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OPINION

A Positive Path for Meeting The Global Climate Challenge

Climate policies that require public sacrifice and limiting economic growth are doomed to failure. To succeed, policies to reduce emissions must promise real benefits and must help make clean energy cheaper.

BY ROGER A. PIELKE JR.

This past year, the Indian government took two actions that help to illustrate which steps to decarbonize the global economy might work and which are unlikely to succeed.

In advance of the G20 Summit in Toronto last June, India proposed lifting a small fraction of its subsidies on kerosene, diesel, and petroleum, with the inevitable result being an increase in fuel prices for Indian consumers. What was the result of that price hike, which had the equivalent impact of a $30-per-ton carbon tax? Widespread riots and strikes. By the end of August, India's government had decided to delay implementation of the reforms, due to political opposition.

The other decision by the Indian government was to impose a small tax on coal, with the proceeds to be invested in renewable energy technologies. That small levy — expected to raise $535 million in its first year, despite imposing a tax equivalent to only 35 cents per ton of carbon — met with no public protests. Yet it could have a substantial impact on helping India develop its own green energy technologies.

The difference in public response to these government actions illustrates the immutability of what I call the iron law of climate policy: When policies on emissions reductions collide with policies focused on economic growth, economic growth will win out every time. Climate policies should flow with the current of public opinion rather than against it, and efforts to sell the public on policies that will create short-term economic discomfort cannot succeed if that discomfort is perceived to be too great. Calls for asceticism and sacrifice are a nonstarter.

> People are willing to bear costs to reduce emissions, but they are only willing to go so far.

The "iron law" thus presents a boundary condition on policy design that is every bit as limiting as is the second law of thermodynamics, and it holds everywhere around the world, in rich and poor countries alike. It says that even if people are willing to bear some costs to reduce emissions (and experience shows that they are), they are willing to go only so far.

That reality was certainly behind the failure of climate legislation in the U.S. Senate this summer. Putting a cap on carbon emissions sounds great. The problem is that it cannot work. All of the effort and politicking was fruitless, because the idea of placing a hard cap on emissions was a fantasy. A cap did not fly in the Senate because politicians were not going to do anything that might adversely impact their constituents or slow economic growth — especially during the U.S.'s worst economic recession in decades.

Given the death of climate legislation in the U.S. Senate, the failure of the Copenhagen climate conference last December, and the feeble efforts to reconvene a climate conference later this year in Cancun, Mexico, it is remarkable that anyone continues to advocate climate policies that to succeed depend upon a reduction in economic growth. The course that the world has been on for climate policy has created the conditions for policy failure. For some, the lesson is to reload and try again with the same strategies that have gotten us to where we are today. To me, that seems like insanity.

Pretty much everyone — even cap-and-trade advocates — agrees that innovation in energy technology must be at the center of any effort to accelerate decarbonization of the global economy. However, if we do not have all the technologies we need to quickly accelerate rates of decarbonization, then the only other driver of emissions reduction is a reduction in GDP. Yet if reducing GDP is not politically possible, then what necessarily must give way is the commitment to reducing emissions. That logic says emissions will continue to rise even in the presence of a cap-and-trade program if technologies are not ready at scale to rapidly accelerate

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decarbonization. To think that politicians are going to willingly impose discomfort or pain on their constituents is fanciful at best.

To succeed, any policies focused on decarbonizing economies will necessarily have to offer short-term benefits that are in some manner proportional to the short-term costs. In practice, this means that efforts to make dirty energy appreciably more expensive will face limited success.

In recent months, examples have abounded of the iron law of climate policy. In August, Yu Quingtai, China's top climate negotiator through the Copenhagen climate conference, gave a speech at Peking University's School of International Studies in which he delivered some uncharacteristically blunt remarks about the realities of emissions reductions. He explained, "I cannot accept someone from a developed nation having more right than me to consume energy. We are all created equal — this is no empty slogan. The Americans have no right to tell the Chinese that they can only consume 20 percent as much energy. We do not want to pollute as they did, but we have the right to pursue a better life."

