# EPA's Endangerment Finding Endangers Economy

## How about a no-regrets policy instead?

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EPA Administrator Lisa Jackson **announced** on Monday that agency scientists, taking into account hundreds of thousands of comments, had determined that carbon and other greenhouse-gas emissions endanger the health and safety of the U.S. population. The EPA finding followed Supreme Court instructions to the agency to determine if greenhouse gases should be regulated under the Clean Air Act. Jackson then carefully pointed out that this decision enabled the agency to move forward with draconian command-and-control regulation as dictated by the Clean Air Act. She expressed hope that Congress would pass the currently debated cap-and-trade legislation and therefore preclude EPA from moving forward with the regulatory process.

EPA's endangerment finding endangers the U.S. economy. Whether dealt with by the brute force of command-and-control regulation or through cap-and-trade legislation, avoiding endangerment imposes high cost with little benefit on a people caught in the throes of the Great Recession. Unfortunately for those who seek a meaningful reductions in total greenhouse gas emissions, reductions taken unilaterally by richer nations will quickly be replaced by expanding emissions from the developing world. Wishing it were not so will not make it so. There is a better "no regrets" path that should be considered. Let's now consider these points.

**Paving the way to Copenhagen**

Orchestrated in ways that would make a Shakespearean play director green with envy, the EPA announcement was perfectly timed to coincide with the start of the Copenhagen Conference on climate change. The proclamation armed President Obama with much needed rhetoric for his Copenhagen soliloquy.

Frank O'Donnell, president of Clean Air Watch, enthusiastically described the news this way: "This means the US can go to Copenhagen and negotiate from a position of strength. It shows the world that the Obama administration is serious about tackling the climate problem even if legislation in the Senate falls flat." And then, Mr. O'Donnell unveiled the political knife beneath the robe: "It's also a reminder to the Senate that if they sit on their hands, the Obama EPA is going to do something to regulate these emissions."

Even though the U.S. Congress is the constitutionally ordained body that makes laws in this country, Mr. Obama will be able to point to the EPA ruling and say something like this: "We are serious about change. Here's what we are doing to lead in the fight to save our threatened planet."

While paving the way for some high-sounding speech making and reams of green publicity, the endangerment finding endangers the U.S. economy by forming one side of a green regulatory/legislative vise that will transfer wealth to powerful political interest groups while environmental angels sing the praises of the party in power.

As Senator John Kerry, sponsor of the Senate cap-and-trade bill, so deftly described the outcome: "The message to Congress is clear: get moving. If Congress does not pass legislation dealing with climate change, the administration is more than justified to use the EPA to impose new regulations. Those who now aim to grind the legislative process to a halt would later come running to Congress to secure the kinds of incentives that we can pass today."

The jaws of the vise are set to tighten. And the sellers of political favors will have a heyday.

**Money for Nothing Meets Bootleggers and Baptists**

Endangerment marries Professor Fred S. McChesney's "Money for Nothing" theory of regulation with my "Bootleggers and Baptists" story. And this unholy matrimony will produce the most toxic regulatory process witnessed since Franklin Delano Roosevelt cartelized the U.S. economy when he established the National Recovery Administration in 1933. How so? Let's consider the theories, their interaction, and the sorry forecast they produce. I'll then offer a no-regrets policy.

McChesney's theory is described in his 1997 Harvard University Press book, ***Money for Nothing: Politicians, Rent Extraction, and Political Extortion***. The book builds a strong and elegant political economy theory that is used, for among other things, to explain the prevalence of **"milker" or "juice" bills** that politicians write. These bills have as their purpose milking funds from the industry or group about to be regulated or squeezing as much juice as possible from those who previously gained a political advantage by regulations written by the same politicians. In economist's jargon, the extracted juice or milk is called "rent." Thus the term "rent extraction."

With no intention of guiding a bill to final law, but with no certainty that the laws might not become final, the deft politician can auction his or her promise not to act to the highest bidder. With campaign contributions in the drawer, the threatening legislation can quietly be ushered to the coffin to rest till it rises again in a future legislative session, a perennial annuity producer for the canny politicians.

