

Climate Change: Pricing Emissions is the Wrong Solution

Friday 16 April 2010, by [ANGUS Ian](#) (Date first published: 15 April 2010).

"The greenhouse gas problem is not a pollution problem, and if you apply pollution thinking you will come up with bad policies." A criticism of Paul Krugman's NYT article

The cover story in the April 5 *New York Times Magazine* is "Building a Green Economy," [1] by noted economist Paul Krugman. Rather than the paean to non-polluting industries you might expect from the title, Krugman has written a useful summary of the current thinking of mainstream liberal economists on how "to make drastic cuts in greenhouse-gas emissions without destroying our economy."

Krugman rejects right-wing claims that any serious attempt to cut emissions would lead to economic disaster.

"once you filter out the noise generated by special-interest groups, you discover that there is widespread agreement among environmental economists that a market-based program to deal with the threat of climate change — one that limits carbon emissions by putting a price on them — can achieve large results at modest, though not trivial, cost."

He offers a very clear explanation of the case for putting a price on emissions — essentially that higher prices for emission-intensive products will cause consumers to choose greener alternatives, forcing businesses to use their creativity to reduce their emissions.

The emissions price could be set either through a direct carbon tax or by a cap-and-trade system. Krugman concludes that the latter is the only real option, not because it is objectively better, but because "there is no reason to believe that a broad-based emissions tax would make it through Congress."

Like every other advocate of cap-and-trade, Krugman cites the example of the successful US effort to reduce sulfur dioxide emissions.

"The Clean Air Act of 1990 introduced a cap-and-trade system in which power plants could buy and sell the right to emit sulfur dioxide, leaving it up to individual companies to manage their own business within the new limits. Sure enough, over time sulfur-dioxide emissions from power plants were cut almost in half, at a much lower cost than even optimists expected; electricity prices fell instead of rising. Acid rain did not disappear as a problem, but it was significantly mitigated. The results, it would seem, demonstrated that we can deal with environmental problems when we have to."

A similar plan for CO₂ and other greenhouse gases could achieve the same results, he argues. The only issue is whether to raise the price of carbon rapidly, as British economist Nicholas Stern proposes, or gradually, as proposed by conservative Yale professor William Nordhaus. Given what he sees as a small but real danger of catastrophic climate change if action isn't taken soon, Krugman leans towards a fast implementation.

Krugman's article worth reading, if only because it explains the views of most contemporary

capitalist economists very clearly, in terms a non-economist can follow easily. If you've ever puzzled over the arcane language of cap-and-trade, this is a good place to start.

But that doesn't mean that he gets it right. His deep-seated ideological commitment to capitalism as the only reasonable economic system blinds him to the dangers — to the planet and all of its inhabitants — of leaving the global warming solutions to the tender mercies of corporate creativity.

Past experience has shown that the preferred corporate response to measures such as carbon taxes and trading is not new technology but creative accounting — lying about their emissions, or shifting the emission-intensive parts of their operations to places that have less strict regulations. The most important result of the European Trading System and Kyoto's Clean Development Mechanism has been not lower emissions but new forms of corporate fraud.

If the corporations can't cheat their way out, they will use their political clout to weaken the rules, create exemptions, block enforcement and more. It's rare to find a liberal politician who won't bow to lobbying when corporations threaten to lay off workers or move overseas (or cut campaign contributions) if they don't get their way.

The wrong problem

But even if lobbying fails and fraud is prevented through some massive international monitoring system, emissions pricing will be the wrong way to go because it addresses the wrong problem.

This vital but little-understood point is made very well in an article by Peter Dorman, published this week on Real World Economics, a blog for articles by economists who reject neo-classical orthodoxy. [\[2\]](#)

Although it is politely titled "What's Missing in Paul Krugman's Climate Economics Primer," Dorman's article is actually a powerful critique that undermines Krugman's most basic assumptions. All of his criticisms are important, but to my mind the most devastating is the following counterintuitive but entirely convincing argument.

"The greenhouse gas problem is not a pollution problem, and if you apply pollution thinking you will come up with bad policies.

"This is a problem for economists, since they have all been trained to see environmental problems in terms of pollution. You will see in Krugman's article, for instance, a comparison between the climate crisis and the problem of acid rain. Acid rain was due to, among other causes, sulfur emissions from industrial smokestacks. A cap and trade system was set up to limit the amount of these emissions, and the acid rain problem has been ameliorated. Drawing on this experience, Krugman advocates cap and trade for carbon. If carbon were a pollution problem he would be right, but it's not.

"Without going into detail, recall that there is a massive, planetwide carbon cycle, with huge quantities of carbon continually flowing between the atmosphere, the oceans and terrestrial ecosystems. The flow of carbon from land and sea back up to the atmosphere is not the problem; it is part of the cycle. The problem is that humans are burrowing into the earth to dig up carbon sources like coal, oil and gas that have been sequestered for hundreds of millions of years. We are adding them to the carbon cycle, so that there will be more carbon everywhere, up in the sky and down on the earth's surface.

"What this means is that it is an error to try to mitigate climate change by controlling the 'emissions' of carbon from human actions. If the carbon has been dug up and added to the carbon cycle, it will

find its way into the atmosphere no matter what we do. And the carbon we emit that came to us from the atmosphere and will simply return there is not the problem. This is a highly simplified version of the science behind climate change, and a longer account would explore the eddies and unevenness of carbon cycling, but it's the right starting point.

"Once you see that the pollution paradigm is wrong, two conclusions follow immediately. First, what needs to be priced is not the carbon we emit, but the carbon that enters the cycle by being extracted from the earth. That doesn't invalidate Krugman's broad generalizations, but it does suggest important dos and don'ts about carbon policy. Don't try to regulate the burning or other use of carbon on an industry-by-industry basis. Don't try to micromanage personal behavior or industrial processes. Do keep carbon fuels in the ground, either by slapping high prices on their extraction, or directly restricting the amount that can be taken out.

"The second point is that the offset business, by which permits to extract fossil fuels can be set aside in return for promises to plant trees or improve industrial processes in other countries, is a ruse. It promises to make a lot of money for those in the right places, but it is antithetical to sound policy. Period."

In short, our objective should not be reduce emissions, but to eliminate the stuff that causes emissions.

- Leave the coal in the hole.
- Leave the oil in the soil.
- Leave the tar sand in the land.

That will require far more profound changes than are dreamt of in Krugman's philosophy.

by Ian Angus

Footnotes

[1] <http://www.nytimes.com/2010/04/11/magazine/11Economy-t.html?ref=magazine>

[2] See on ESSF: [What's Missing in Paul Krugman's Climate Economics Primer](#)