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## Cap-and-Trade System Rewards Special Interests

by Andrew P. Morriss

CHAMPAIGN, Ill. — "Cap-and-trade" sounds fabulous: those who emit carbon dioxide will have to obtain permits for their emissions. If they are able to reduce emissions cheaply, they will cut their emissions, enabling them to sell the permits they don't need to those who can't cut emissions as cheaply.

Thus, the efficient are rewarded, the environment saved. But once you read the fine print, cap-and-trade doesn't look as good.

First, for the system to be effective the permits must be worth something. Permits are valuable only if there are not enough of them available for current emissions levels.

President Obama originally proposed selling the permits through an auction, but special interests have already watered the bill down to provide that 80 percent of the permits will be given to existing emitters. The same thing happened under the European Union's plan, which failed miserably. As a result of the giveaway, the desired reductions won't appear.

Let's ignore that problem and imagine Congress decides on a system that will cut emissions.

As American legislation, the cap-and-trade system applies only to American emissions, but only 22.2 percent of the world's carbon-dioxide emissions come from U.S. sources.

Since it is world emissions that potentially affect the climate, reducing just one country's emissions does little good unless worldwide emissions are cut. As major sources like China (18.4 percent), European Union (15 percent), Russia (5.6 percent), India (4.9 percent) and Japan (4.6 percent) have not yet agreed to reduce their emissions, and many developing countries' emissions are increasing as their economies grow, reducing U.S. emissions merely puts American firms at a disadvantage to their foreign competitors.

Worse, by reducing U.S. emissions before we reach an agreement with other source countries, the United States would give up its most valuable negotiating chip without getting anything in return.

Since many major emitters including China and India have shown no willingness to reduce emissions on their own, a unilateral move by the United States makes it less likely that we will be able to negotiate an effective worldwide agreement.

Even if we could get other countries to sign on, a cap-and-trade system that works will be an economic disaster because it will raise the price of everything.

Unlike many other pollutants, carbon-dioxide emissions are the product of the combustion of carbon-based energy sources such as coal, oil, wood, and natural gas. Some 98 percent of U.S. carbon dioxide emissions are energy related.

Cutting carbon-dioxide emissions thus isn't a matter of tweaking an existing process or adding a filter to a smokestack - it requires either dramatic changes in energy production or major reductions in energy use.

For example, the federal Energy Information Administration's calculation of total system costs for land-based wind generated power turn out to be more than 50 percent greater than conventional coal or natural gas power.

Solar photovoltaic electricity costs four times the cost of power from coal or natural gas. Even if we could quickly increase wind's contribution from the 1.3 percent of electricity it generated in 2008, and reduce the percentage generated from fossil fuels from 70.9 percent, the cost of doing so would be staggering.

Yet to actually produce reduced emissions, cap-and-trade must significantly raise energy prices, and so the price of everything made using energy will go up. Such widespread price increases will likely produce both inflation and unemployment, returning us to the stagflation of the 1970s.

Cap-and-trade sounds good, but what it offers is either a chance for politicians to reward special interests or a road to economic ruin. As players in a struggling world economy, we can't afford either.

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