

One of the arguments that pro-“cap and traders” like to make against a carbon tax is that the outcome of a tax is too uncertain. Like Goldilocks, you may end up with a tax that is too weak or too strong. If it’s too weak, the desired environmental emissions targets may not be met; too strong, and we crush the economy like Goldilocks sitting on the little bear’s chair. But this argument is pretty weak coming from advocates of a cap-and-trade plan. After all, what makes cap-and-trade so likely to result in certain outcomes?

There are two fundamental flaws with the federal cap-and-trade plan, as it is currently constituted, that make the outcome of the program look about as [certain as George W. Bush trying to answer a question at a press conference](#). First, the [offsets](#). Simply put, there are way too many of them ([Ann has discussed](#) this issue on this blog). With over two billion offsets allowed, they will almost certainly undermine the integrity of the program by allowing polluters to pay their way out of emissions reduction through largely unverifiable reductions elsewhere.

But even if we assume the offset problem won’t materialize, there is a second and more important flaw in the system: the cap itself will probably be sky high. Why? Because in order to set the cap, we need a baseline as to what the emissions are today from the 7400-odd sources that will be regulated. And how do we get that baseline? Well, we’ll just ask the regulated companies how much they currently emit. They won’t overestimate, will they? Of course not. That never happens. Except in every cap and trade program we’ve seen, from RECLAIM to the EU.

Let’s look at the EU: the New York Times Green Blog describes the problems that the EU program is now facing due to a [glut of pollution credits](#). The EU cap-and-trade meltdown is attributed to “accounting rules” rather than actual emissions reductions. The glut has resulted in “hot air” credits that were essentially meaningless. So GHG emitters under the EU plan can now pay quite cheaply for their pollution with little incentive to reduce them.

The same problem occurred with the RECLAIM program in L.A., an unmitigated disaster that rarely gets mentioned by cap-and-trade boosters so mesmerized by the so-called success story of the acid rain program. With RECLAIM, the program relied on self-reporting to establish the baseline and the subsequent cap. The result was a [sky-high cap that led to low initial prices](#) and non-compliance once the cap ratcheted down to adjust. That program has since been abandoned in favor of regulations.

My prediction for the federal plan? We’ll have a ton of hot air with a sky-high cap, and it will take years to realize the full extent of the problem. Once the cap comes down (IF it comes down), like with RECLAIM, businesses will be unprepared for it and unable to

comply. Oh well. By the time we get this sorted out, it may already be 2020 and we'll have lost valuable time.

There are better options. First, environmental advocates can admit what many of them say privately, which is that a carbon tax makes a lot more sense. It would be easier to implement than cap-and-trade (although it would contain some of the same monitoring and enforcement problem, but not on nearly as big a scale). And it would lead to actual results, particularly if we did a slow-phase in. Plus, imagine the kind of investment in renewable technology we could do with the revenue. But, as everyone seems to say, it's politically unrealistic. Well, is there a harm in at least trying for the better policy and admitting this cap-and-trade emperor has no clothes?

Second, we could focus on policy efforts that actually will result in GHG reductions. That includes a strong federal renewable portfolio standard, and not the watered down one in the federal versions now under debate in the Congress. These policy efforts should also include a focus on the transportation reauthorization bill next year, which gives us an opportunity to stop subsidizing highways and instead invest in mass transit and compact real estate development. Clean energy, less driving, and more compact development will take us a long way toward getting out of this climate mess. Intricate, opaque, and ineffective cap-and-trade programs, filled with hot air, ain't gonna do it.