

TRANSCRIPT

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Guest: Kimberly Clausing

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Kim Clausing: One aspect of climate policy that I really like is it does seem that everybody understands what the goal is. We've got an objective here, and some of the most efficient ways to reach that goal. So, I think I'm somewhat optimistic about the path ahead.

Rob Stavins: Welcome to [Environmental Insights](#), a podcast from the [Harvard Environmental Economics Program](#). I'm your host, [Rob Stavins](#), a professor here at the [Harvard Kennedy School](#) and director of the program. It's widely recognized that energy and climate change policy proposals have frequently taken the form of what are really tax policies. Or if not, those policy proposals often interact with tax law and policies, and for that matter, with international trade law and policy. And today, we have an opportunity to investigate those interactions with an economist with great expertise in taxation, particularly the international aspects of taxation. Because today, I'm joined by [Kimberly or Kim Clausing](#), the Eric M. Zolt Professor of Tax Law and Policy at the [School of Law](#) of the [University of California at Los Angeles](#). In addition to her research and her scholarly credentials, it's important to note that she, not very long ago, served in the US Department of the Treasury where she was Deputy Assistant Secretary for Tax Analysis. Welcome, Kim, to [Environmental Insights](#).

Kim Clausing: Thanks so much. It's a real honor to be on your podcast.

Rob Stavins: Well, it's our honor and pleasure to have you join us. Now in a few minutes, I'm eager to hear your thoughts on a variety of topics, but first, our listeners find it very interesting to hear about your background. So, how did you come to be where you are? In particular, let's start with where did you grow up?

Kim Clausing: So, I grew up in Champaign, Illinois in the middle of the Midwest and went to college in Minnesota, and then went east for graduate school and eventually settled on the West Coast.

Rob Stavins: Now if you grew up in Champaign, Illinois, does that suggest that you are an academic brat?

Kim Clausing: Yes. Many economists, as you might be aware, descended from academics, and my father was an engineering professor at the University of Illinois.

Rob Stavins: Which has an excellent engineering school.

Kim Clausing: Indeed. Yeah, I think he wanted both of his daughters to be engineering professors. And he got one engineer and one professor, so that's not bad.

Rob Stavins: That's not bad. Put the two together. So, primary and high school were in Champaign-Urbana?

Kim Clausing: That's right.

Rob Stavins: Then college, you did a bachelor's degree in economics at Carlton College?

Kim Clausing: That's correct.

Rob Stavins: I think I spoke there once quite a few years ago now, but what was that like?

Kim Clausing: Yeah, it's a delightful place really. I wouldn't want to live there for my whole life because Minnesota is a little bit cold in the winter, but it was a great place to be for four years. And I received an excellent education there, and I really enjoyed it.

Rob Stavins: And then you moved east to Cambridge where you did your PhD in economics at Harvard, I believe.

Kim Clausing: That's correct. And Cambridge, then and now, I think is probably the single best place in the world to study economics because there's just so many wonderful thinkers in that town between MIT and Harvard and the NBER.

Rob Stavins: Speaking of the bright lights of intellectuals in the Cambridge area, tell me who your advisors were, and what was your dissertation on?

Kim Clausing: So, my dissertation was the essay model, as is common. It was essays on international economic integration, and there was a piece on multinational activity and trade, a piece on the Canada-U.S. Free Trade Agreement, and a piece comparing customs unions and free trade areas. And Richard Caves was the chair of my dissertation committee.

Rob Stavins: Oh wow.

Kim Clausing: But I also received a lot of helpful advice from Jim Hines, who was at the Kennedy School at the time.

Rob Stavins: Actually, one of my greatest memories of Dick Caves was in his office, directly behind him was a quite remarkable painting. Does that ring a bell for you?

Kim Clausing: Yes. He had incredible art in his office, including work by my favorite artist, Richard Diebenkorn. So, I remember being quite struck by that.

Rob Stavins: So, you graduated from Harvard with a PhD in 1996, and then your first position out of graduate school was where?

