

Climate Policy Panel Discussion (Video)

Kiesling:

- Two problems with climate change:
 1. incomplete property rights
 2. everyone is affected

} makes it hard for markets to work well
- Two (imperfect) solutions
 1. carbon tax
 2. cap and trade
- Economists have learned that the solution to common resource problems lies in defining property rights and reducing transaction costs...this is the logic behind cap and trade
- Problems with cap and trade:
 1. how to allocate permits? prone to political manipulation
 2. how many permits to allocate? (knowledge problem)
 3. heterogenous producers (unlike with acid rain)
- Problems with carbon tax
 1. knowledge problem
 2. political manipulation
- Which is better? Cap and trade! Why? Because the knowledge problem is less severe (trading permits will allow markets to generate knowledge) and because this system is more likely to encourage innovation.
- Two related points:
 1. Voluntary climate exchange (Chicago Climate Exchange, CCX)
 2. Better pricing of electricity (Time differentiated dynamic pricing, etc.)

Bailey:

- Global warming exists in a commons. Two ways to handle commons:
 1. privatize it (as we've seen with forests, fisheries, and water)
 2. regulate it (here he means government action more broadly)

- The atmosphere is very hard to divide up and make into private property. Transaction costs are too large. European experience is a complete disaster (the governments cheat by allocating too many permits...this caused price of permits to go to zero...if Europeans can't do it, how can the whole world!)

- Taxes are the least bad way to regulate carbon emissions. Reasons tax is superior:
 1. With taxes there is a baseline (what is India going to emit in 30 years?)
Easier to internationally monitor

 2. tax offers price stability for consumers, inventors and innovators, whereas in the sulfur dioxide market, sulfur permits ranged from \$50-\$1,000 a ton

 3. taxes are the simpler solution needed in a complex world

Smith:

- Should we favor taxes or rationing (cap and trade) over economic liberalization?
- Global Warming Alarmists have to answer three questions:
 1. does the science indicate imminent catastrophe? Is the 0.7 degree centigrade increase over the last century offset or not by the 1,800% increase in wealth over the same period?
 2. Is the warming impact really negative?
 3. Are the policy proposals politically feasible? (Esp. for India, China...taxes are only possible on the economic blackboard)
- Global warming is moderate, and we can't do anything about CO2 increases over the next 50 years
- Tensions created by rationing are underestimated (recall one reason the war party gained power in Japan was an energy boycott on Japan)
- In short, the economic benefits of energy use outweigh both the environmental costs and the political costs of proposed policy solutions
- If we are going to "do something" we should consider:
 1. R&D (mirrors in space, fertilizing the oceans)
 2. Biotechnology to modify our crops to deal with changing climate
 3. free trapped energy in electricity grid
 4. move fire, storm and other insurance out of the government subsidy range and back into the private sector so people won't live in high risk areas
 5. liberalize energy exploration
 6. Nuclear power

Discussion:

Kiesling:

- Just b/c Europe can't do cap and trade doesn't mean it's a bad idea. Their scheme is too politicized and centralized. A better market design could improve a future system.

Smith:

- Let things be; the costs of not using energy are larger than the costs of either tax or cap and trade, and global warming

Bailey:

- New technology won't emerge without incentives. If it were easy, to create low-carbon energy, we would have it already.
- Energy use will increase dramatically over next 30 years...China builds one coal fueled plant a week
- Debunking mindset has caused conclusions that were wrong w.r.t. global warming; this arose b/c environmentalists were wrong about other things, so we thought they'd be wrong about this too

Kiesling

- Biggest participants in CCX are Ford and AEP...they're hoping to forestall regulation by making it look like they're doing something. Also, it's good PR.

Bailey

- Government won't innovate, only private sector will

Kiesling

- In Europe gas taxes have encouraged innovation, e.g. in diesel engine technology