
Climate Change: What if They're Right?

BY MAX BORDERS

What do Pat Robertson, Gregg Easterbrook, and Michael Shermer have in common? They've all moved from climate-change skepticism to the "global warming consensus." These leading lights may help guide others toward this consensus too. And given the possibility that believers in global warming are right, I'd like to be charitable and suppose that, first, this consensus is built on the best available science and not just an academic herd mentality, and second, that anthropogenic climate change will yield predictable ill effects.

The itching question becomes: *What do we do?* If your answer is "Get the government to do something," eight world-class economists will give you a failing grade. The economists are Jagdish Bhagwati, Bruno Frey, Justin Yifu Lin, Nancy Stokey, and Nobel laureates Vernon Smith, Douglass North, Robert Fogel, and Thomas Schelling. They comprise the panel assembled by the Copenhagen Consensus Center, headed by Bjørn Lomborg, author of *The Skeptical Environmentalist*. In 2004 the panel, which operates under the auspices of the Copenhagen Business School, inquired into which of the world's major problems would be most soluble (measured by bang for the buck) if \$50 billion were available for the task. On a list that included diseases, malnutrition, and economic problems, the group ranked global warming

The Copenhagen Consensus inquired into which of the world's major problems would be most soluble if \$50 billion were available for the task. On a list that included diseases, malnutrition, and economic problems, the group ranked global warming dead last.

dead last. In the language of cost-benefit analysis, government fixes for climate change promise big costs with little to no benefits. (The top-ranked proposal was control of AIDS/HIV. A complete analysis of the rankings is found in *Global Crises, Global Solutions*, edited by Lomborg. The panel will meet again in 2008.)

But you don't need Nobel laureates to explain why government solutions to climate change are wrong-headed. Let's linger on the main solutions offered: cap-and-trade and carbon taxation.

A Kyoto-style cap-and-trade system is one in which a government committee establishes an "acceptable" level of greenhouse-gas emissions for relevant industries. If a plant releases greenhouse gases in excess of the standard, it may go into the "carbon market" and purchase units from other companies that have emitted less than the standards call for and so can sell credits. Thus the process uses quasi-market mechanisms to cut emissions—purportedly minimizing costs to the plants.

Capping might work well to clean up, say, the Chesapeake Bay. But if applied globally the problems are manifold. First, no cap-and-trade system yet conceived

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has been able to promise a significant reversal in warming trends. (Even a number of Kyoto signatories have admitted this fact.) To bring about an abatement of warming (based on current climate science), cap-and-trade standards would have to be set so high that many industries would be crippled, with unforeseeable ripple effects, potentially leaving millions without work in the developed world. If there are fewer economic resources as a result of the standards, it will be harder to adapt to local global-warming problems.

Second, a truly effective cap-and-trade system would require virtually unanimous agreement from the developing world as well. If developing countries were to opt out, their industries would produce more while industries in the developed world produced less. So emission-levels would remain unchanged at best. On the other hand, even if the emerging giants—for example, China, India, Russia—were somehow convinced to agree to a cap-and-trade scheme, their development would be severely retarded, leaving millions destitute.

Third, unanimous international agreement, even if it wouldn't sound the death knell for the developed economies, would kill the hopes of the poorest nations.

But unanimity is not feasible, given the incentives to defect. And temptations to do so by high-growth industrial newcomers like China would be especially great. Cap-and-trade would thus provide an indirect subsidy to the developing world—with all its dirty, less-sophisticated carbon-emitting industries. Emitters would subsequently be encouraged to move to defectors' shores—often to countries with poor political institutions—despite the risks. This outcome would mean little for economic growth in the developed world, force industrial collusion with corrupt governments in the developing world, and do nothing for climate-change abatement. (Indirect subsidies to poor countries may sound great to someone who cares about global redistribution; but it does not bode well for those keen to stop global warming.)

In short, an international cap-and-trade system would seem to offer an unpleasant choice of evils. Ad hoc attempts to lessen such evils after the fact would result in unintended consequences and epicyclical policies.

Carbon Taxes

What about carbon taxes? Overall, similar cost-benefit disparities affecting cap-and-trade apply also to taxes. But at least to some with a market orientation, taxes would have the effect of directly taxing a “bad” (greenhouse-gas emissions) rather than unpredictably taxing a “good” (such as revenues). Thus companies would pay to pollute, and the economic effects would be easier to predict and measure.

The U.S. government largely agrees, and in comparing the two schemes, it comes down largely on the side of taxes. According to the Congressional Budget Office's issue brief “Limiting Carbon Emissions: Price Versus Caps” (March 15, 2005):

If we keep getting richer, we may find technological measures both for mitigating negative effects of climate change as well as for sequestering greenhouse gases.

The cost of meeting a given cap on carbon emissions is likely to be difficult to estimate for at least three reasons. First, the cost of meeting a future cap would vary significantly with the amount of growth in carbon emissions in the interim. Those emissions are difficult to predict: they are a function of numerous factors, including population trends, economic growth, and energy prices.

Second, policymakers have less information about the cost of controlling emissions than do the firms that create them. Third, the cost of meeting the future cap will depend on the technologies that are developed to reduce carbon dioxide emissions and the economic consequences of adopting those technologies—neither of which can be predicted with certainty.

But in terms of abatement, it's not clear that taxes could reduce emissions as effectively as caps. In fact, most economists believe that a cap-and-trade system would have a more predictable (and forceful) effect on abatement—notwithstanding its effects on the economy.


So, sort of like with Heisenberg's Principle, it's all in where you want your uncertainty.

Opting for Taxes

It is predictable that the government would opt for taxes: it likes the revenue. Similarly, "bootlegger and Baptist" coalitions—alliances of privilege-seeking firms and moralistic environmental activists—would benefit more from taxation than capping. Clever companies like Duke Power and Progress Energy have already begun to side with environmental groups to lobby government for carbon taxes instead of caps. Why? So they can benefit from their competitors' taxation woes. (Progress and Duke have nuclear and natural-gas interests.) Alas, rent-seeking companies would turn right around and burn their natural gas for energy, only to leak methane, which has a 25-times greater greenhouse effect than carbon dioxide. Of course, methane and H₂O emitters could be

taxed too, but then you're back to the overall problem of how much of the global economy you have to cripple before the globe cools down.

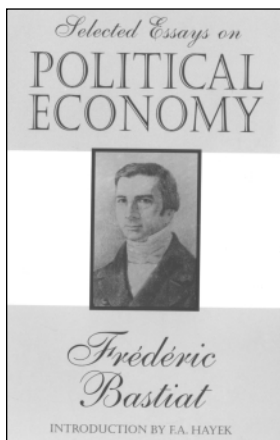
In any case, the Copenhagen Consensus panel and a number of other economic realists think the best thing we can do for climate change is to make local adjustments. (See "Living with Global Warming" by Indur Goklany, www.ncpa.org/pub/st/st278/.)

If we keep getting richer, we may find technological measures both for mitigating negative effects of climate change as well as for sequestering greenhouse gases. Until then, very few credible economists argue that we should slow growth or hobble the global economy—assuming, that is, the climate change skeptics are wrong. What we are left with, then, is an ironic symmetry between two sets of consensus: one that says man is warming the earth and one that says we'll do best simply to adapt. 

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