



By Robert N. Stavins

Does Less and Costs More

When Congress gets beyond its unproductive squabbling, it is likely to give attention to renewable portfolio standards. Such standards would mandate that a given share of an electric company's production come from renewable sources (most likely wind power), or from an expanded list including nuclear and hydroelectric power (in which case they are often called clean energy standards).

This approach, which focuses exclusively on one sector of the economy, would be less effective than a comprehensive cap-and-trade approach to addressing CO₂ emissions, would be more costly per unit achieved, and yet — ironically — appears to be much more attractive to the same politicians who strenuously opposed cap-and-trade.

True enough, these standards can be designed in a variety of ways, some of which are better than others. But the better their design (as a CO₂ reducing policy), the closer they come to the much-demonized cap-and-trade approach. In an op-ed in *The Huffington Post*, Professor Richard Schmalensee of M.I.T. and I reflected on this irony.

One day after the November 2010 election, White House press secretary Robert Gibbs said that a national renewable electricity standard could be an area of bipartisan energy cooperation, after President Obama had said cap-and-trade was not the only way “to skin the cat.”

Whereas cap-and-trade would raise the cost of fossil fuel, as its opponents stressed so effectively, renewable standards would raise the cost of electricity, which its supporters seem reluctant to admit. If renewables really were cheaper, even with federal subsidies, it wouldn't take regulation to get utilities to use them.

Renewable or clean electricity standards are a very expensive way to reduce CO₂ emissions — much more expensive than cap-and-trade. These standards would only affect electricity, thereby omitting about 60 percent of U.S. CO₂ emissions. And even then, the standards would provide limited incentives to substitute away from coal, the most carbon-intensive way to generate electricity.

Even more problematic, renewable/clean electricity standards would provide absolutely no incentives to reduce CO₂ emissions from heating buildings, running industrial processes, or transporting people and goods. And unlike cap-and-trade, which would also affect oil consumption, the electricity standards would make no contribution to energy security. Only a very tiny fraction of U.S. oil consumption is used to generate electricity.

Those who believe that renewable electricity standards would create a huge number of green jobs have forgotten the lesson of Detroit: a large domestic market does not guarantee a healthy domestic industry. At the end of 2008, for instance, the U.S. led the world in installed wind generation capacity, but half of new installations that year were accounted for by imports. And a recent Lawrence Berkeley Laboratory study of the impacts of the economic stimulus package incentives for renewable electricity investments estimated that about 40 percent of the (gross) jobs created by new wind-energy investments were outside the United States, where many wind turbines are manufactured.

A sounder approach, for those concerned about green jobs, would focus

on the long-term determinants of economic growth, such as technological innovation. That's where cap-and-trade — which creates broad-based incentives for technology innovation — holds another edge over renewable electricity standards.

It is often argued that if cap-and-trade is dead, enacting renewable or clean electricity standards is better than doing nothing at all about climate change. While that argument has some merit, since the risks of doing nothing are substantial, there is a real danger that enacting these standards will create the illusion that we have done something serious to address climate change. Worse yet, it could create a favored set of businesses that will oppose future adoption of more efficient, serious, broad-based policies — like cap-and-trade.

If a national renewable electricity standard is nonetheless inevitable, it should not impose excess costs on businesses or consumers. It should preempt state renewable portfolio standards, since with a national standard in place, states' programs simply impose extra costs on their citizens without

affecting national use of renewables. And any national program should allow unlimited banking to encourage early investments. No environmental or economic purpose is served by limiting banking to two years, as some legislative proposals would do.

Carbon cap-and-trade was killed in the Senate, presumably because of its costs. Renewable electricity standards or clean energy standards would accomplish considerably less and would impose much higher costs per ton of emissions reduction. This hardly sounds like a step forward.

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