Kim Clausing: Reed College in Portland, Oregon, which I think the economics community may not know as much about as some places, but I would point out that Dale Jorgensen went there, which is kind of-

Rob Stavins: Oh, I didn't know that.

Kim Clausing: ... a fun claim to fame. Yeah.

Rob Stavins: Now, Reed College, at least it used to be a very special institution. It was not just another liberal arts college. It had its own philosophy of education, its own approaches to matter. Was that still the case when you were there in the late 90s and the first 2000s?

Kim Clausing: I would say it's still filling a pretty unique spot in the educational landscape. Reed has one of the largest Ph.D. per capita output of any college in the country or university. I think it was in the top five or so. So, there was just an enormous amount of intellectual curiosity in the student body, so that made it a fun place to teach.

Rob Stavins: So, when you say Ph.D. per capita, is that per faculty member or per overall student body?

Kim Clausing: Of the undergraduates...

Rob Stavins: I see.

Kim Clausing: ... the share that goes on to get a PhD. But I remember NSF used to do tables of the highest Ph.D. per undergraduate, that ratio, and Reed was always right at the top with Caltech and a few others.

Rob Stavins: That's interesting. Now, another place that sends, another liberal arts college that sends a lot of people, in particular women, on for Ph.D.'s in economics is Wellesley College where you were next on the faculty after Reed. Is that right?

Kim Clausing: That's right, yes. I worked there for a bit. Didn't end up staying, but I did enjoy my time there. And they have an incredible economics program with a lot of really highly acclaimed graduates, and graduates in general. It's another remarkable liberal arts college.

Rob Stavins: I guess the first editorial board chair of the *American Economic Review* was a woman who was a professor at Wellesley College.

Kim Clausing: Oh, that's very interesting. Yeah.

Rob Stavins: Which I found out about only at the time of what was the hundredth anniversary of the AER when they commissioned a few of us to write articles for a symposium. And mine was... Naturally, they asked me to write about environment and natural resources, but I wanted to get some background. And so I went to the Wellesley College archives down in the basement of one of the buildings, and I learned a tremendous amount about the history of the college, which was fascinating. Now, you stayed there, and then you went back to Reed College, eventually in an endowed chair.

Kim Clausing: That's right, yes. And then from there, eventually to the East Coast back to Treasury, and then to UCLA.

Rob Stavins: Now, how did the Treasury appointment come about?

Kim Clausing: So, for a long time, I've been writing on problems of taxation, but in particular, multinational taxation. And that's been a very active policy arena. So, when campaigns and candidates are putting together policy proposals, I had sort of been informally discussing these questions with policymakers for a long time. In fact, I was offered a similar job in the Obama Administration, but couldn't take it for family reasons, so I was very happy to have the kids grown so I could take this job in 2021. And that was very satisfying.

Rob Stavins: And you were there a couple of years, is that right?

Kim Clausing: Yeah, I was there for the first part of the Biden administration and had the great pleasure of serving under Secretary Yellen. She's a widely appreciated human in a lot of circles, but I would be remiss if I didn't also point out that she was just a joy to work with, a very bright economist, and a great public servant and leader.

Rob Stavins: So, I wanted to ask you for a high point, and also, if possible, a low point of your time at Treasury. Maybe that was the high point. I don't know, but you may have another.

Kim Clausing: Well, that was consistently nice feature of the job. I think the high point was really the first 100 days when we put together the foundational aspects of the president's tax proposals. But we also worked very much on this international tax agreement that eventually came together that was in concert with the president's tax proposals to suggest better taxation of multinational company income throughout the world. And that agreement, I think, has proved to be quite successful. Countries throughout the world are adopting it. The United States hasn't yet adopted it, but I'm hopeful that they will in the years ahead.

Rob Stavins: And what about a low point? It couldn't all have been great news.

