



Statement before the House Select Committee on  
Energy Independence and Global Warming

# “Not Going Away: America's Energy Security, Jobs and Climate Challenges.”

Dr. Kenneth P. Green

Resident Scholar

American Enterprise Institute

December 1, 2010

*The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.*

Chairman Markey, Ranking Member Sensenbrenner, Members of the Committee:

Thank you for inviting me to testify today on what continue to be important questions of the day: how can we best manage risks involving America's energy security, jobs and climate challenges?

I have submitted to the record two AEI policy studies on the issue before us today, which are a small part of the research that underpins my comments.

First and foremost, I believe that it is critical for America that we shift our focus from mitigation of greenhouse gas emissions toward an agenda of building energy and climate resilience.

Whether you believe that climate change is a looming disaster, or whether, as I believe, it is a real but exaggerated threat, there is no rational argument for continuing to focus on mitigating greenhouse gas emissions in the near and even mid-term.

It is time policymakers recognize that despite the claims of renewable energy and efficiency hucksters, we do not have the technologies needed to significantly curb greenhouse gas emissions without causing massive economic disruption.

And the money and attention that we are spending on mitigation efforts is largely wasted – even if we shut the U.S. and the EU down completely, the trajectory of emissions from China and India will negate the environmental benefit of our self-sacrifice in only a few years.

The fact is, mitigation is immiseration.

Let's start with cap-and-trade, which, while seemingly dead, could come back to haunt us in the future, or under other guises.

For emission trading to work certain conditions must apply: you need readily available technology to capture emissions, or less emission-intensive input fuels. You need a single regulatory jurisdiction; you need a single trading currency that can't be manipulated; you need the ability to confirm emission reductions; you need a manageable number of actors, preferably uniformly distributed; and you need to auction all permits to prevent rampant corruption of the scheme by rent-seekers and special interests.

Those conditions allowed emission trading in sulfur dioxide to work, but they are virtually non-existent when it comes to carbon dioxide. Even the economists who first developed the theory and practice of cap-and-trade have said that it is not a suitable mechanism for greenhouse gas control. It hasn't worked in Europe, and it won't work here.

All that cap-and-trade will do is raise energy costs, and raise the costs of goods and services. This will reduce consumption, leading to job losses and weaker international competitiveness for US firms.

The same is true of EPA's misguided efforts to use regulation to force down emissions of greenhouse gas emissions. There are few, if any, affordable, economically sustainable ways for major power producers or consumers to accomplish that task. The methods available to them (mostly a matter of switching

from coal to natural gas for producing energy and fueling boilers) will render many businesses uncompetitive both domestically and internationally. The idea that there are efficiency gains just laying around for companies to capture is a form of economic delusion. The ground is not littered with twenty and hundred dollar bills. Firms are not so stupid as to leave real potential gains from efficiency uncaptured.

Some people like to call those who doubt any part of the climate change canon "deniers." Well, the real deniers are those who continue to deny fundamental economic reality: mitigating carbon emissions is costly, will harm our economy, will lead to greater unemployment, and will prolong the worst economic conditions many of us can remember.

In fact, we'll likely make things worse through the unintended consequences of thoughtless policies. As the New York Times recently observed, while environmental groups and federal agencies are constraining domestic coal use, the coal is being exported to China, and because of the transportation, more emissions, not less are released into the atmosphere. The administration's de facto moratorium on domestic oil and gas production, along with attacks on Canada's tar-sand oil, will almost certainly result in greater, not lesser imports of oil from countries that dislike us, that fund our enemies, and that wish us harm.

So, if we shouldn't regulate, and we shouldn't institute emission trading, what can we do that is positive, reduces risk, and offers social benefits? First, we should stop making things worse. That is, we should remove the misguided incentives that lead people to live in climatically fragile areas such as the water's edge, drought-prone locations, flood-prone locations, and so on.

At present, our federal and state governments exacerbate this risk-taking by acting as the insurer of last resort. When people who live at water's edge or in a flood plain are hit by storms or floods, governments intervene not only to rescue them and their property if possible, but then to provide rebuilding funds to let the people build right back where they are at risk. We are currently doing this in New Orleans, where people are re-building in an area that is still at risk from storm surges and levee failure.

As Charles Perrow observes in his book *Our Next Catastrophe*: "State-mandated pools have been established to serve as a market of last resort for those unable to get insurance, but the premiums are low and thus these have the perverse effect of subsidizing those who choose to live in risky areas and imposing excess costs on people living elsewhere."

Programs that subsidize climatic risk-taking should be phased out as quickly as possible, in favor of fully-priced insurance regimes. Rebuilding after disasters in climatically fragile areas should be discouraged. Eliminating risk subsidies would show people some of the true cost of living in climatically risky areas, and would, over time, lead them to move to climatically safer places where they can afford to insure their property and safety.

Another area we might profitably examine is our infrastructure. We currently build and manage our infrastructure with blithe disregard to pricing and sustainability; energy efficiency, or environmental resilience. For example, governments are good at building highways, but generally fail to incorporate a market-based pricing mechanism.

Thus, no price signal exists to show whether a highway should be elevated, re-routed, or abandoned, and no revenue stream is created to allow for any major changes. The same is true of fresh-water infrastructure, wastewater infrastructure, electricity, and other infrastructure. Establishing market pricing of infrastructure would automatically and continuously steer people and investment away from climatically fragile areas, dramatically reducing the costs of dealing with climate variability.

And consider our water supply. Full pricing of water and full privatization of the water supply, drinking water plants, and wastewater treatment plants would ameliorate many climatic risks incrementally over time, including flooding, seawater intrusion, and coastal and river pollution from storm runoff. Charging the full price for water, from supply to disposal, would create a price signal for consumers regarding the real risks they face living in hydrologically sensitive areas and create incentives for conservation while producing a revenue stream to allow for expanded capability or the securing of alternative supplies. At some point, again, high prices could simply lead people to move away from areas that are hydrologically costly, such as cities dependent on a single winter snow pack that shrinks or a single major river that suffers reduced flow.

Another area where we are making things worse for ourselves is in zoning, and regulatory constraints on urban growth and migration. If the climate warms, and people want to move northward, they will, in many cases, find a welter of zoning regulations, federally protected lands, state-protected lands, anti-growth policies, and so forth that will hinder an adaptive response to climatic change. Restrictive zoning increases the costs of housing and construction, which could make it impossible for many people to move according to climate conditions: this is especially true of the poor.

Finally, I would suggest that we trust in resilience, but tie up our camel. In the event that climate change does tend toward higher estimates put forward by the United Nations and other groups, it is reasonable to consider insurance options that might help deal with such climate changes. Such options might include government investment in geoengineering research, investment in research and development to advance technologies allowing the removal of greenhouse gases from the atmosphere

Thank you for allowing me to speak to you today. I look forward to your questions.