Endangerment-based command-and-control regulation poses a threat to every industry, small and large, in America. Since all human activity produces carbon emissions, just how far the regulations might reach is unknown, and unknowable. It is clear that automobiles, all other forms of transportation, and coal- and petroleum-burning industries are targets. It is not as clear that large restaurants, hospitals, enclosed football stadiums, large cattle operations and other heat-generating, and greenhouse gas-producing, enterprises will be caught in the regulatory net.

If the regulatory remedy becomes the path to carbon-emission reductions, payments will flow from targeted industries that seek solace from the regulatory process. They will be willing to pay money for nothing. Here nothing means not being listed in the *Federal Register* when the rules are written.

**"Bootleggers and Baptists"** ride next to "Money for Nothing" in the toxic endangerment mix. Tens of thousands are making the pilgrimage to Copenhagen to demand penance and payment from the unwashed engaged in producing food, clothing, medicines, medical care, and other sources of life's pleasures in a carbon-consuming world. These "Baptists" seem to be taking the moral high ground when they claim the Copenhagen meeting is mankind's last chance to reclaim the globe from the pending horrors of disappearing island nations, lost species, and the rising devastation of increased hurricanes, tornadoes, and droughts.

The environmental Baptists are joined by "bootleggers," who may be producers of wind-driven turbines, solar cells, electric automobiles, clean-burning natural gas, and even nuclear energy producers. Together, they lobby for limits on carbon emissions from the industrialized nations that raise competitors' costs, give advantage in markets, and subsidize favored operations. Special friends and interest groups will be showered with exceptions to rules that fall on the politically weak. For example, the Senate version of cap-and-trade contains free allowances for a wide range of steel, cement, aluminum producers, gas companies, oil refineries, and gas and home heating oil consumers.

But can actions embraced by the developed world really deliver emission reductions for all the world?

Presbyterian College economist Jody Lipford and I have just completed a research project on carbon emissions from a sample of industrialized and developing world economies. Our latest data indicate that carbon emissions to produce another dollar of per capita income vary widely across countries. For example, China emits 2,173,000 metric tons of carbon to yield a $1 increase in per capita income. The U.S. emits 204,000 metric tons to get a dollar, and France emits just 2,470 metric tons to yield a dollar increase. China has just indicated a deep commitment to continuing economic growth while also taking steps to increase production of clean energy. But any meaningful reduction in emissions from the United States or France will quickly be offset by expanding GDP in China.

**A No-Regrets Policy Proposal**

Given this insurmountable collective action problem and the prevalence of Bootleggers, Baptists and Money for Nothing in an endangered world, is there nothing that might be done to improve environmental quality? Clearly there is. And that has to do with creating wealth.

A no-regrets policy involves doing things that will pay off even if global climate change is found to be a passing phenomenon as opposed to being a permanent life threat. Environmental quality as defined by features of life that people value improves systematically over long periods of time when income per capita rises. Hundreds of studies involving everything from forests to clean drinking water to lower concentrations of sulfur dioxide and suspended particulates show this to be the case. Once people are threatened and have the income to take action, actions are taken. Freeing people to produce and conserve more wealth is the longer run solution.

A no-regrets climate change policy calls for elimination of capital gains taxes so that investment in new (and therefore cleaner) capital is accelerated. It calls for elimination of all subsidies or taxes on alternate forms of energy, so that people will make energy decisions on the basis of cost that reflect scarcity. The policy calls for the elimination of all tariffs and non-tariff barriers that lead nations to engage in higher cost, lower value activities. And the policy calls for opening the gates for the migration of capital and people, with accountability, so that all forms of wealth can move to preferred environmental- and economic-wealth creating locations. Freeing up economies so that income rises more readily seems to be the no-regrets policy.

The new EPA endangerment finding has endangered the U.S. economy. This is the time for no regrets.