarded message -----
Date: Wed, 28 Nov 2007 20:55:23 -0800 (PST)
From: Severin Borenstein <borenste@haas.berkeley.edu>
To: Alex Farrell <aef@berkeley.edu>
Cc: John Weyant <weyant@stanford.edu>
Subject: Re: Innovation policy for climate change

Hi Alex and John:

Unfortunately I am not able to review the whole document. I am overwhelmed with other work and policy issues. But I took a quick look at it and was concerned at the weak connection to an underlying economic foundation.

Somewhere in the report I think it should spell out that there are two potential market failures. The first and primary one is the greenhouse gas externality. The second potential market failure is the intellectual property spillover problem: the private market on its own may not invest sufficiently in new intellectual property because it cannot capture the full benefits. This is particularly true when there is substantial policy uncertainty and endogeneity. I think that a more thorough effort needs to be made to tie the various policies back to these fundamentals. There are lots of things that are ultimately good for society, but that the government should not be doing because the private sector has the right incentives to do it on their own. If we get the price of greenhouse gases right, through either taxes or a cap and trade system, then the role for further government activity is probably fairly limited. And there is plenty of opportunity to do more harm than good. I would be particularly concerned about "demand pull" programs designed to increase the demand for a particular technology or activity in order to help it develop. If the price of CO2 is right, then it is generally very difficult to justify such intervention.

Sincerely,

Severin

Severin Borenstein
Email: borenste@haas.berkeley.edu
WWW: <http://faculty.haas.berkeley.edu/borenste>

E.T. Grether Professor of Business
Administration and Public Policy
Economic Analysis & Policy Group
Haas School of Business
University of California
Berkeley, CA 94720-1900
(p) 510-642-3689

Director
U.C. Energy Institute
2547 Channing Way
Berkeley, CA 94720-5180
(p) 510-642-5145
(main line) 510-642-9590
<http://www.ucei.org>

Affiliated Professor, Department of Agricultural & Resource Economics

Affiliated Professor, Energy & Resources Group