



COMPETITIVE ENTERPRISE INSTITUTE

Why Kyoto Is Not an Insurance Policy

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Thank you, Mr. Chairman, for inviting me to present testimony on behalf of the Competitive Enterprise Institute, a non-profit research and advocacy group committed to advancing the principles of free enterprise and limited government.

What I'd like to do in the next several minutes is address what I take to be the Clinton Administration's strongest argument in favor of an international climate treaty. This is the argument that, "if we do it smart," Kyoto will provide low-cost planet insurance for ourselves and future generations.

In candid moments, Administration spokespersons will admit that the theory of catastrophic warming has not been validated by experimental or empirical evidence. They'll concede that scientists know too little about the underlying physics, that computer models are too slow, and that the evidence is too conflicted, to permit a genuine resolution of the global warming debate. In other words, they'll admit, at least privately, that the science supporting the Kyoto Protocol isn't really clear, compelling, or "settled." But they don't see this as a great liability. Indeed, in their view, our very ignorance about the extent of human influence on the climate system is reason enough to justify an enterprise like the Kyoto Protocol.

I. Precautionary Deception

The Administration's trump-card argument in the global warming debate is not any testable scientific hypothesis but something called the Precautionary Principle. This is the proposition that lack of scientific certainty should not become an excuse for inaction where there are threats of serious or irreversible harm to health, safety, or biodiversity.¹ The precautionary case for Kyoto goes as follows. The earth *may* be warming; industrial activity *may* be the cause; and the effects of such warming *may* be catastrophic. Furthermore, a global program to reduce greenhouse gas emissions *may* be feasible and effective in averting or mitigating harmful climate change.

Mankind, through its combustion of fossil fuels, has been running a gigantic, uncontrolled experiment on the climate system. Since this experiment is potentially life threatening, we should start applying some controls. Curbing energy use to reduce emissions could prove costly, but what is money compared to the lives that might otherwise be lost? Kyoto or some similar treaty is, thus, the only responsible option. The alternative is to throw caution to the winds and gamble with "the only planet we have."

This argument is rhetorically powerful because it sounds so much like familiar maxims of common sense – look before you leap, err on the side of caution, better safe than sorry. In fact, as will soon become clear, we can with equal legitimacy invoke precautionary considerations to oppose the Kyoto Protocol. My testimony has two parts. First, I'll show that the Precautionary Principle supplies no real guidance for choosing between policy alternatives. Then I'll offer specific reasons why Kyoto is not an insurance policy.

The Precautionary Principle Is Self-Contradictory

The fatal flaw in the precautionary case for Kyoto – as in environmental advocacy generally – is its complete one-sidedness. Environmentalists demand assurances of no harm only with respect to actions that government might regulate, never with respect to government regulation itself. But government intervention frequently boomerangs, creating the very risks that precautionists deem intolerable.

Examples abound. Federal fuel economy mandates force auto makers to produce smaller, slighter, less crash-resistant cars, causing 2,000 to 4,000 highway deaths per year. FDA regulations delay the availability of life-saving therapies, killing tens of thousands over the past

¹ Words to this effect occur in both the 1992 Rio Treaty and the Biodiversity Convention. See James Cameron, "The Status of the Precautionary Principle in International Law," in Timothy O'Riordan & James Cameron, eds., *Interpreting the Precautionary Principle* (London: Earthscan Publications, 1994), p. 269.

two decades. Banning DDT revived malaria epidemics in the Third World, afflicting 2.5 million people in Sri Lanka alone.

Frank Cross at the University of Texas at Austin notes that over-regulation can kill just by misdirecting resources and destroying wealth. The resources available to protect public health and safety are limited. Regulatory schemes that divert attention, effort, and money from major threats to minor risks make us less safe. For example, the millions of dollars local governments waste on gold-plated Superfund cleanups cannot be used to improve police and fire protection.

