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Clinton-Gore and the Costs of Kyoto: Numbers Out of Thin Air

By Marlo Lewis, Jr.

How does the Clinton-Gore Administration arrive at its estimate that the Kyoto climate treaty would cost no more than \$7 billion to \$14 billion annually? Highly respected private forecasters (e.g., WEFA, Charles River Associates) estimate costs ten to twenty times larger. Is the Administration simply pulling numbers out of thin air?

At a June 4 hearing of the House Small Business Committee, Rep. James Talent (R-MO) and his colleagues queried Council of Economic Advisers Chairman Janet Yellen for some ninety minutes about the Administration's arithmetic. She could not, or would not, give straight answers to simple questions.

The Administration claims that its "flexibility" and "incentive" proposals (emissions trading, developing country participation, energy-efficiency R&D investments) would lower Kyoto's costs to almost negligible levels. But those policies may never materialize, or may not work as advertised. So it is important to estimate what Kyoto would cost apart from such cost-reducing elements. Prudence dictates that we examine the worst-case scenario as well as the best-case scenario.

More to the point, it is logically impossible to estimate the best case without first estimating the worst case. The incentive programs may indeed reduce compliance costs, but from what baseline? Even if the Administration somehow knew that emissions trading and the like would lower compliance costs by, say 50%, if it did not know whether *the costs to be reduced* are \$500 million, or \$50 billion, or \$5 trillion, how could it calculate a final price tag? The answer is, it couldn't.

At the June 4 hearing, Rep. Talent repeatedly asked Dr. Yellen for an estimate of what Kyoto would cost absent the flexibility proposals, or "sweeteners" as he called them. She just as repeatedly refused to give a straight answer. Excerpts from that eye-opening exchange follow.

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Rep. Talent: Apart from the sweeteners...how much more would a gallon of gasoline cost the average American at the pump?

Dr. Yellen: The sweeteners are the administration's policies.

Rep. Talent: I assume that you have some kind of baseline. I'm not suggesting your policy is to do this without the sweeteners. I'm trying to examine the accuracy of the conclusion that you've reached....So...apart from the sweeteners...would it cost up to maybe \$1 per gallon of gasoline?

Dr. Yellen: We've not tried to do a careful estimate of that precisely because that's not the President's policies....studies...suggest permit prices in the range of \$100 or more....

Rep. Talent: I don't know what a permit price means to the average American....So again...how much would it cost the average American at the pump?

Dr. Yellen: Well, our estimates that we've included in the testimony...we could expect to see, with a \$14-\$23 permit price, 4 to 6 cents a gallon on gas prices.

Rep. Talent: But that's including the sweeteners, right?

Dr. Yellen: That includes the so-called sweeteners....Other models...give you impacts on gas prices of 25 to 50 cents....

Rep. Talent: ...so we have 25 to 50 cents is what the reduction to 7% below 1990 levels in greenhouse gas emissions would cost the average American at the gasoline pump, in your estimation.

Dr. Yellen: No, the estimation of a variety of models. Not in my own estimation.

Rep. Talent: What's your own estimate?

Dr. Yellen: As I've indicated to you, we have focused on trying to figure out what the impact of the President's policies and the Kyoto Protocol are.

Rep. Talent: Well...when Mr. Eisenstadt went in to negotiate this, I presume he had....some kind of a baseline for what the raw cost of reducing emissions to 7% below 1990 levels would be, if you did not do these other things.

Dr. Yellen: He went off to Kyoto...to negotiate a treaty that would make this viable and doable for America at a cost that would be modest and reasonable....

Rep. Talent: And there is simply no way he could make a determination in negotiating with other countries how important those various mechanisms were unless he knew what the cost would be without the mechanisms.

Dr. Yellen: I have not attempted to derive...a good, solid estimate of what the real cost would be to America in the absence of these so-called sweeteners....We have a variety of simulations that we have done with computer models...but I would not stand behind such numbers...as the Administration's considered judgment as to what the impact [on gasoline prices] would be without these so-called sweeteners.

Yellen similarly could not or would not estimate what Kyoto apart from the flexibility proposals would cost in terms of lost jobs or reduced GDP growth. Yet she was perfectly willing to stand behind estimates that global warming would reduce GDP by 1% over the next century and increase air conditioning costs by more than heating bills would fall. Go figure!

What explains Yellen's evasive and contradictory testimony? The Administration may simply not have a baseline estimate of the "raw" (unmitigated) costs of Kyoto. More likely, however, the Administration does have such an estimate but cannot reveal it without confirming the accuracy of the WFA and Charles River studies, nor without opening its numbers game to public scrutiny. In other words, when it comes to estimating Kyoto's costs, the Administration is either dishonest, incompetent, or both.