Kim Clausing: I think many economists are frustrated at times with the role of sort of turf wars and politics and power struggles in terms of actually getting things done. I think many of us have this sort of naive view that if we all kind of work together, we

can get positive incremental change. And there were elements in the administration that I think worked very well together. I think on tax policy we were pretty uniform and wanting a lot of the same things, but sometimes I was struck by how little struggles, even between groups that had aligned preferences, could sometimes inhibit progress. So, I think in the ivory tower, it's easy to sort of abstractly imagine the policymaking process, but sometimes on the ground, it can be a little messier than we'd like.

Rob Stavins:

Well, speaking of that, before treasury, you had been teaching in economics departments, both at Reed College and at Wellesley College. But after you left Treasury or when you left Treasury, you went to a professional school, which can be a very different experience, in particular, the UCLA School of law. So, how did that come about? Tell us about your thinking.

Kim Clausing:

Yeah, so I think law schools have in the past and particularly in tax, but also in other areas, looked to hire outside of just JD type people. As you know I'm a Ph.D. economist, I don't actually have a law degree. And I think there are some fields, and tax is one where you really need kind of a multitude of types of understanding to really improve the tax code. So, as an example, at Treasury in the Office of Tax Policy, there's about 55 economists and about 35 lawyers, and they work together on making tax policy, and I think if the economists were working without the lawyers or if the lawyers were working without the economists, the policy would be a lot worse. So, I think sometimes when we are willing to look across disciplines, we can actually get to better outcomes than we would if we were all just staying in our silos.

Rob Stavins:

Now, the three academic institutions where you've held professorial appointments are really quite different. I'm not asking you, and I don't expect you to rank them or to comment on their quality, but could you tell me something about how your experiences, or even more broadly, how the role of a professor compares at Reed College, Wellesley College, and UCLA Law School?

Kim Clausing:

Yeah, so I think it's really quite different. At Reed and at Wellesley, you do a lot more teaching, and I think there are benefits to that. I actually think, when I think about the type of economist, I am... I've taught macro theory. I've taught micro theory. I've taught international finance for almost three decades. I have really a comprehensive understanding of the breadth of economics that goes beyond I think what would happen if I had been at UCLA my whole career. That comes at a cost. You're doing a lot of teaching. There's less time for the research. And I think at this stage of life, when I'm kind of further along, it was a relief to be able to spend more time on my research as well and that's part of what motivated this move. As much as I value teaching, I think it's nice to be able to take more time to make contributions in the field. So, that's a lot easier to do at a big research university because they're not having you teach many classes per semester and do thesis advising and a ton of service on top of everything else.

Rob Stavins: So, with that in mind, let's turn to your work in the scholarly world of the economics of tax law and policy, and in particular, your research and your written research, your published research. I know this is asking you in a sense to identify your favorite child, but if you had to pick one research product, one publication that you are most proud of, what would it be?

Kim Clausing: Yeah, I've heard your podcast before, and I am going to cheat on this question because I think it's kind of a hard-

Rob Stavins: A lot of people seem to want to come up with two or three. Okay.

Kim Clausing: Yeah. So, I'm going to talk about two contributions. One is sort of a suite of papers that looked at the problems of multinational company tax avoidance. I'm proud of this collection of papers. I don't think any one of them is a particular blockbuster, but I think the collection of papers really helped lay the intellectual foundations that ultimately led to things like this international tax agreement. So, I'm very proud of that set of work. But I think if I had to pick just one single piece of output, I might go with my book, which is called ["Open: The Progressive Case for Free Trade, Immigration, and Global Capital."](#) And I wrote that book kind of in a flurry about a year after President Trump was elected as an attempt to sort of take basic economic intuition and understanding in the field of international economics and convey it to a popular audience.

And it came out with Harvard University Press. It actually did pretty well as a published book, but it also got me on podcasts where other people could hear this perspective, and I really am proud of that piece of work and sometimes my kids joke that I call it my third child. So, maybe your children metaphor isn't so bad, but I'm really proud of it in part because I think these arguments aren't made enough these days. I think that there is this sort of move towards nationalism and America first kind of thinking. And so, I think we do need voices to sort of explain the economics in terms that people can understand, not just in *American Economic Review*, but in a broader context.