Even more important is the fact that, for individuals as well as nations, wealthier is healthier and richer is safer. Precautionists ignore the obvious connection between livelihoods, living standards, and lives. Wealth is the single most important factor affecting health and longevity. For example, a recent study published in *JAMA* finds that the death rate of America's poor is three times that of the general population. Only 13% of the difference can be explained by risky lifestyle choices such as overeating, excessive drinking, or smoking. What's chiefly causing the higher death rate is poverty itself. Poverty is stressful and highly correlated with several well-known disadvantages – unsafe neighborhoods, dangerous jobs, unhygienic living conditions, inadequate medical care. Even in comparatively affluent countries like the United States, studies indicate that every \$5 million to \$10 million drop in economic output translates into one statistical death.

So here is a precautionary argument *against* the Kyoto Protocol. Stabilizing greenhouse gases at levels low enough to cool the planet *may* require drastic reductions in energy use (actually, I think this is a near certainty, but I'll say "may" to preserve the parallelism). An energy-constrained world *may* be a poorer world (again, this is a virtual certainty). A poorer world *may* be a world with more starving people (indeed, how could it not be?). True, I do not have scientific proof that Kyoto would condemn millions to poverty, starvation, and misery. But the Precautionary Principle says that we should not let the absence of scientific certainty become an excuse for inaction. It also says we should not permit far-reaching innovations until they are proved to be safe. Therefore, until the Kyoto Protocol is proved to be safe, we should oppose it.

Kyoto partisans sometimes compare mankind to a motorist who suddenly finds himself driving down an unlit road on a foggy night. Until we know what lies ahead, shouldn't we take our collective foot off the accelerator? That depends on whether the analogy is apt. Perhaps mankind is more like a pilot flying into dark clouds. If the pilot reduces air speed too much, he may lose altitude and crash.

Only a small fraction of mankind enjoys the living standards we Americans do. Affordable energy is one of the key foundations of our prosperity. As Mark Mills of Mills-McCarthy Associates has shown, there is an amazing correlation throughout the world between

per capita energy consumption and per capita income. Where per capita energy consumption is high, per capita income is also high; and where per capita energy consumption is low, per capita income is also low. Thus, if we are to rescue mankind from the perils of poverty, we must dramatically increase global energy consumption – we must push down on the accelerator. In countries like India, there are people so poor that they burn dung for fuel and poison themselves breathing the polluted air of their own homes. The world isn't rich enough to justify any effort to slow down the airplane. Rather, what's needed are better communications systems, improved early warning systems, a faster, sturdier, more resilient aircraft. We are more likely to develop such assets in a free, energy-abundant economy than in an over-regulated, energy-poor economy.

For far too long, environmentalists have gotten away with precautionary deception. They say we should not permit new products, technologies, or industrial processes until those innovations are proved to be safe. Yet they are willing to launch new regulatory schemes without a thought about their potentially lethal effects. In the global warming debate, they admonish us not to gamble with the only planet we have. Yet they are more than willing to gamble with the only economy we have. They cannot logically have it both ways. They cannot consistently say that “safety first” trumps all other considerations in the realm of private action but has no application in the realm of governmental action.

Now, I am not for a moment suggesting that the Precautionary Principle would be beneficial were it applied evenhandedly to economic and regulatory activity alike. Acting as if “Safety First!” were a categorical imperative rather than a mere rule of thumb is a recipe for paralysis and stagnation – perhaps the riskiest condition of all. My point, rather, is that the Precautionary Principle is neither a scientific nor an ethical precept. It is a rhetorical weapon. Its purpose is to inflate the importance of certain kinds of risks – those associated with economic endeavor – and conceal the importance of other kinds of risks – those arising from the exercise of political power.

An honest presentation of the subject begins by acknowledging that there are risks on both sides of the ledger. There are risks of under-regulation but also of over-regulation. Risks of climate change but also of climate change policy. Do the risks of climate change outweigh those of climate change policy? Or do we have more to fear from Kyoto than from global warming itself? Those are the questions policy makers should be debating.

