The Many Flaws of AB 32

“California’s Climate Change Policy: The Economic and Environmental Impacts of AB 32.”

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Good Afternoon. I’d like to thank Rich Sexton and the Giannini Foundation for inviting me to speak to you today. As a person who grew up in California, and still has friends and family here, issues involving California’s economic future still resonates with me. AB 32 is such an issue.

Before I get to AB 32, however, let me state my position on climate change. Do I believe that greenhouse gases trap heat in the atmosphere? Of course: simple physics (without a bunch of assumptions regarding feedbacks) suggests doubling GHG levels in the atmosphere will increase the global average temperature by about a degree Centigrade.

Do I believe high-sensitivity, high-damage estimates of the climate based on computer models loaded with assumptions about biogeochemical systems we don’t begin to comprehend? No, but don’t take that out of context: I don’t place much trust in any complex models.
The recent economic crash was missed by virtually all economic models. Does anyone think modeling the Earth is easier than modeling the economy?

So in a nutshell, I’d call myself a climate moderate: yes, the phenomenon is real, but it represents a normal environmental challenge, not a transcendent issue requiring the complete transformation of civilization.

Now, to AB 32: the rest of this talk will focus on benefits, costs, and environmental impacts.

As we have been called the “real world panel,” by all means let’s be real and admit that AB 32 offers no climate-protection benefit. California produces an insignificant fraction of the world’s greenhouse gas emissions. California could shut down entirely and it would not change the trajectory of climate change significantly.

The developing economies, led by China, now dominate world emissions, and that domination will only grow. At current rates of emission growth, China alone will put out nearly twice the emissions of the entire U.S. by 2030.

China and India have stated, explicitly, that they will not take actions that hinder economic growth. China is building a coal-fired power plant (perhaps 2) every week, and they
have a long way to go before everyone has access to electricity.

And speaking of shutting cities off, even with the world’s lowest hanging fruit available to them, China has been unable to meet even modest goals for improving energy efficiency, and as a result, has turned to simply cutting power for manufacturers and even an entire city.

The second thing to understand about AB 32 is that it’s not likely to be adopted by others. That is, there’s no “leadership benefit,” or “first mover” benefit to be had here. This is not a situation as with cars, where California can threaten market fragmentation to make the federal government adopt California standards.

And seriously, anyone who thinks that China is just waiting on the U.S. to set an example is fooling themselves. China will no more follow our example on greenhouse gas controls than they have on property rights, individual liberty, civil liberties, and the rule of law.

If you look around the world, countries are running away from, not toward, instating binding greenhouse gas control regimes. They’re not even pretending anymore, and currently, world leaders are expected to skip the upcoming climate negotiations in Cancun entirely.
Now let’s talk about the green-tech bonanza that people like Governor Schwarzenegger are predicting. Can a state like California use massive mandates and subsidies to prop up a manufacturing sector in green tech? Sure, for a little while. But it’s not sustainable.

Economic theory, as well as history tell us that these promises of industry creation are mostly myths promoted by regulators, who just can’t let go of the idea that they can centrally plan the economy; environmentalists who feel they have to offer some benefit to get people to put up with pain of measures they’re flogging; and venture capitalists looking to make a killing in a government subsidized, artificial market.

But anyone who thinks that California, with its high pay, strong worker protections, strong environmental protections, high energy costs, and massive regulatory burden is going to have a new green tech manufacturing sector develop is engaging in the most wishful of wishful thinking.

Some numbers? China’s average total compensation for a manufacturing worker is 57 cents per hour. It’s lower in rural areas. According to the Bureau of Labor Statistics, the mean wage for assemblers and fabricators in California last
year was about $14 an hour. That’s about 25 times higher than the Chinese wage.

But forget China, just look south: the average Mexican manufacturer is paid about $1.50 per hour. Remember back to the days of the EV1, GM’s last electric car? That was supposed to turn California into a battery-making powerhouse! Well, where are batteries made? In 2009, 98 percent of the world’s advanced batteries were produced in China, Japan, and South Korea.

Sure, with enough mandates and subsidies, California might create a green tech-manufacturing sector, and might even keep it in California for a little while, but the subsidies required to pay for overpriced renewables are not sustainable.

If you need examples, look to Spain, Germany, France, Italy, and the Czech Republic which have all announced subsidy cuts already. Estonia and the UK are on the verge. If you haven’t noticed, California’s finances aren’t that hot. How long will California taxpayers want to pour subsidies into uncompetitive businesses?

Well, but you say, China is eating our lunch, building large quantities of renewable energy also. Of course they are: at their labor rates construction is cheap, and with their
dictatorial powers they don’t have to worry about displacing people, destroying ecosystems, and destroying personal property. And, it’s good marketing, since they intend to be the ones selling wind turbines and solar panels to the rest of the world.

As a share of their energy production, however, China’s renewable are trivial: in 2006, wind and solar power accounted for about one-sixth of one percent of China’s energy production.

Yes, they’ve put up a lot more wind turbines since...but as of last year, 30% of it wasn’t even hooked up to their electrical grid.

Now, let’s turn to the costs of AB 32.

I won’t get into the battling cost/job estimates, as you already heard about that, and you’ve probably realized that you can basically get any outcome you want by selecting the right set of assumptions. Instead, I’d like to approach this from first principles.

Energy is a fundamental input to production. Everything we make or use, any service we use requires energy inputs at multiple stages.
As we heard earlier, raising the costs of energy (which AB 32 most certainly will do) will lead to increases in the prices of goods and services, reducing consumption, economic growth, and employment. It also reduces competitiveness against lower-energy cost competitors. It will also be highly regressive.

This is simple economics. One might claim that the benefits were worth the costs, but as I discussed earlier, there will be no climate-stabilization benefits, the tech promises are mostly bunk, and the California economy is pretty much on life-support. There could be a benefit in the form of reductions in conventional pollutants, but again, let’s be real: if the goal is to reduce conventional pollution, the logical and efficient thing to do is to go after that goal directly, not circuitously and inefficiently through something like AB 32.

And perversely enough, for those who are really concerned about greenhouse gases and global environmental impacts, AB 32 may do more to harm the environment than help it. As manufacturing and service provision moves to places powered by less-expensive, more carbon-intense, less pollution-controlled energy, the world will see more emissions of conventional pollutants and greenhouse gases rather than less.
Aside from this conundrum, the so-called “renewable” come with innumerable environmental externalities of their own. Many environmental groups, particularly at the state and local level object to wind, solar, and biomass projects for a good reason: they are not very green.

Biofuels put a bounty on nature, raise food prices, and turn out to be as polluting as gasoline, if not worse.

Wind power consumes untold acres of landscape; minces bats and birds; causes local heating at ground level; requires massive power-line construction; and, because it forces backup power plants to fluctuate, can increase emissions rather than decrease them.

Solar systems threaten fragile desert ecosystems, and again, require power lines across vast swaths of the landscape.

Finally, at the macro level, anyone who has studied the relationship between wealth and the environment understands that only people who feel they have money to spare will invest in environmental protection.

You only have to look at the polls: When people feel flush, their interest in, and willingness to pay for environmental protection goes up. When they’re feeling economically insecure, interest in environmental issues plummets, and willingness to pay plummets with it.
Lost jobs, higher energy prices, and the environmental damages caused by green boondoggles will only reduce environmentalist impulses in the general population.

So, my conclusion: if you care about California’s economy, you want AB 32 suspended or terminated. And if you care about the environment, you also want AB 32 suspended, or terminated.