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## **Conservative Opposition to Market Solutions to Environmental Problems?**

A group of conservative economists recently captured headlines by arguing that the solution to global warming is not for the government to regulate the emissions of greenhouse gases, but, rather, for the government to subsidize research and development that would make solar and other low-carbon energy sources more efficient and competitive with fossil fuels.<sup>1</sup> This group argued that mandating cuts in greenhouse gas emissions would damage the nation's and world's economies, costing "trillions" of dollars, a small fraction of which could, instead, be used to develop those new, low-carbon, energy technologies. In particular, they objected to the adoption of a "cap and trade" framework that would effectively put a price on greenhouse gas emissions, discouraging and penalizing such emissions.

There is something bizarre about a group of conservative economists objecting to the use of markets to help solve our most serious environmental problem. Most economists explain the existence of damaging levels of pollution on the fact that valuable and scarce environmental resources are available to everyone for use for free. When the price of something is zero, it is bound to be overused since there is little incentive to conserve it or use it efficiently; hence the overuse of and damage to many parts of the natural landscape and environment.

It is economists who "invented" cap-and-trade as a way to combine regulation and markets to find the lowest cost solutions to some environmental problems. To have

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<sup>1</sup> Bjorn Lomborg, Copenhagen Consensus Center, Copenhagen Business School, <http://www.copenhagenconsensus.com/Default.aspx?ID=1148#>

conservative economists argue, on principle, that our atmosphere should continue to be available to all business firms and consumers **for free** as a sewer into which to dump damaging wastes, is incomprehensible. When they offer up government subsidies for government chosen pet projects as a preferred alternative, it is even more mind boggling. What were these conservative economists thinking?!

The answer to that is quite simple. As conservatives they have a strong distrust for government. The regulation of greenhouse gas emissions necessarily involves the extension of government authority to regulating the most common and widespread emissions into the atmosphere, namely carbon dioxide. Almost every business and household contributes to such emissions that would now, directly or indirectly, come under government control. In addition the sale of emission rights or a carbon tax could generate huge flows of wealth from the private sector to the public sector. Conservatives see this as potentially funding a huge expansion of government programs into lots of different areas. It is not surprising that conservatives find these potential results of a global warming policy appalling.

But they, like the rest of us, need to focus on the actual problems rather than on an implausible ideological argument to do nearly nothing. There is a real debate to be had over what revenues from greenhouse gas regulation should flow to the government to fund new programs and which should be more directly rebated to American citizens. Some of the people pushing for greenhouse gas regulations have the same concern as conservatives do about misdirected and wasteful government programs. That, however, is not an excuse for inaction on global warming. It just underlines the need to be very careful and critical to avoid wasteful subsidies and other pork barrel spending.

These conservative economists should know that government subsidies for energy research and development do not necessarily lead to low cost energy supplies and the adoption of the subsidized technologies. For decades the federal government has been subsidizing the development of mythical “clean coal” to no avail and has long subsidized nuclear power without making that power source really competitive in the United States.

One of the primary purposes of cap-and-trade or a carbon tax is to create incentives for the development and deployment of new technologies that reduce our carbon footprint. Without those incentives, new ideas can remain simply curiosities. If businesses and households continue to have free access to the atmosphere to dump the waste products associated with burning fossil fuels, there will be little incentive to reduce that impact no matter what technology is available. Cap-and-trade is intended to put such a system of rewards and penalties in place so that people will be eagerly hunting for and deploying new low-carbon technologies. Incentives and prices matter.

Americans lead the world in the inefficiency of their motor vehicle fleet **not** because we have failed to find a magical technology to improve the efficiency of our cars and trucks but because until recently gasoline was so cheap relative to our incomes. The recent fly-up in oil, gasoline, and natural gas prices has shocked Americans into reconsidering the viability of their SUVs, the attractiveness of shared transportation options, and the value of energy efficiency measures.

What is curious is that these conservative economists do not object to these sky-high and rising energy prices because they believe the “market” produced **those** results. Yet they strenuously object to a cap-and-trade program in greenhouse gas

emissions that would create a market for those emissions and likely cause the market value of the right to emit greenhouse gases to rise to a relatively high level. **That** market result, they tell us, would be “bad” for our economy. Apparently they want to pick and choose on an ideological basis when markets and incentives should be used to encourage the careful use of scarce resources.

That, however, is neither conservative nor economic.