He went on to say, "There are 600 million people in India without electricity — the country has to develop and meet that need. And if that increases emissions, I say, 'So what?' The people have a right to a better life."

> Emissions reduction goals will not be achieved by policies that constrict economic activity.

The unavoidable reality is that policy makers and those they represent are committed to sustaining economic growth, bringing populations out of poverty, and expanding access to energy. Emissions reduction goals will not be achieved by policies that seek to stimulate innovation by constricting, much less by reducing, economic activity.

Those advocating otherwise are simply out of touch with reality. For instance, commenting on China's need to reduce emissions, Connie Hedegaard, Denmark's leading climate diplomat and host of the Copenhagen climate conference, asserted that, "China and other emerging nations must accept it even if it isn't fair." The director of the Tyndall Center for Climate Change Research in the United Kingdom went so far as to argue that a "planned recession" would be necessary in the United Kingdom in order to reduce emissions in response to the threat of climate change.

But savvy politicians get the iron law of climate policy. Al Gore, for instance, advocated for U.S. climate legislation on the basis that it would cost the American household about "a postage stamp a day." In an early 2009 debate over proposed cap-and-trade legislation, House Speaker Nancy Pelosi argued that "there should be no cost to the consumer."

So if making the costs of energy appreciably more expensive is a nonstarter as a tool of decarbonization, what is the alternative? The alternative is to make clean energy cheaper.

Recently, Germany, like India, has adopted such a strategy. Chancellor Angela Merkel has proposed extending the life of Germany's nuclear power plants, which would lead to a financial windfall of close to $40 billion due to taxes on nuclear power and less need for new infrastructure. According to Germany's economics minister, Rainer Brüderle, the windfall will be used to develop renewable sources of energy.

> The purpose of a low-carbon tax should be to raise revenues to invest in innovation.

Could such an approach form the basis of international climate negotiations? Imagine if countries came together at Cancun later this fall with a goal of negotiating a single number — what carbon price can they agree to implement? With agreement on a carbon price, at whatever level, the next step would be to reach a consensus on how the resulting proceeds would be invested in energy innovation, with the goals of driving down the costs of energy and expanding access.

Consider that a $5-per-ton carbon tax or a $3-per-barrel oil tax would each raise about $100 billion per year worldwide, funds that could be invested in energy innovation. Some of the money raised could be spent in countries such as India on energy infrastructure deployment, with the result being expanded access to energy and potentially driving down costs through scale. Other funds could be invested in research, development, and demonstration in a broad portfolio of renewable energy technologies.

Critical to driving this innovation will be government. Government must foster competition, pursue energy innovation using a public works model, and recognize the crucial role of demonstration projects. Governments should also become a major consumer of innovative

energy-technology products and systems.

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It is important to emphasize that the point of a modest carbon tax is not to change people's behavior, to restrict economic activity, or to price fossil fuels at a level higher than alternatives. The purpose of a low-carbon tax is to raise revenues for investments in innovation. To the extent that innovation is successful, leading to the displacement of fossil fuels, it will be more likely that the carbon price can be increased.

Critics of such an approach might complain that it offers no guarantees for emissions reductions by specific dates in the future. Of course, neither does the present approach to negotiations, but they do offer up the illusion of such certainty for those willing to suspend disbelief. Experience under the UN Climate Convention, its Kyoto Protocol, and various national programs should convince anyone that the only certainty that can be counted on in the conventional approach to emissions reductions is that emissions will continue to rise.

The uncomfortable reality is that no one knows how the world might reduce its emissions by 80 percent or more in coming decades. But we do know enough to get started in that direction. Taking those first steps, however, will depend on our ability to create practical policies that are consistent with a narrative of promise and possibility focused on advancing human dignity.

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