

What Price Pollution? Leave That to a Global Market

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The revolutionary U.N. Kyoto Protocol of December, 1997, to cut emissions of carbon dioxide and other greenhouse gases has been approved by well over 100 countries, and it was signed by President Clinton last November. It has strong support from Vice-President Al Gore, who also backs other stringent controls over fossil fuels.

Yet Kyoto is a bad agreement, even if one accepts the still-to-be-proven claim that industrial emissions are causing global warming. Fortunately, this protocol is being held up in the U.S. Senate by a Republican-led opposition. This and other environmental issues may become a major point of contention between Republicans and Democrats in the coming Presidential election.

This protocol requires most industrial nations to reduce their carbon dioxide and other greenhouse-gas emissions during the coming decade to about 5% below 1990 levels. The U.S. must drop to 7% below its 1990 level, which may seem like a small reduction but does not tell the whole story. Since U.S. emissions have increased greatly--along with industrial output--since 1990, the U.S. would have to reduce emissions by more than 25% from levels likely to be attained by the end of the century.

Even worse, thanks to politics, the protocol exempts more than 130 countries, including Brazil, China, India, and Mexico, from any restrictions on their industrial pollution. As a result, the Kyoto approach would induce a shift in the production of polluting industries from developed countries.

SCRUBBERS. Shifting the emissions from industrial to emerging markets will not help reduce worldwide pollution, since that depends mainly on world production of greenhouse gases, not their source among countries. Indeed, this reallocation of production may even worsen pollution, since developing nations have weaker requirements than rich countries for scrubbers and other control devices that reduce emissions of harmful gases.

Moreover, the opposition by unions and employees in the U.S. to the transfer of production to Mexico and other emerging markets would be justified in this case. For the transfer would not stem from economic efficiency or international specialization but would be artificially created by the preferential treatment these nations received at Kyoto.

Fortunately, changing the protocol can help poorer countries without using artificial incentives to shift production. Instead of emissions quotas on the outputs of developed nations alone, all countries should receive allowances on greenhouse-gas emissions. The total number of these allowances could be fixed at any desired level--say, the 1990 or 2000 world output of these gases. Developing countries could be favored through

receiving much more generous allowances relative to their 1990 production levels than developed countries.

FOR SALE. The most important change in the Kyoto Protocol should allow all greenhouse-gas allowances to be freely bought and sold, the way sulfur dioxide emission rights, issued by the Environmental Protection Agency, are sold on the Chicago Board of Trade. Such a system of quotas can work best with a world market. All countries and companies that receive allowances should be permitted to trade them on this market, even when rights are sold to companies in other nations. The price of rights during any month would be determined by market supply and demand for rights at that time.

Poorer nations that receive quotas beyond their needs would earn income by selling excess quotas in this market. They could spend the revenue on education and other investments that would speed up their economic development.

Similarly, companies in developed economies could buy additional rights on this market. In this way, the efficiency of the international division of labor would be preserved, and yet richer nations would be induced to transfer revenues to poorer countries.

These rights might end up being traded on exchanges in various countries, the way rights to oil and other commodities are presently bought and sold. An international body would be required to take responsibility for the difficult task of monitoring compliance and penalizing violators, but enforcement of compliance is a challenge under any tax or quota system.

The evidence on global warming is too weak and ambiguous to justify massive world cutbacks in carbon dioxide and other greenhouse gases. But even were this evidence convincing, the Kyoto Protocol is a bad agreement and should be altered. The best approach is through a worldwide system of tradable rights in the emissions of these gases.