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## All states need to embrace bipartisan climate bill

By Robert Stavins

NEXT WEEK, Senators John Kerry, Lindsey Graham, and Joe Lieberman will release their much-anticipated proposal for comprehensive climate and energy legislation — the best remaining shot at forging a bipartisan consensus on this issue in 2010. Their proposal has many strengths — and as an environmental economist who has worked on this issue for two decades, I hope it succeeds.

But there's a danger that officials from some states, including Massachusetts, could undermine the effectiveness of a federal bill. While states have played an important role in pushing Congress to act, the federal initiative now has to take precedence over state regulations.

Government officials from California, New England, New York, and other Northeastern states are vociferously lobbying in Washington to retain their existing state and regional systems for reducing greenhouse gas emissions, even after a new federal system comes into force. That would be a mistake — and a potentially expensive one for residents of those states, who could wind up subsidizing the rest of the country. The Senate should do as the House did in its climate legislation: preempt state and regional climate policies. There's no risk involved; if federal legislation is not enacted, preemption will not take effect.

The regional systems — including the Regional Greenhouse Gas Initiative in the Northeast and Assembly Bill 32 in California — discourage carbon emissions by power plants and other sources effectively by making them more expensive. These systems were developed because the federal government was not moving fast enough.

But times have changed. Like the House climate legislation passed last June, the new Senate bill will feature at its heart an economy-wide carbon-pricing scheme to reduce carbon dioxide emissions, including a cap-and-trade system (under a different name) for the electricity and industrial sectors. (In a departure from the House version, it may have a carbon fee for transportation fuels.)

Though the Congress has a history of allowing states to act more aggressively on environmental protection, this tradition makes no sense when it comes to climate change policy. For other, localized environmental problems, California or Massachusetts may wish to incur the costs of achieving cleaner air or water within their borders than required by a national threshold. But with climate change, it is impossible for regions, states, or localities to achieve greater protection for their jurisdictions through more ambitious actions.

A unit of carbon dioxide emitted in California contributes just as much to the problem as carbon dioxide emitted in Tennessee. The overall magnitude of damages — and their location — are completely unaffected by the location of emissions. This means that for any individual jurisdiction, the benefits of action will inevitably be less than the costs. (This is the reason why US action on climate change should occur at the same time as other countries take actions to reduce their emissions).

If federal climate policy comes into force, the more stringent California policy will accomplish no additional reductions in greenhouse gases. This is because under a nationwide cap-and-trade system, any additional emission reductions achieved in California will be offset by fewer reductions in other states.

A national cap-and-trade system — which is needed to address emissions meaningfully and cost-effectively — will undo the effects of a more stringent cap within any state or group of states. The

Regional Greenhouse Gas Initiative, which covers only electricity generation and which will be less stringent than the federal policy, will be irrelevant once the federal system comes into force.

Is there any possible role for state and local policies? Yes. Price signals provided by a national cap-and-trade system are necessary to meaningfully address climate change at sensible cost. But such price signals are not sufficient. Other market failures call for supplementary policies.

For example, despite higher energy prices, both landlords and tenants will lack incentives to make economically-efficient energy-conservation investments, such as installing thermal insulation. This problem can be handled by state and local authorities through regionally-differentiated building codes and zoning.

But for the core of climate policy – which is carbon pricing – the simplest, cleanest, and best way to avoid unnecessary costs and unnecessary actions is for existing state systems to become part of the federal system. California's leaders and those in the Northeast may take great pride in their state and regional cap-and-trade systems.

But if they accomplish their frequently-stated goal – helping to bring about the enactment of a meaningful national climate policy – they will better serve their states and the country by declaring victory and getting out of the way.

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