

Not the Time to Cap and Trade

BY JODY LIPFORD, *Presbyterian College*
AND BRUCE YANDLE, *Clemson University*

We were not surprised in late September 2009 when China's president Hu Jintao announced to the United Nations Assembly that his country would not be a party to a global greenhouse gas reduction commitment. Instead of locking China into a promise that it would not keep, President Hu indicated that he would go forward with forest carbon sequestration and expanded "clean energy" production. Without apologizing, Mr. Hu indicated that China would not promote greenhouse gas reductions at the expense of GDP growth and that China's carbon emissions will continue to increase in the future, though at a reduced rate. That was exactly what our research suggested he would do.

It is also exactly what the United States should do.

The United States and other developed nations have apparently decided that some international emissions reduction agreement must be reached, but no one has said how much it will cost to achieve those reductions. To some, this may not matter very much; whatever the cost, the expected benefits make the effort worthwhile, as we may face doom otherwise. However, our research suggests that costs matter a lot. And differences in cost across countries limit the prospects of gaining a global agreement to reduce carbon by dramatic amounts.

We have just completed a study that looks at the relationship between per capita real GDP and total carbon emissions — 1950 through 2004 — for each of

the G8 countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) as well as the emerging economic powers Brazil, China, India, Mexico, and South Africa. Our work shows that, in the past, each G8 country, except Russia, and China experienced a period of reduced emissions per unit of per capita GDP, but those emissions are now increasing. For Russia, Brazil, India, Mexico, and South Africa, there was no recent period of decline in emissions per unit of per capita GDP.

Indur Goklany's research on the history of U.S. air pollution control tells us that when faced with the possibility of real harm from a pollutant, the American people have always taken action to mitigate that harm. As incomes rise, Americans and other people in higher income countries reduce emissions that pose less certain threats. But if costs rise for dealing with those less harmful emissions, people back away, even as incomes continue to rise. The retreat will be even faster when incomes fall during periods of extended recession.

As suggested by the behavior we observed in our work, the control of carbon emissions is a case where the costs imposed by not taking action are apparently less than the cost of doing something now. Couple that with the current economic woes, and it seems unlikely that the United States or any other nation would undertake serious emissions controls that would threaten GDP growth.

But what would happen if the United States were to push ahead with carbon control anyway? Our estimates show that China emits 2,173,000 metric tons of carbon to yield a \$1 increase in per capita income. The United States emits 204,000 metric tons to get a dollar, and France emits just 2,470 metric tons to accomplish the same end. In other

words, significant and costly reductions in carbon emissions from the United States or France will quickly be offset by expanding GDP in China.

Mr. Hu has promised that China will continue to grow per capita GDP. So should the United States.

The 1,400-page Waxman-Markey climate change bill containing a costly cap-and-trade program and a rich barrel of pork for favored constituents has passed the U.S. House and is now being debated in the Senate. If adopted, the cost of the proposed program, according to U.S. Treasury and other estimates, would equal a tax that generates revenues ranging from \$100 billion to \$200 billion annually. This turns out to be an annual tax on each U.S. household of between \$880 and \$1,761 — or as much as a 15 percent tax increase. If the proposal becomes law, American households will be paying for carbon reductions that will easily be offset by emission growth in China and elsewhere. This, of course, is the prisoner's dilemma faced by all who seek to do something about climate change.

A more sensible and less costly policy option would be for the United States to focus on improving incentives for discovering new, cleaner technologies. Chief among these is elimination of the capital gains tax. Instead of spending billions annually on carbon permits, millions might be spent to support carbon mitigation experiments that will reduce control costs for the developed and the developing world. These experiments could include the application of new technologies that mitigate carbon emissions once in the atmosphere as suggested recently by Bjørn Lomborg in a September 1, 2009 *Wall Street Journal* column. And then, as suggested by China, there is the option to expand the use of proven technologies such as nuclear-generated power, carbon sequestration, and ocean injection.

Our research suggests that Copenhagen will not see acceptance of binding agreements to make meaningful reductions in carbon emissions. This is not the time to cap and trade. But it is the time to get serious about applying our scarce resources to actions that are known to improve human well being. **R**

Jody Lipford is professor of economics at Presbyterian College.

Bruce Yandle is Alumni Distinguished Professor of Economics Emeritus at Clemson University, Distinguished Adjunct Professor of Economics at the Mercatus Center at George Mason University, and senior fellow at PERC.