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Climate Policy and National Security

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- Climate policy is challenging. Not only do the costs and benefits of emissions abatement accrue to different generations, but there is no agreement about how the costs should be distributed among the world's countries.
- Under a global cap-and-trade system, nations rich in fossil fuels would prefer grandfathering of emissions permits. The EU, Japan, China, India, and most other nations would prefer per capita allocation.
- The U.S. holds a unique position of influence. By aligning itself with nations that support per capita allocation rather than with nation that support grandfathering, the U.S. can achieve both environmental and national security gains.

The current volatility in credit and stock markets, along with the prospect of a worldwide recession, has dominated the economic news recently. Concerns about long-run problems such as climate change have receded. But while market turmoil and business cycles are transient phenomena, climate change will need to be addressed long after the credit crunch and bear market are history.

Two things make climate policy particularly challenging. First, the costs and benefits accrue to different generations. Investments to reduce greenhouse gas emissions have to be made by the present generation, while the benefits of avoiding “dangerous anthropogenic interference with the climate system” (in the words of the United Nations Framework Convention on Climate Change) will be enjoyed mainly by future generations. This dilemma is real; the climate problem will never be solved unless the governments of the great powers accept that they have a responsibility for the well-being of citizens who do not yet exist. Claims that all we need to do to solve the climate problem is to make “win-win” investments in alternative energy or conservation technologies that will pay for themselves by lowering our energy bills are specious. The transformation of the world's economy to a low-carbon configuration will offer some economic benefits (new jobs, growth of advanced technologies), but it will require large commitments of funds that could otherwise go to satisfy our personal needs and desires. Some win-win energy investment opportunities

¹ Economics for Equity and the Environment Network (E3) is a nationwide network of economists developing arguments for environmental protection with a social equity focus. For more information, please contact Kristen Sheeran, Director, at ksheeran@e3network.org. E3 is a program of Ecotrust.



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undoubtedly exist, but to argue that they are sufficient by themselves to solve the climate problem is disingenuous.

The second big problem is that the costs of climate policies have to be allocated among the world's countries, and there is no agreement on how this should be done. It is a prevailing misconception that the distribution of these costs entails a fundamental equity conflict between the rich and the poor countries. According to this argument, large-scale reductions in greenhouse gas emissions, whether accomplished by taxes on those emissions or by a system that allocates restricted emissions rights to the different countries, will create valuable new assets either in the form of the carbon tax revenues or the emissions permits. If these new property rights are “grandfathered” – that is, given to current emitters or owners of fossil fuels – they will reinforce the existing pattern of global income inequality. On the other hand, if the rights are allocated on a per capita basis, the resulting transfer of wealth from the rich industrialized countries to the poor developing countries would be politically unacceptable to the wealthy.

This argument is wrong on two counts. Averting catastrophic climate change will be of great benefit to everyone – in the future. Both rich and poor countries would be devastated by collapse of the Greenland and Antarctic ice sheets (with the corresponding sea-level rise that would ensue); Europe and the United States would suffer terribly from a shutdown of the Atlantic ocean circulation that makes their climates temperate; and the entire world would become unrecognizable if global warming triggers a massive release of methane currently trapped in the permafrost and offshore clathrates. (And note: this does not exhaust the list of potential warming-induced catastrophes.) Any full accounting of the benefits of mitigating climate change has to take the risks of these planetary disasters into account, and when that is done the case for global action to “avoid dangerous anthropogenic interference” is overwhelmingly strong.

Straightforward calculations² show that world's nations fall into distinct groups with regard to whether they prefer international grandfathering of the emissions rights or per capita distribution. The poor but populous nations that are not heavily endowed with fossil fuel resources – countries like India, most of Africa, and the Asia/Pacific region – would strongly prefer per capita allocation of the rights, for obvious reasons. Many of the world's largest economies – the EU, Japan, and China – also tend to favor per capita allocation of the emission rights, though not as strongly as the poor countries with large populations.

The United States has a slight preference for grandfathering the international allocation of emissions rights because of our high per capita emissions and large coal reserves. However,

² Stephen J. DeCanio, “The political economy of global carbon emissions reductions,” *Ecological Economics* 68 (2009): 915-924.



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our relative gain from grandfathering over per capita allocation is not large, and either policy would be greatly preferable to unchecked climate change. Furthermore, per capita distribution of our share of emissions rights or carbon tax revenues *within* the U.S. would ensure that the burden of the emissions reductions would not fall disproportionately on the domestic poor and middle class. For most Americans, the higher energy prices would be more than offset by the rebates they would receive from a carbon tax or the revenue from sale or auction of the emissions permits.

The only countries that very strongly prefer international grandfathering over per capita allocation are the nations rich in fossil fuels – primarily Russia and the oil and gas states of the Middle East. As a result, the United States is in a uniquely advantageous position to influence the course of negotiations on climate. We can join with Russia and the oil and gas states to continue the deadlock on a global climate agreement by insisting on grandfathering the rights. Alternatively, we can join with the EU, Japan, China, India, and most of the nations and peoples of the world to bring about a strong climate agreement based on some form of per capita allocation of the rights. We hold the politically pivotal balance.

There is a real conflict inherent in the distribution of emissions rights among countries. The United States is free to decide which side to join. We can leverage our support for per capita allocation of carbon emissions rights in return for more cooperation in the war on terror, the control of nuclear proliferation and WMDs, expansion of free trade, and protection of human rights. Russia and the oil-and-gas-rich nations are not our natural geopolitical allies. The climate issue is one in which the environmental and national security interests of the United States coincide.