

BRIEF ANALYSIS

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Dispelling the Myth of a Cost-Free Global Warming Treaty

The Clinton/Gore administration negotiated a treaty in December 1997 in Kyoto, Japan, that would require the United States and most other industrialized countries to reduce greenhouse gas emissions in an effort to slow global warming. The U.S. committed to reducing its annual greenhouse gas emissions, mostly carbon dioxide (CO₂) from fossil fuel use, by about 40 percent — to 7 percent below its 1990 level — between 2008 and 2012.

In support of its commitment, the administration cited an analysis produced by five research laboratories at the Department of Energy (DOE). The labs claimed the economic benefits of reducing emissions to 1990 levels by 2010 would roughly equal the costs of the required energy cuts. Many analysts argued that the five-lab study was critically flawed.

More than 20 other analyses, including one produced by the DOE two months earlier, have indicated that merely reaching 1990 levels of emissions would cause substantial job losses, steep price increases and a significant reduction in Gross Domestic Product (GDP).

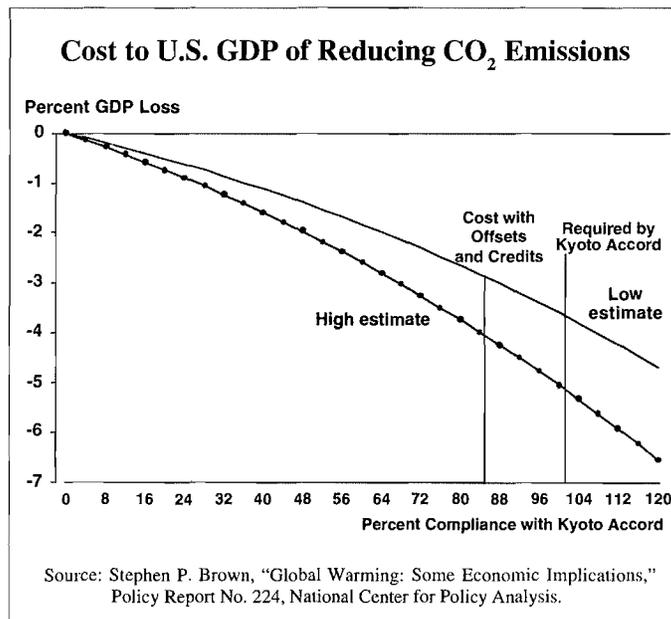
In the past half year, the Government Accounting Office (GAO), the DOE's Energy Information Administration (EIA) and a senior economist at the Dallas Federal Reserve Bank have each analyzed the economic implications of the Kyoto accord and found that the administration significantly underestimated the costs of meeting U.S. treaty commitments.

GAO Pans the Five-Lab Study: There Is No Free Lunch! In late September of 1998, a GAO analysis confirmed the flaws in the five-lab study. The study

claimed that the U.S. would not have to cut energy use to reduce greenhouse gas emissions and instead could switch to nonpolluting solar power and wind power. The GAO rejected this argument, finding that the five-lab study had relied on unsubstantiated assumptions about the future cost competitiveness of wind and solar power and solar and battery-powered vehicles without considering the steps necessary to bring that competitiveness about. In addition, the study did not consider the full costs to the economy of the energy taxes it proposed.

Finally, it relied on implausible scenarios for the near-term replacement of power plants and other capital. In short, the study's major assumptions were either unrealistic or overly optimistic, the GAO concluded.

Kyoto Is Costly, According to the EIA. For proponents of the global warming treaty, worse news came in the form of two Energy Information Administration studies. The EIA is the official forecasting arm of the DOE. In the first study, released on October 9, 1998, the EIA found that meeting



the Kyoto greenhouse gas limits would:

- Increase gasoline prices by 52 percent and electricity prices by 86 percent.
- Decrease GDP by 4.2 percent.
- Reduce personal disposable income by 2.5 percent.

The EIA considered the prospects for significant breakthroughs in renewable energy technology, implementation of a cost-reducing emissions trading scheme favored by the Clinton/Gore administration and the implications of fiscal policies like a personal income tax rebate to offset the impact of increased energy costs on individuals. Even accounting for such beneficial technology and policy changes, the EIA concluded that the treaty would impose substantial economic hardships.

The second EIA study, issued on April 14, 1999, examined a more limited \$3.6 billion five-year plan by the administration to reduce greenhouse gas emissions. This proposal would grant tax credits for the purchase of energy-efficient homes, solar panels and fuel-efficient cars and would increase spending on the research and development of technologies that emit less CO₂.

The EIA found that the impact of these efforts would be negligible. The proposed tax credits would reduce energy consumption by less than 2/10s of 1 percent, which would reduce carbon emissions by a mere 3 million metric tons out of the 550 million metric tons the U.S. would have to cut to meet its emission commitments. The EIA concluded that although the investment tax credits would modestly reduce the initial cost of more fuel-efficient devices, the devices still would be significantly more expensive than comparable commonly available products. Consumers would be unlikely to invest in more fuel-efficient homes, cars and consumer items because the payback in cost savings would be slow.

New Evidence Concerning the High Costs of Kyoto.

The National Center for Policy Analysis recently released *Global Warming Policy: Some Economic Implications* by Stephen Brown of the Dallas Federal Reserve Bank. Dr. Brown compared the estimated benefits in terms of reduced human and environmental harm caused by global warming if the U.S. met its Kyoto accord commitments with the economic costs. After thorough review and analysis, Dr. Brown found:

- For the United States, marginal cost equals marginal benefit at about 14 percent of the CO₂ reduction required by the Kyoto accord.
- Thus the Kyoto accord requires about seven times more CO₂ reduction by the United States than is cost-justified.
- Even under the assumptions most favorable to the accord, the reduction called for is more than twice what can be justified by cost-benefit analysis.

The Kyoto accord allows limited international trading of emissions credits plus offsets for helping other countries reduce, limit or prevent emissions. Under this

system, if a country were likely to exceed its greenhouse gas emissions cap, it could purchase emissions credits from nations that are below their assigned cap or transfer low-carbon energy technologies to developing countries to gain emission reduction credits. None of the details of the credits and offsets have been developed (e.g., no way of measuring CO₂ emissions has been developed) and some countries still are demanding emissions reductions through energy conservation, taxation or rationing — so it is unclear whether an offset and credit program will be part of the final accord.

- Without any offsets or credits, reducing emissions 7 percent below 1990 levels in compliance with the Kyoto accord would reduce U.S. GDP by 3.6 percent to 5.1 percent in 2010, representing a loss of \$330.2 billion to \$467.8 billion, or \$1,105 to \$1,565 per capita.
- Even with such offsets and credits, compliance with the Kyoto accord would require the U.S. to reduce emissions by approximately 3 percent below 1990 levels, reducing U.S. GDP by 3 percent to 4.3 percent in 2010, a loss of \$275.2 billion to \$394.4 billion, or \$921 to \$1,320 per capita. [See the figure.]

In other words, if reducing CO₂ emissions is like purchasing insurance against the possible consequences of global warming, compliance with the Kyoto accord represents far too much insurance.

Conclusion. Before the GAO, EIA and the NCPA analyses were released, the Clinton/Gore administration could accuse Kyoto treaty opponents of representing political or special interests. But can it so accuse its own agencies and a Federal Reserve System economist? The administration may pursue ratification of the Kyoto accord despite the economic harm it will cause. But it must at least acknowledge what many scientists and economists know: There is no such thing as a free lunch, and the energy diet the treaty will impose on the U.S. will be “all pain, no gain.”

This Brief Analysis was written by NCPA Senior Policy Analyst H. Sterling Burnett.