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Friday Interview: Global Warming Policy Costs

Beacon Hill Institute director criticizes N.C. economic studies

By CJ Staff
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RALEIGH — David Tuerck, chairman of the economics department at Boston's Suffolk University and executive director of the Beacon Hill Institute, oversaw a study that finds North Carolina leaders are considering climate-related policies that could cost the state 33,000 jobs, $502.4 million in annual investment, $2.2 billion in real disposable income, and $4.5 billion in real state Gross Domestic Product by 2011. He discussed the economics of climate change policy with Mitch Kokai for Carolina Journal Radio. (Click here to find a station near you or to learn about the weekly CJ Radio podcast.)

Kokai: We often hear a discussion about the science of global warming, but we rarely hear about the economics of this debate. Why is it important to address the economic issues?

Tuerck: Well, it's important for two reasons. First of all, the science makes claims about the adverse effect on world economies of global warming, and the scientists that are arguing for climate change legislation repeatedly tell us that if we don't do something to slow global warming that it will have adverse effects on the economy. And it's also important because the very proposals that the scientists are making and are backing will themselves have adverse effects on the economy. At the end of the day, we have to do two things. We have to, first of all, determine whether the proposals that they're putting forward would make a difference. And second, we have to determine whether or not those proposals would in fact improve the economy or worsen it. That's the task that everybody faces who's responsible for making decisions about climate change policies.

Kokai: Do you get a sense that not enough work has been done so far to measure economic costs and benefits?

Tuerck: Well, I get the sense that the proponents of climate change legislation, in an honest moment, will try to walk away from the whole job of projecting net benefits to the economy. And that's because, first of all, the very question [of] whether the climate is warming is in doubt, the question whether this is caused by manmade activity, whether climate change legislation they support would make a difference. There are so many ifs involved here that the proponents frequently, when pressed, will admit that it's very difficult to estimate the benefits that the legislation would confer. And then when, as in our case, you do hard — which is to say rigorous — cost-benefit analysis, it's possible to discover that, by any accounting, the net benefits would be negative, that the cost to the economy would exceed the benefits.

And that's happened in one instance with us, where at the Beacon Hill Institute in Boston we've looked at this proposal to install 130 windmills in Nantucket Sound, all of which are being advanced to the end of reducing global warming and none of which will do anything to improve outcomes, as measured by the benefits from reducing global warming. It will simply not have a net beneficial effect on the economy, even when you take into account the benefits of reducing global warming, as measured by economists.

Kokai: Let’s turn specifically to North Carolina. You and your colleagues at the Beacon Hill Institute have looked at several aspects of the process North Carolina has used to study potential policies for addressing climate change. From what I’ve read, your reports have highlighted a number of concerns about the work done in this state.

Tuerck: Well, from my review of the process and of the methodology that’s been used, the process is almost shamefully negligent and shamefully, I would have to say, neglectful of the fundamental principles of economic analysis. There’s an attempt by the proponents, by the Climate Change Advisory Group and researchers at Appalachian State University, to put a happy face on this legislation that’s going forward, and the attempt is made by trying to show that implementing this legislation will create jobs and will expand economic activity in the state rather than contract it.

And the trouble with that particular representation is that it doesn’t make any sense. You can’t create jobs that are good jobs that are adding to the state economy by shifting workers from more productive to less productive activities. You can’t create good jobs, the kind of jobs we want to create, by increasing energy costs, by increasing the price of electricity, by imposing what amounts to new taxes. This is not the way to create jobs. What you have to do, in order to analyze what will really happen, is look at the cost-increasing effects of the legislation, look at the taxes that would be implicitly imposed, and sort out the negative effects that these actions would have on the state economy. You can sort out those effects, as we have tried to do, and you can identify them for their negative effect on jobs and the like. And then, when you’re done with that, you can ask the question, “Is it worth it to pursue this legislation given the negative effects that will actually be imposed?” All these claims about job creation and the like, though, are bogus claims and unsupportable by even the most naïve sort of economic analysis.

Kokai: You mentioned the word “shameful.” The analysis is more than just bad or flawed? Why shameful?

Tuerck: I call it shameful because there are just a few things on which economists agree. One of them is the law of diminishing returns, which your listener has probably heard of at some point, and another one is that there’s no such thing as a free lunch. It is not possible to create something out of nothing. You can’t get good stuff by increasing the cost of conducting economic activity, and that’s what these economists are trying to convince themselves of. It’s elementary logic that if you are going to shift jobs away from existing activities to new activities, spurred on by climate change legislation, that you have to ask the question whether or not the new jobs are contributing more to the economy than the jobs that are being abandoned because of the high costs that are being imposed. This is all kind of Economics 101 that is being neglected, in our view, by people involved in these research projects.

Kokai: What would happen if North Carolina adopted some of the policies under consideration now to address climate change?

Tuerck: Well, because the legislation all raises the cost of doing things, at the end of the day, this legislation is going to shrink the state economy, as measured by real Gross State Product, by real disposable personal income, and as measured, in fact, by jobs. You will ultimately lose jobs when you shrink the total realm of economic activity, and that’s what this legislation is going to do. This legislation aims to reduce CO2 emissions and other emissions that are said to contribute to global warming. And, in order to do that, you have to shrink the economy. There’s no other way to do it. You can have a robust economy, with the existing volume of CO2 emissions, or you can have a less robust economy with a lower volume of CO2 emissions.

And that’s the “no free lunch” paradigm that I think that the researchers who have addressed this before have forgotten. You can have one or the other. It’s not our job to decide for North Carolina or anybody which world they prefer: the world with fewer CO2 emissions and a less robust economy, or the other world with more emissions and a more robust economy. But that’s the policy choice that has to be made, and in order to make the choice correctly you have to understand that, first of all, there is a choice. And it’s not a twofer; you don’t get reduced emissions and a stronger economy. You get one or the other.

Kokai: If policymakers hear your remarks and agree that they’ve been pursuing the wrong track, what should they do instead?

Tuerck: I would say that at the state level, the best thing they could do would be nothing. This is a national and, indeed, an international problem.

Kokai: And I would guess that you would also advice North Carolina to scrap any of its studies based on unsound economics.

Tuerck: Right. I think that the studies that have come out of [the Climate Action Plan Advisory Group] and out of Appalachian State University should be scrapped. We would invite them to look at our study, and we'll make our methodology known so that it can be evaluated, or they can do their own study. But they need to do a study that starts out on the premise that there's no free lunch. You can do something to reduce CO2 emissions from a North Carolina energy-producing sector. Certainly, that can be done, but it's not going to be done free of charge. It's going to be a cost to the economy, and that's what they need to find out. If they don't want to believe our study, then they should do their own.

But everybody who seriously addresses this knows it's going to impose costs. The Environmental Protection Agency in Washington understands that "cap and trade," as proposed by [Sens. John] Warner and [Joseph] Lieberman, will impose costs. And every serious environmental economist understands that it's time for the state and local agencies that are addressing this to get serious, too.
