The first line of defense against climate regulation was that climate change didn't exist. The next line of defense was that maybe it was real, but it wasn't caused by humans. Now we're up to the third line of defense: it does exist and it is caused by humans, but it's too expensive to fix. For example, the Heritage Foundation estimates that Waxman-Markey would cost society a whopping seven trillion dollars by 2035.

These estimates fail to ask a critical question: Compared to what?

To begin with, the alternative to Waxman-Markey or other new legislation isn't a regulation-free world. Instead, it's a world in which a number of states like California are aggressively regulating greenhouse gas emissions – and more importantly, a world where the EPA is required by law to regulate greenhouse emissions under the Clean Air Act. There's no reason at all to think that Waxman-Markey would be a less efficient tool than the Clean Air Act. Indeed, there's every reason to think otherwise: the Clean Air Act is at best an awkward tool for regulating climate change and isn't likely to coincide with the most efficient approaches. Do critics of Waxman-Markey really want to keep moving forward with regulation under the Clean Air Act? Or do they prefer piecemeal climate regulation at the state level?

And of course, you have to consider not only the cost of regulating emissions one way or another, but also the costs of not regulating emissions. Economists can't seem to agree with each other about how much climate change will cost society, and the differences between their estimates are spectacular. (There's a good paper on this by Dan Cole.) There's every reason, however, to think that the number is very large. The possible domestic effects of climate change are legion: droughts and water shortages, heat waves, sea level rise and higher storm surges, smaller crops, and loss of valuable eco-systems.

Furthermore, as a paper by Jody Freeman (now working with Carol Browner in the White House) and my colleague Andrew Guzman points out, there are also serious international effects that would hurt the U.S. – such as harm to vulnerable U.S. trading partners and national security threats sparked by crop failures and climate refugees. Freeman and Guzman also point out that conventional cost-benefit analysis fails to properly account for the risks of catastrophic climate change – the probabilities may be low but the potential harms are enormous.

Compared with the costs of controlling climate under current law, Waxman-Markey may well be a bargain. And it compares very favorably with the costs of gambling

on just how bad climate change will turn out to be.

There are a bunch of other problems with the critiques that Waxman-Markey is too expensive. First, they don't take into account technology change because it's incredibly difficult to model future developments in technology. So they're largely based on the cost of complying with climate legislation with today's technologies. Second, the critics often assume that we would blindly keep the legislation in place even if China and the rest of the world failed to join us in addressing climate change. Third, as Richard Revesz and Michael Livermore explain in their excellent book on improving cost-benefit analysis, experience shows that the cost of complying with environmental regulation is usually lower than the estimates before the fact – industries figure out ways to minimize their costs when they have to do so. And fourth, the economic estimates for greenhouse regulation – whether under Waxman-Markey or existing legislation – generally leave out of account the "co-benefits" of regulation – anything done to reduce greenhouse gases will almost certainly reduce other forms of pollution that cause serious harm.

The bottom line is that Waxman Markey is likely to be more economically efficient than regulation under current law – and either way, climate regulation is a good buy that we can't afford to pass up.

This posting also appears on the CPR blog site.

P.S. The CBO has just now decided that the bill will not add to the deficit — not quite the same issue as discussed here, but nonetheless germane.