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## ECONOMIC NEWS UPDATE

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### **Warning Solutions Aren't Always Cool**

If you follow the media you must think that *everyone* agrees that the earth is warming, and that it is our fault because we create greenhouse-gas emissions by driving, flying, heating and cooling our homes, and making other uses of fossil fuels. And you must think that *everyone* agrees that unless something is done, and soon, the polar ice cap will melt, floods around the world will become more frequent and more lethal, and hurricanes will increase in intensity and frequency. If you don't believe this calamity is upon us, go see Al Gore's movie, "Inconvenient Truth".

Well, not *everyone* thinks our future is so dire. There are responsible scientists who attribute recent warming to the natural long-run rhythms of the weather cycle. Others concede that the earth is warming, but say that it is important not to panic lest we rush to adopt excessively costly solutions. Still others urge us to "Cool It," the title of a wonderfully readable new book by Bjorn Lomborg, an economist specializing in environmental matters.

No matter: enough people believe something must be done to propel politicians into action -- not always a good thing. The Bush administration and the congress want to lavish still more funds on growers of corn so that what was once a food crop can be converted into ethanol, a gasoline substitute. This has had at least two unfortunate unintended consequences. First, corn prices have been driven so high that (even after a recent easing) poor Mexicans can no longer afford their tortillas, and American housewives find the prices of everything from salad oil to dairy products and meat (corn is an animal feedstock) hitting new highs. Second, farmers around the world are rushing to clear land to make room for products that can be converted to fuel -- it's called deforestation. These unintended consequences matter little to most politicians, especially those eager to please corn-growing lowans who will troop to the polls in the nation's first presidential primary.

Those who are less enthusiastic about the ethanol solution see our salvation in a revival of the nuclear power industry. These plants produce electricity without emitting the greenhouse gasses that are alleged to cause global warming. But they are expensive, and cannot be built without substantial subsidies, either paid directly by taxpayers or hidden as a surcharge on electricity bills. And they do produce waste which Senate leader Harry Reid has sworn will never find its way into the storage site that can accommodate it, that site being located in his home state of Nevada. Besides, new nukes can't do much to reduce consumption of oil by our cars and trucks, at least until we figure out how to run these vehicle for long distances at high speeds on batteries, without sacrificing other economies of operation.

Then there are the technology worshippers, each of whom has an invention that will enable our automobiles to do without gasoline, or permit us to heat and cool our homes without connecting to the electricity grid, or will generate power from renewable resources. There is no question that many of these technologies do work. But they are expensive -- and not without environmental problems of their own, ranging from the vast spaces needed by solar generating plants, to the visual and noise problems incident to the operation of wind machines. Still, congress stands ready to spend taxpayers' money on research and development of these sources, although history suggests that our government, which squandered something like a cool billion dollars on a failed attempt to liquefy coal, is just not well suited to pick winners. Better to leave this chore to the many hard-nosed venture capitalists

who stand ready to bet their own money on technologies that look promising.

None of this means that it would be wise to hope that doing nothing will prove prudent. What is needed is some method of making fossil fuels more expensive so that alternative fuels will be more competitive and attractive to consumers, and therefore attract private capital. Most economists agree that the solution is a tax on fossil fuels. After all, use of these fuels imposes costs on society that are not paid for by the drivers and homeowners who use them. A tax would make them pay, and at the same time encourage the development of efficient alternatives.

Congress' most senior member, and a veteran of energy wars for some fifty years, understands that, and is preparing to propose a tax carbon. Cynics say that John Dingell, the Michigan congressman who is known both for his defense of the interests of the automobile industry, and his shrewd legislative skills, is simply calling the bluff of his very green Democratic colleagues, who try to conceal the costs of their environmental programs. No matter, Dingell, an old friend, has got it right.

But congress will prefer a cap-and-trade system, which is less efficient, but has the political virtue of loading the costs of emission reduction onto America's corporations, who will then have to pass these costs onto consumers. Watch the greens' lips: no new taxes -- just higher prices for manufactured goods.

Dingell's approach would raise the cost of emitting greenhouse gasses, and leave it to the markets and private investors to decide which of the new technologies solve the warming problem

at lowest cost. Other schemes, such as cap-and-trade, do the same thing, but not as well and at greater cost. But both at least depend on markets to sort out alternatives to fossil fuels, or to make it more expensive for consumers to continue current consumption patterns.

Meanwhile, approach media reports with care. One example: we are told that global warming will increase flooding. The fact is that warming will indeed increase precipitation but, as Lomborg points out, “If we check out *when* the increase happens, it turns out that it happens mostly during the fall, when there is generally lower [river] flow and little risk of flooding...”. Facts matter, even when making environmental policy.

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