



Selling The Green Economy

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Few things are more appealing in politics than something for nothing. As Congress begins considering anti-global-warming legislation, environmentalists hold out precisely that tantalizing prospect: We can conquer global warming at virtually no cost. Here's a typical claim, from the Environmental Defense Fund (EDF):

"For about a dime a day [per person], we can solve climate change, invest in a clean energy future, and save billions in imported oil."

This sounds too good to be true, because it is. About four-fifths of the world's and America's energy comes from fossil fuels -- oil, coal, natural gas -- which are also the largest source of man-made carbon dioxide (CO₂), the main greenhouse gas. The goal is to eliminate fossil fuels or suppress their CO₂. The bill now being considered in the House would mandate a 42 percent decline in greenhouse emissions by 2030 from 2005 levels and an 83 percent drop by 2050.

Re-engineering the world energy system seems an almost impossible undertaking. Just consider America's energy needs in 2030, as estimated by the Energy Information Administration (EIA). Compared with 2007, the United States is projected to have almost 25 percent more people (375 million), an economy about 70 percent larger (\$20 trillion) and 27 percent more light-duty vehicles (294 million). Energy demand will be strong.

But the EIA also assumes greater conservation and use of renewables. From 2007 to 2030, solar power grows 18 times, wind six times. New cars and light trucks get 50 percent better gas mileage. Light bulbs and washing machines become more efficient. Higher energy prices discourage use; by 2030, oil is \$130 a barrel in today's dollars. For all that, U.S. CO₂ emissions in 2030 are projected to be 6.2 billion metric tons, 4 percent higher than in 2007. As an example, solar and wind together would still supply only about 5 percent of electricity, because they must expand from a tiny base.

To comply with the House bill, CO₂ emissions would have to be about 3.5 billion tons. The claims of the Environmental Defense Fund and other environmentalists that this reduction can occur cheaply rely on economic simulations by "general equilibrium" models. An Environmental Protection Agency study put the cost as low as \$98 per household a year, because high energy prices are partly offset by government rebates. With 2.5 people in the average household, that's roughly 11 cents a day per person.

The trouble is that these models embody wildly unrealistic assumptions: There are no business cycles; the economy is always at "full employment"; strong growth is assumed, based on past growth rates; the economy automatically accommodates major changes -- if fossil fuel prices rise (as they would under anti-global-warming laws), consumers quickly use less and new supplies of "clean energy" magically materialize.

There's no problem and costs are low, because the models say so. But the real world, of course, is different. Half the nation's electricity comes from coal. The costs of "carbon capture and sequestration" -- storing CO2 underground -- are uncertain, and if the technology can't be commercialized, coal plants will continue to emit or might need to be replaced by nuclear plants. Will Americans support a doubling or tripling of nuclear power? Could technical and construction obstacles be overcome in a timely way? Paralysis might lead to power brownouts or blackouts, which would penalize economic growth.

Countless practical difficulties would arise in trying to wean the U.S. economy from today's fossil fuels. One estimate done by economists at the Massachusetts Institute of Technology found that meeting most transportation needs in 2050 with locally produced biofuels would require "500 million acres of U.S. land -- more than the total of current U.S. cropland." America would have to become a net food importer.

In truth, models have a dismal record of predicting major economic upheavals or their consequences. They didn't anticipate the present economic crisis. They didn't predict the run-up in oil prices to almost \$150 a barrel last year. In the 1970s, they didn't foresee runaway inflation. "General equilibrium" models can help evaluate different policy proposals by comparing them against a common baseline. But these models can't tell us how the economy will look in 10 or 20 years because so much is assumed or ignored -- growth rates; financial and geopolitical crises; major bottlenecks; crippling inflation or unemployment.

The selling of the green economy involves much economic make-believe. Environmentalists not only maximize the dangers of global warming -- from rising sea levels to advancing tropical diseases -- they also minimize the costs of dealing with it. Actually, no one involved in this debate really knows what the consequences or costs might be. All are inferred from models of uncertain reliability. Great schemes of economic and social engineering are proposed on shaky foundations of knowledge. Candor and common sense are in scarce supply.

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