Rob Stavins: Well, I think you're okay as long as your children don't suggest that it's your first child.

Kim Clausing: Yeah, that's right.

Rob Stavins: Right. So, I'd like to turn to the current world of U.S. policy, and I want to draw you now to talk about environment and climate change, which is at least a recent area of interest and activity of yours, because after all, this is a podcast from the Harvard Environmental Economics Program. Now that you're out of government, you can comment freely, of course. Whether you want to is another subject, but you can comment freely on the current administration. So I'd like to ask you, what's your overall assessment of the Biden Administration's climate policy achievements?

Kim Clausing:

Yeah, I guess if I were going to give them a grade, I would give them an A minus or something. They have done so much compared to any prior administration in this space that it's hard not to give them a high grade for that. It was a chief priority from day one. In fact, on day one, they rejoined the Paris Climate Agreement. They worked with climate at the center of their work in every part of that administration, including the Treasury, but the White House and throughout the administration. The legislative achievements, I think, were substantial, even though they were very difficult and hard fought. The infrastructure bill has some climate provisions in it, but also the Inflation Reduction Act, which I think is probably the biggest contribution we've seen to emissions reduction in the legislative sphere, and certainly in my time following these things.

So, I was quite proud of them for doing that. I don't think it's perfect legislation, and it's certainly not what economists might dream up if they could start from scratch without any political constraints, but I think it's an important contribution to reducing emissions reductions, and that's kind of the North Star by which I would evaluate these things.

Rob Stavins:

So, let me follow up on what you just raised. You said it wasn't necessarily economists notion of a first best. Except for the methane fee, it's not really pollution taxes, and it's not cap and trade, so it may not be cost effective. But there's another aspect of it that economists have certainly commented on, and I suspect that you have, and that is that there are other objectives in the Inflation Reduction Act. Well, the objectives are not inflation reductions, but we'll put aside the title of it. But the objectives other than climate change, there are lots of objectives in terms of protecting American manufacturing, protecting American labor, particularly unionized labor. There are what are something akin really to domestic content requirements in order to get some of those subsidies. What's your reaction to those?

Kim Clausing:

Yeah, so I think the beginning of your question points out that there's some fundamentally different ways to achieve emissions reductions. You can try the carbon fees and cap and trade, or you can try subsidies. Subsidies respond to externalities too. There's insufficient investment in new green technologies. Then there are good arguments for subsidizing. We didn't quite have the number of senators that are required to look at the cost side of this equation. It's something that I'm hopeful that maybe we could do down the road, and I think there's a moment coming ahead where that might happen. But the approach that we had is the approach that was feasible with a very delicate balance in Congress that was available. So, those domestic content provisions and those labor provisions, I think a lot of economists would say, "Well, you're really trying to achieve too many policy goals with one instrument."

And it'd probably would be better to separate those out – have a climate goal with a climate instrument and have an income inequality and a labor goal with tax instruments, and so forth. It wasn't done that way, I think in large part due to these political constraints, but I do think it's certainly far better than nothing.

And it's always hard for economists, especially those sitting in ivory towers, to really know how much of that compromise was truly necessary. We can all sort of second guess and say, "Oh, well, did they really need to do this or that?" But if that's what got them to the 50th senator, then you're like, at least we got some climate action out of it.

Rob Stavins: But the important part of your message is that you would say that the IRA, the Inflation Reduction Act, has positive net benefits?

Kim Clausing: Oh, yes. Yeah. And I think there's been ample evidence of this, and the discipline of energy and environmental economics has sort of calculated the abatement costs per metric ton of emissions reduction. And in general, it comes out far ahead relative to the social cost of carbon.

Rob Stavins: Right.

Kim Clausing: So, cost effective in that regard.

