

March 14, 2012

President Obama
White House
1600 Pennsylvania Ave, NW
Washington, DC

Dear President Obama,

We implore you to support the European Union's innovative efforts to place a price on carbon from aviation through the emissions trading system (EU ETS), or, at the very least, to stop actively opposing these efforts. The aviation sector represents a large and growing global source of carbon emissions. Addressing emissions in this sector by negotiating a global pricing system through the International Civil Aviation Organization (ICAO) would send an important signal that carbon pricing is an effective way to correct a major market failure—the growing concentration of greenhouse gases in the atmosphere.

As you know, the uncontrolled flood of carbon emissions into the atmosphere is driving climate change and increasing the risk of catastrophic outcomes. It is time we recognize this risk by putting an appropriate price on carbon emissions, in aviation and in all other sectors. The EU's ETS is a first step in that direction. Your administration should endorse the EU's efforts, not oppose them.

If climate change is to be slowed appreciably at tolerable cost, it is wise to use the market to provide incentives for individuals and firms to reduce greenhouse gas pollution. In economic terms, the emission of these pollutants meets the classic definition of an externality -- the price that individuals and firms face for emitting these pollutants is substantially lower than the social cost imposed by the pollution. Because emissions are not priced, the world is wastefully using up a scarce resource, the earth's ability to safely absorb greenhouse gas emissions. We are also failing to make appropriate investments in capital that would reduce future greenhouse gas emissions. Our selfish inaction pushes increased costs onto future generations, and dangerously increases the probability of extreme events with major impacts on their welfare.

Today the US is leading a coalition of unwilling countries on a course of refusing to price this risk in the commercial aviation sector. Rather than opposing the EU, we urge your administration to support their efforts to price carbon in the context of the ICAO. In order for the world to achieve its climatic objectives at tolerable cost, a cooperative approach among nations is essential. While we recognize that there are numerous obstacles to setting a uniform, global price on all carbon emissions, pricing them in the aviation sector would be a good start. In particular, we urge you to drop the US opposition and to support the EU's efforts to deal with this global problem.

Sincerely,

Kenneth Arrow, Ph.D.
1972 Nobel Memorial Prize in Economic Sciences
Joan Kenney Professor of Economics, Emeritus, Stanford University

William F. Sharpe, Ph.D.
1990 Nobel Prize in Economic Sciences
STANCO 25 Professor of Finance, Emeritus, Stanford University

Eric Maskin, Ph.D.
2007 Nobel Memorial Prize in Economic Sciences
Professor of Economics, Harvard University

Thomas Sargent, Ph.D.
2011 Nobel Memorial Prize in Economic Sciences
W.R. Berkley Professor, New York University

Christopher Sims, Ph.D.
2011 Nobel Memorial Prize in Economic Sciences
W.R. Berkley Professor, New York University

Frank Ackerman, Ph.D.
Director, Climate Economics Group
Stockholm Environment Institute, US

Patrick Bolton, Ph.D.
David Zalaznick Professor of Business
Columbia Business School, Columbia University

Mark Carhart, Ph.D.
CIO and Partner, Kepos Capital LP

Varadarajan V. Chari, Ph.D.
Professor of Economics
Heller-Hurwicz Economics Institute, University of Minnesota

Lawrence J. Christiano, Ph.D.
Professor of Finance
Kellogg School of Management, Northwestern University

Kent Daniel, Ph.D.
Professor of Finance
Columbia Business School, Columbia University

Pierre Collin-Dufresne, Ph.D.
Caron Family Professor of Business, Finance and Economics,
Columbia Business School, Columbia University

Darrell Duffie, Ph.D.
Dean Witter Distinguished Professor of Finance
Stanford University

Martin Eichenbaum, Ph.D.
Ethel and John Lindgren Professor of Economics
Northwestern University

Christian Gollier, Ph.D.
Director, Toulouse School of Economics
Research Director, Institut d'Economie Industrielle (IDEA)
Researcher Laboratoire d'Economie des Ressources Naturelles (LERNA)

Pierre-Olivier Gourinchas, Ph.D.
Professor of Economics
University of California, Berkeley

James D. Hamilton, Ph.D.
Professor of Economics
University of California, San Diego

Lars Peter Hansen, Ph.D.
David Rockefeller Distinguished Service Professor
University of Chicago

Bengt Holmstrom, Ph.D.
Professor of Economics and Management
Massachusetts Institute of Technology

Paul Joskow, Ph.D.
Professor of Economics, Emeritus
Massachusetts Institute of Technology

Robert Litterman, Ph.D.
Partner, Kepos Capital LP
Former Head of Risk Management, Goldman Sachs

Scott Richard, Ph.D.
Practice Professor of Finance
The Wharton School, University of Pennsylvania

Jose Scheinkman, Ph.D.
Theodore A Wells '29 Professor of Economics
Princeton University

Richard Schmalensee, Ph.D.

Howard W. Johnson Professor of Management
Director of the MIT Center for Energy and Environmental Policy Research
Massachusetts Institute of Technology

Robert N. Stavins, Ph.D.
Albert Pratt Professor of Government
Director, Harvard Environmental Economics Program
John F. Kennedy School of Government, Harvard University

George Tauchen, Ph.D.
Glasson Professor of Economics,
Duke University