

Cap and Trade: The New Boogeyman In America

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Article:

We've seen the raucous town-hall meetings on health-care reform. But there's another policy debate where strong language is the norm: cap and trade. Rush Limbaugh says it's based on hoaxes. Sean Hannity calls it a "job killer." Others call it socialism. Are they right? Should we fear cap and trade?

Known more formally as emissions trading, cap and trade (C&T) is a tool for regulating pollution. Since the mid-1990s, a successful C&T program has regulated sulfur dioxide, the main ingredient of acid rain. The current controversy is whether to apply C&T to the carbon emissions behind global warming and climate change.

Economists generally love C&T. In economics, pollution is a problem because there's no incentive for anyone to reduce it. Under C&T, the government corrects this by establishing a market for pollution permits or allowances. A polluter, whether a power plant or a manufacturing facility, can emit the pollutant in question only if it owns sufficient permits. Because permits are tradable and hence have value, using them comes with a cost, and there's your incentive not to pollute.

Of course emissions can be reduced by other policies, including explicit mandates. The particular benefit of C&T is that it achieves a given reduction for the lowest possible cost to society. In other words, among antipollution programs, C&T is the least likely to be a job killer.

It's also difficult to take seriously the claim that C&T is a socialist scheme. Not only does C&T harness the efficiency of markets, but it was first implemented by a Republican president and advocated in the 2008 campaign by John McCain. When the C&T program for acid rain was being debated in the early 1990s, the biggest skeptics were liberal environmentalists, who you'd think would love socialism.

One of the key details of C&T is how the permits are distributed. In the acid-rain program, most are given out for free, which means that it's possible for companies able to cut emissions to profit by selling permits.

The carbon C&T bill passed by the House of Representatives in June would also give away most of the permits. Some early opposition grew out of the Obama administration's desire to auction off the permits. C&T with auctioned permits leads to the same outcome but generates revenue for the government. It's roughly equivalent to a carbon tax, though C&T is superior in that there's less uncertainty about the resulting level of emissions.

What about the scary predictions that C&T will wreck the economy? There will be costs, after all, including higher energy prices. The Congressional Budget Office did an analysis of the impact the House bill would have in 2020, by which time the economy will have adjusted to the program. The CBO projects that carbon C&T will cost the average household \$165 per year (in 2010 dollars), or about 0.2 percent of after-tax income. Poorer households could actually benefit.

Given that unchecked climate change is projected to cost the U.S. from 1 to 2 percent of GDP per year, C&T could be a good deal.

Until now, I've made no mention of many conservatives' persistent belief that human actions have nothing to do with climate change. It's a belief that ignores the findings of mainstream science, and my guess is that this explains much of the vehement opposition to carbon C&T.

C&T is the sort of program conservatives should at least tolerate, but it's become the political shorthand for an environmental problem that many conservatives believe doesn't exist.