Rob Stavins: So, in particular now, you've been interested in the relationship between climate policy and trade policy, both looking at the European Union CBAM you've developed with Catherine Wolfram and others, the proposal for something that's analogous to that to deal with methane. I want to ask you a broader question, and that is, do you see climate policy and trade policy as largely complimentary or largely antagonistic, or a mix of the two? And if it's a mix of the two, how are they a mix of the two?

Kim Clausing: I think we're in a moment where we don't really have the answer to that question yet. I think if done right, these can be highly complementary. And I think actually, some of the most hopeful progress that I can think of is using the carrot of trade and trade liberalization and market access to really encourage countries throughout the world to do more emissions reduction. And I think done correctly and done in a non-discriminatory fashion, and I'll clarify what I mean by that in a second, I think that can be an incredible force for good. So, an example of a non-discriminatory approach is the European approach where they are charging their firms for emissions allowances, and then they, in parallel, charge importers for that same amount of carbon content in particular industries. And so that basically incentivizes producers and governments in places like China and India and throughout the world to think about the carbon content of their production and goods like steel and aluminum because they know that if they want to send it to Europe, it's going to face that carbon border adjustment.

There have been proposals in the United States, including a recent bill, a Cassidy-Graham bill, that would do the tariff part of that, but wouldn't do the domestic cost imposition part of that. And I think that that's-

Rob Stavins: That's an interesting combination.

Kim Clausing:

Yeah, it's kind of like telling a kid, "You can have candy, you can have your dessert, but no vegetables." And I think that that's harmful, not just because it sends a terrible message abroad, because we're kind of saying to poor countries like Mozambique, "Send aluminum to the United States, it would face a tariff, but we're not going to charge Pennsylvania aluminum riders. In fact, we'll subsidize them." So it's really an unfair advantage, but it also risks unraveling some really useful policy in other countries. We've got Canada, the UK, Europe, elsewhere, where people are thinking about internalizing these externalities by having true carbon pricing and accompanying that with the border adjustment. If other countries just do the border adjustment part, the producers in those countries are going to say, "Hey, hold on. Why do we have to eat the spinach before we get the candy? That doesn't seem fair."

Rob Stavins:

So, what you described, the U.S. proposal, the congressional proposal for a border adjustment without a domestic carbon price, would that be WTO compliant?

Kim Clausing:

Not in my view, no. I think the European approach is. They've gone to great length to sort of make it WTO compliant. And while some countries have quibbled a little bit, it's not clear that they really have ground to stand on because it is a truly non-discriminatory approach. They've got an environmental regulation, and they're applying it both to domestic production and to foreign production when it comes into the European market. It's sort of like a VAT. Even if you think about a value added tax, they charge it on domestic production, and then they charge it on imports so that any consumer is facing a level playing field when they're choosing between the two types of consumption goods. So, I think the U.S. version... And again, hopefully that won't come to pass. It's just one legislative proposal, and there are others that are non-discriminatory, including one that Senator Whitehouse has suggested. But if you look at that Cassidy-Graham approach, I think it's problematic because it's really... Not just on WTO grounds, but on moral and economic grounds, I think it's problematic. I care about the WTO. There's a lot of people who don't.

So even if you didn't care about the WTO, I think you should care about it unraveling useful policy in other countries, causing trade wars, and fundamentally just sending the wrong incentives to US industry.

Rob Stavins:

Going back for a moment to the European Union and their carbon border adjustment mechanism, I'm going to put aside whether or not the motivation for that was to respond to all the complaints from European industry that were being heard in Brussels, or whether the motivation is something that's related to that, namely to inspire climate policies in other countries. But what I will observe, and I confess this is to my surprise, I didn't expect it to this degree, is that there are quite a few countries without climate policies that are now working on establishing them in order to avoid having to pay this tariff because they're exporting a tremendous amount into the European Union.

