

Cap and Trade Is about Seizing Power, Not Saving the Planet

By Robert P. Murphy, Ph.D.

Summary

Whether the issue involves the economy, education, health care, or the environment, the common denominator to every act of the Obama administration is the centralization of wealth and power in the federal government. Our political system, based on the concept of limited government, and our economic system, an engine that created the largest and most prosperous middle class in the history of the world, is quickly being replaced by a command-and-control model of government that has never produced prosperity or allowed liberty.

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Poor and middle-class consumers won't realize that they are paying higher prices in order to put billions into the pockets of shareholders of politically-connected corporations receiving allowance handouts.

Back in June the House narrowly passed H.R. 2454, the Waxman-Markey "American Clean Energy and Security Act." Earlier this month a comparable bill was passed by the Environment and Public Works Committee, chaired by Barbara Boxer, that will now go to the full Senate. The cornerstone of both bills is a "cap-and-trade" proposal that would sharply reduce U.S. emissions of greenhouse gases. Yet the legislation would transfer ever more money and power to Washington, while doing little to affect global warming.

Although the two bills differ in details, the broad cap-and-trade proposal is the same: relative to 2005 levels, U.S. emissions of greenhouse gases would be cut 83 percent by 2050. To give some perspective, Steve Hayward of the American Enterprise Institute has calculated that the 2050 target would bring U.S. emissions back to the level of 1910. Once we factor in the huge growth of population, the 2050 target would reduce per capita U.S. emissions back to the level of 1875.

Cap and trade works like this: each year the federal government issues a certain number of permits or "carbon allowances," entitling businesses to emit the stated amount of greenhouse gases. (This is the "cap.") The permits could then be bought and sold on a market. (This is the "trade.") Over time, the government would steadily shrink the overall cap. This in turn would raise the market price of each permit, leading businesses to reduce their "carbon footprint" as a way of minimizing expenses.

Proponents call cap and trade a "market solution" because it relies on price incentives rather than top-down mandates. Under cap and trade, individual firms would reduce their emissions until the point at which further cuts would cost more than the going market price for buying emission allowances. In theory, cap and trade allows the economy to achieve the desired total emissions target at the lowest possible cost.

Yet does the theory really stand up in reality? There are many clues suggesting that the answer is no. For one thing, most economists, including the CBO analysts who favor some form of carbon legislation, think that a straightforward *carbon tax* makes more sense than cap and trade. An explicit tax on greenhouse gas emissions is more predictable than the fluctuating

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market price of carbon allowances, making it easier for businesses to plan their future operations and thus lowering total compliance costs.

This raises a puzzle: if Congress is simply trying to stop harmful global warming, why is it relying on a policy (cap and trade) that will have higher compliance costs than other options? The answer is simple: no politician wants to vote for a “tax on energy,” especially in the middle of a recession. Since the public doesn’t really understand that a cap-and-trade scheme would raise consumer prices, it’s much easier for the politicians to support this *stealth* carbon tax, rather than the real McCoy.

From the politicians’ viewpoint, another “virtue” of cap and trade is that it allows them to shovel billions of dollars to their favorite constituencies without upsetting the voters. This is another example of how the politicians aren’t following “expert advice” to solve the alleged problem. Environmental economists, who are worried about global warming, suggest that the government could auction off 100 percent of the allowances under a cap-and-trade system, and then use the collected receipts to reduce other taxes. In this way, the government could allegedly deal with the threat of global warming without the need for extracting additional taxes from the economy. However, the politicians aren’t doing what the economists recommend. Instead, they are using the rhetoric of global warming to suck more and more resources from the private sector.

Yet again, we see that in practice the politicians aren’t pursuing the least-cost strategy. Instead, the provisions in the enormous House and Senate bills offer complicated handout schemes, by which various groups such as state and local governments receive emission allowances for free. Because these allowances will have market value, it is equivalent to the government handing out cash to these favored groups. Poor and middle-class consumers won’t realize that they are paying higher prices in order to put billions into the pockets of shareholders of politically-connected corporations receiving allowance handouts.

Even if we concede the basic premise that greenhouse gas emissions contribute to harmful global warming, the government is *not* implementing the solutions that environmental economists recommend. Instead, the actual legislation has far more to do with widening Washington’s control over the economy. “Saving the planet” is just an excuse for another power grab in D.C.

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