

From [WashPo](#),

The Obama administration might agree to postpone auctioning off 100 percent of emissions allowances under a cap-and-trade system to limit greenhouse gas pollution, White House science adviser John P. Holdren said today, a move that would please electricity providers and manufacturers but could anger environmentalists.

Why would this “anger environmentalists”? I certainly see the fiscal arguments for auctioning allowances, but I don’t get why auctioning makes a difference in environmental terms. Am I missing something?

ADDENDUM The comments to this post make two interesting points that I think are connected. One is that free allowances don’t put a price on carbon. I don’t think that’s quite right. Unless allowances are overallocated, there won’t be enough to allow everyone to continue emitting at their previous level, so there will be either an explicit price (from market trades) or an implicit price (from intra-firm trades or opportunity costs of foregone sales). It’s possible that firms don’t experience the implicit prices as strongly as explicit prices, but the real strength of the argument seems to come from the possibility of overallocation.

The other point strikes me as more compelling: that as a public choice matter, free allowances increase the pressure to issue additional allowance since they won’t cost anything to the recipients, thus leading to over-allocation of allowances (i.e., too high a cap). Again, there’s an implicit price (existing allowances in the hands of industry lose value), but probably this won’t be an effective deterrent. This seems plausible, and it’s something I should have thought of myself since I do work in public choice.

I’d still be interested to know if there’s a history of this actually happening in other trading schemes. In any event, I’m not sure that this is something I’d go to the barricades over, even if these points are valid.