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Carts, Horses, Chickens, and Eggs in Bush's Approach to Global Warming

Global warming and the appropriate public policy response were the focus of multiple international conferences last week. The week began with a one-day United Nations Conference followed by President Bush's conference of the world's largest nations, which not surprisingly, are also the largest emitters of green house gases.

The United States continues to take the lead in insisting that governments should not use anything but words, the bully pulpit, to try to head off catastrophic global warming: Government regulation or taxation of emissions are emphatically rejected. Only voluntary actions by private firms and citizens and government spending on the development of new technologies potentially to reduce emissions are acceptable to Bush.

Bush's justification for rejecting government imposed limits or taxes are very familiar. They are the same objections that have been raised against each and every environmental protection measure ever adopted: namely, that environmental regulations or taxes that constrain private economic activity in any way damage the economy, making us poorer and less able to afford to protect the environment. Instead we should promote as much economic expansion as possible, making the nation as rich as possible. Then, with our enhanced affluence, we will be able to afford to do more good things like voluntarily reducing our impact on the natural environment.

This Pollyannaish approach simply expresses a faith that the damage done to the environment by that enhanced economic growth and the increased levels of

production and consumption will be magically offset by the do-gooding impulses that are sure to follow our growing affluence.

But that is just one of the outrageous assumptions being made by Bush. The whole policy is based on another false premise, namely that environmental protection comes at a very high economic cost that significantly impoverishes us. The modern environmental movement began in the 1950s and gained considerable momentum during the 1960s and 1970s. We have half a century of experience with the economics of environmental protection. That actual experience has been studied in detail to measure the size of the economic costs that have always been trumpeted when emission control measures have been proposed or enacted. The results of those studies have been that the actual economic costs are near zero or very low and quite affordable. Our economy has not been significantly damaged by our efforts to protect ourselves and the natural world we inhabit.

The reason that the Clean Air and Clean Water Acts, the Endangered Species and Wilderness Acts, and many other federal, state, and local government environmental policies have not had significant negative impacts on our economy is that once the rules of the game have been modified and embodied in laws and regulations that are expected to become a permanent part of the economic landscape, our businesses go to work to minimize the costs of complying with those new regulations. They develop and deploy new technologies that allow them to operate within the new limits at a much lower cost than the previous production methods allowed.

Entrepreneurial businesses do not fatalistically accept the limits and higher costs that environmental regulations would otherwise impose. They go to work to find ways of

modifying their production processes and hunt for alternative inputs or new products to serve the same purpose. Other businesses begin developing new technologies and marketing them to firms that would otherwise be constrained by the new environmental regulations. In short, we respond to environmental regulation by adapting and innovating.

What is important here is that there has to be an incentive system in place to encourage all of this creative adapting and innovating and to justify the investment in the new processes and products. It is that serious set of incentives, created across the nation and across the economy that the Bush Administration does not want to help craft. As a result, a good deal of its expenditures on developing technology in the abstract will not be entrepreneurial or effective. It will simply be more Congressional pork barrel, with billions upon billions of dollars wasted, often with catastrophic environmental consequences along the way.

Wall Street and corporate America are increasingly begging the federal government to change course and provide clear, transparent leadership in the form of systematic regulation of the release of green house gases so that our economy can then swing into action to find the cost minimizing ways of meeting those emission limits. Our business leaders, unlike Bush's cadre of political ideologues, are not afraid of limits on green house gas emissions. They are confident that they can both creatively meet them and in the process develop new technologies and products that they will be able to market profitably. They just want to know that the national and international rules of the game are going to be.

Uncertainty and confusion do not make for a good business climate. Ill-specified economic rules of the game and property rights do not encourage innovation and investment.

The Bush Administration seems committed to making our transition to a sustainable climate policy as slow, costly, and destructive as possible. Whatever Bush calls his policy, it is grossly anti-economic and certain to leave us and the rest of the world worse off in the end.