

Carbonomics: How to Fix the Climate and Charge It to OPEC

by Steven Stoft,* with assistance from Dan Kirshner

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COMPARED WITH “CLIMATE,” twice as many Americans now call “energy” a top concern. But cap-and-trade bills target climate change while largely ignoring energy independence. And MIT researchers say such bills will start off costing \$4,000 per family, because all such bills include allowance “banking.” Yet, Speaker Pelosi hopes for a strong cap-and-trade bill by December.

After identifying conflicting policies, *Carbonomics* finds a remarkable potential for alignment between the climate and energy-security interests. *Carbonomics* suggests a different path to a strong policy—cooperation. The path to cooperation leads through the carbon “untax.” It can start gradually for things we’re stuck with while starting quickly for new investments. And by refunding all its revenues, it protects the poor.

Although *Carbonomics* has a point of view, the first half of the book, and most policy chapters, focus on explaining, in plain English, the economics of energy markets and policies. The book comprises four main parts, plus a final summary. Chapters are short and self contained.

Fossil-Fuel Myths: Part 1 of *Carbonomics* uses sound economics to take on five prominent myths:

- Climate policy will wreck the economy.
- Peak oil will cause a global collapse.
- Climate change is too uncertain.
- Efficiency is a free—or cheaper!—magic bullet.
- Carbon pricing is all we need.

Energy-Market Realities: The 1973-85 OPEC crisis teaches key lessons for today: high (oil) carbon prices have been by far the most effective “policy” to date for reducing both carbon emissions and oil imports. Conservation protects us more from oil shocks than does new supply. Part 2 also covers corn ethanol, China, coal, synfuels, and cap-and-trade proposals.

One key to cooperation, at both nation and international levels, is the old but forgotten concept of a consumers’ cartel. *Carbonomics* reviews Kissinger’s 17-nation cartel, its principles of operation, and more recent evidence, from government and academic models, of its strength.

National Policy: Part 3 shows how to use the flexibility of an untax to address climate and security together.

The untax. *Carbonomics* proposes renowned climate scientist James Hansen’s refunded carbon tax, and calls it an “untax.” This directly refunds all its revenues on an equal-per-person basis. The government keeps nothing, which disrupts antitax rhetoric.

In spite of refunding all revenues, an untax provides a full-powered incentive to curb emissions. Because it refunds revenues equally per person it treats the poor fairly, unlike almost all other carbon cap or tax proposals.

Oil security. Cap and trade equalizes carbon prices between coal and oil, which makes sense if we consider only damage to the climate. But this ignores the security costs of oil and the benefits of fighting OPEC’s market power. By setting a higher tax rate on oil than on coal, the untax addresses energy-security concerns.

A separate tax rate for oil also allows the untax to adjust to oil-market conditions. A floor price can protect hybrid auto sales and new alternative-fuel ventures from an oil-price crash. When the price of oil hits \$125—higher than needed for aggressive climate policy—an untax can give consumers a gas tax holiday.

A race to fuel economy. Standards cause bickering and delays and give automakers, who have the most expertise, the advantage. Replace standards with the oldest form of competition—a race. No one will argue: The prize is too high, we can’t make cars that good. A race can be stronger than standards and start without years of re-tooling. *Carbonomics* shows how to set prizes and penalties that sum to zero, and to reward improvement. The Big Three have the advantage of having the most room to improve.

Crash programs. Crash programs should be for advanced research—not for scaling up present technologies. Increasing research support makes sense, but don’t bet the climate on revolutionary breakthroughs.

Global Policy: National climate policy makes no sense without effective international policy, so *Carbonomics* proposes two policies to increase cooperation.

Global carbon pricing. China and other developing countries have refused effective caps for 15 years. Prominent economists Stiglitz, Nordhaus, and Mankiw say these countries will not change their minds, but might well commit to a carbon price increase. *Carbonomics* sketches a policy of global carbon pricing that leaves room for caps or taxes at the national level.

A consumers’ cartel. A Kyoto-style agreement serves as a consumers’ cartel. It holds domestic oil prices high and reduces the world oil price. Carbon pricing could do this better. But either way, the benefits of lower world oil prices should be used to encourage climate cooperation between the US and China, since both are oil addicts. Cautious calculations show that we could save enough on oil imports to pay for many years of good climate policy.

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