

The phrase “cap-and-trade” is relatively new, but the idea of marketable pollution allowances goes back several decades. Conventional pollution laws impose direct mandates on polluters, telling each polluter precisely what level of pollution control is required. For a variety of reasons, economists have always disapproved of this approach. They prefer pollution taxes (a/k/a effluent charges) or marketable permit systems as a lower cost method of reaching environmental goals. The U.S. twisted the arms of the Europeans into accepting cap-and-trade as part of the Kyoto Protocol. The EU has since fallen in love with the idea, but of course the U.S. never ratified the Protocol. Now, the idea of cap-and-trade seems virtually dead in D.C., though there’s always a chance of a revival. At least part of the problem, it would seem, is that the concept is difficult to understand; in addition, people are suspicious of market mechanisms since the financial meltdown.

The great irony is that cap-and-trade is now considered by many to be a suspect liberal (if not socialist) concept. So much for trying to harness the power of the market to address environmental problems!