



By Robert N. Stavins

Opportunity for a Defining Moment

The inauguration of Barack Obama as the 44th president of the United States is a defining moment in American history. For most Americans and countless others around the world, this is an inspiring political transition. The question we must face, however, is whether compelling inspiration will lead to effective action. As I wrote in a *Boston Globe* op-ed one week after election day, environment and energy issues — particularly climate change policy — provide a microcosm of the forces that are shaping and will shape the actions of the new administration and Congress.

Eight years ago, President-elect George W. Bush promised to be president for all the people, not just those who had voted him into office. Bush's ability as Texas governor to bridge differences across the political aisle provided cause for optimism.

But hope for a centrist and sensible presidency dissolved under the influence of White House political operative Karl Rove and Vice President Dick Cheney. The Bush administration moved not to the center, but toward solidifying its base on the political right. Nowhere was this more apparent than in energy and environmental policy, with Vice President Cheney running energy policy, and EPA Administrator Christie Whitman virtually driven from office.

Will the environment and energy

team of President Obama respond effectively to the serious challenges that lie ahead? Or will we find that the corporate lobbyists who filled so many key environmental positions in the Bush administration have simply been replaced by strident advocates from the other end of the political spectrum? In other words, will ideology trump reason?

The first sign of trouble will be if the administration issues an "endangerment finding" for carbon dioxide, as promised by the Obama campaign, thereby pleasing and solidifying President Obama's political base, but also playing into the hands of those who oppose climate policy action, tying up progress with litigation, driving up costs, and accomplishing little or nothing.

Ultimately, will the Obama White House work with Congress to develop climate strategies that are scientifically sound, economically sensible, and thereby politically pragmatic? Will the new president — with impressive Democratic majorities in both houses of Congress — take on the difficult task of crafting meaningful climate legislation?

The only politically feasible approach that can make a real dent in the problem is a comprehensive, upstream cap-and-trade system to reduce carbon dioxide emissions 50 to 80 percent below 1990 levels by 2050. The declining cap will increase the cost of polluting, thereby discouraging the use of the most carbon-intensive fossil fuels and providing powerful incentives for energy conservation and technology innovation.

The system could start with a 50–50 split of auctioned and free allowances, gradually moving to 100 percent auction over 25 years. To establish political support in the short term, free allowances should be targeted to sectors that are most burdened by the policy. And the auction revenue — which will increase over time — can be used to compensate low-income consumers,

finance research and development, reduce the federal deficit, or cut taxes.

The best option may be to make the program neutral by returning all of the auction revenue to citizens through direct cash dividends or annual tax credits. This can go a long way toward making the legislation palatable to Republicans and Democrats alike who are reticent to take any actions that even resemble a tax increase.

By making the overall emissions cap gradually become more stringent over time, costs can be greatly reduced by avoiding premature retirement of existing capital stock, reducing vulnerability to siting bottlenecks, and ensuring that long-lived capital investments incorporate appropriate advanced technology.

Still, the costs of meaningful action will be significant, with impacts on gross domestic product eventually reaching up to 1 percent per year. But the longer the world waits to begin taking serious action, the more ambitious will emis-

sion reduction targets inevitably become, as atmospheric greenhouse gases continue to accumulate.

The bottom line is that getting serious about global climate

change will not be cheap and it will not be easy. Beware of claims to the contrary. In the midst of a significant economic downturn, with businesses closing and unemployment on the rise, it makes sense for the new administration to give its greatest attention to economic recovery. There is nothing wrong with sequencing policies. But if current predictions about the consequences of another few decades of inaction are correct, this defining moment provides an important opportunity for serious and sensible action.

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