Kim Clausing:

Yeah, that's something that I've been tracking as well, is there appear to be a number of countries throughout the globe that are taking another look at carbon pricing, in part because they'd rather collect the revenue themselves, and pay it to the Europeans if they're exporting. But even those direct effects, while they may not be very big in many country cases, I think it's a good time for a lot of countries to look at revenue sources that meet fiscal concerns that they might have that can enable them to shift their comparative advantage in a greener direction. So imagine, for instance, your South Africa. South Africa just proposed tripling its carbon price. And they have issues of electricity reliability and relying on renewable sources of energy and making sure that their exported goods can get into Europe and elsewhere tariff free. Those can be compatible goals while building up enough revenue to meet the state's needs as well. So, I think it's a really effective and useful policy tool.

And I think the concerns that people have about regressivity, I think they should bear in mind that almost any climate policy is going to have effects on the distribution of income, and there's ample tools throughout the tax system to more than undo that, right? There's plenty of ways to set up a progressive tax system that can more than undo any regressive effects.

Rob Stavins:

And at a time at which I hear from students, but also from others, of so much pessimism regarding developments in climate change policy, whether it's talking about the international domain, the UN negotiations, or it's talking about what's being accomplished by the Biden Administration. We just recently had announcements from this administration of delaying on auto standards, and also now pulling existing natural gas plants out of another regulatory move. But what's been happening that you've just described with regards to the CBAM, other countries now taking on climate policies as a result. This is actually a very positive development.

Kim Clausing:

Yes, I agree, and it does give me some hope. And one aspect of climate policy that I really like is it does seem that everybody understands what the goal is, we've got an objective here, and some of the most efficient ways to reach that goal. So, I think I'm somewhat optimistic about the path ahead.

Rob Stavins:

So, now that you've expressed some hope and some optimism, I want to ask you to bring our conversation to a close. I want to ask you about your reaction to these youth movements of climate activism that have arisen chiefly, but not exclusively, in Europe and the United States. They were on hiatus somewhat during COVID, but they've come back. What's your reaction to youth movements?

Kim Clausing:

I guess I have mostly a positive reaction. I have one quibble. And I guess the positive reaction that I would have to these movements is I think it's extremely important for us as a society to simultaneously build understanding of this problem, but also build a willingness to take real action to respond to it. And I think these movements help bring attention to the size of the problem and they help prioritize the problem in public policy debates. And I think those are really

valuable things to do. I guess if I were going to quibble, on one area, I would just say that I think sometimes young voters, and I'm not sure if this is always the case, but they sometimes take an overly purest view of the candidate choices in front of themselves.

And in close elections, like we had in the Bush/Gore scenario or the Hillary Clinton/Trump scenario, or that we might have coming up in the Trump-Biden scenario, it might be easy to find fault with candidates like Gore, Hillary Clinton, or Joe Biden on one issue that's particularly close to your heart, and then say, "Oh, well, everybody's imperfect. I should stay home from the ballot box." I don't think enough young people vote, and I don't think enough of them take the sort of pragmatic choices in front of them and really sort of think about the true consequences of an action. So, I think it's important for people to be engaged, and at times, when necessary, to settle for the imperfect over the terrible.

Rob Stavins: Right. Well, election is fundamentally, at least in a two party system like ours, it's fundamentally choosing the better of two, not trying to find what's ideal or perfect.

Kim Clausing: Yeah. And getting out there and voting is so important. I do appreciate any public attention to pressing policy problems. I think that's super important.

Rob Stavins: Well, listen, Kim, thank you very much for taking time to join me today.

Kim Clausing: It was absolutely my pleasure. Thanks so much for having me on your podcast.

Rob Stavins: So, our guest today has been [Kim Clausing](#). She's the Eric Zolt professor of Tax Law and Policy at the [UCLA School of Law](#). Please join us again for the next episode of [Environmental Insights: Conversations on Policy and Practice](#) from the [Harvard Environmental Economics Program](#). I'm your host, [Rob Stavins](#). Thanks for listening.

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