II. Kyoto Is Not an Insurance Policy

The Administration claims that Kyoto is an insurance policy, and insurance by definition is supposed to make us safer. But is Kyoto the real thing, or is it as phony as the Precautionary Principle?

Whether or not a proposed insurance policy makes sense depends chiefly on three things: the probability and size of the potential losses to be insured against, the cost of the premiums, and the extent of the coverage. Earthquakes are very real and sometimes catastrophic events. But they seldom occur in Washington, D.C. – so seldom that even low-cost earthquake insurance would be a bad investment for homeowners in the District. Fires do destroy homes in this area, and it would be unwise not to have fire insurance. But how much should one be willing to pay? A policy so expensive that it effectively prevents the homeowner from purchasing health care, fixing the brakes on his car, or saving for his retirement, would probably make him less safe. Finally, an insurance policy worthy of the name should help make the insured whole after misfortune has struck. Or, if it can't do that, the policy should at least reduce the odds of the bad thing happening. If the policy can't either reduce the likelihood or cushion the impact of the insured-against event, it's not worth beans.

These simple reflections suggest that we ask three questions of the Kyoto insurance salesmen: What is the likelihood of a human-induced global warming catastrophe? How much will the premium payments cost? How much protection will Kyoto insurance deliver?

How Likely Is Catastrophic Warming?

There are several reasons why we shouldn't worry about global warming.

- The computer models on which the Rio Treaty is based overestimate by 200%-300% the amount of warming recorded over the past century. If the models can't retrodict the past, why should we suppose they can accurately forecast the future? The fact that the earth has warmed only 1 degree F over the past 150 years suggests that the climate system is less sensitive to greenhouse "forcing" than the models assume.
- Greenhouse theory says the troposphere should be warming faster than the surface, and that the largest warming signal should have occurred in recent decades. Yet the satellite and weather balloon records of the past 20 years show no warming trend in the troposphere.
- The models assume that the slight increase in heat energy from man-made carbon dioxide will increase the moisture content of the upper troposphere, clogging the earth's heat exhaust vents. Empirical observations from satellites fail to confirm this.
- Most of the warming in this century occurred before most of the buildup in man-made greenhouse gases. All of that warming is within the natural range of climate variability.

- When the planet was warmer than today (e.g., the Medieval Warming of 1000 AD to 1200 AD), mankind flourished. When the planet was cooler (e.g., the Little Ice Age of 1300 AD to 1850 AD), mankind suffered.
- In the Atlantic basin, the intensity of hurricanes and the number of hurricanes making landfall have been decreasing since the 1940s.
- The one indisputable thing we know about the buildup of atmospheric carbon dioxide is that it is helping trees, crops, and other plant life grow faster, stronger, and more profusely.

Such facts persuade me that the probability of catastrophic warming is low. Indeed, it is not clear global warming is something we should prevent, even if that were easy and cost little. Spending trillions to avoid better weather and a greener planet would make no sense at all.

How Much Will It Cost?

This brings us to the second question – how much will Kyoto insurance cost? The Administration says that if we “do it smart,” Kyoto won’t cost much at all – maybe one-tenth of 1% of GDP. Yet the Protocol would require America to reduce its emissions of greenhouse gases 31% below the level projected for 2010. In sheer physical terms, we’d have to cut emissions by 552 million metric tons per year during the initial compliance period – an amount equivalent to *all current emissions* from either the transportation sector, or the utilities sector, or industry. There is no feasible way to do that without putting our economy in the tank.

But, Administration officials claim, that is not the “smart” policy they’re proposing. Through flexible market mechanisms like emissions trading, America will be able to pay others to reduce their emissions for a fraction of what we’d have to pay to reduce our own. In addition, federal R&D support for wind and solar power will further reduce compliance costs. This explanation is totally unpersuasive.

Emission trading has the potential to bring down costs, but by how much depends on the extent of the market, the number of countries participating. Developing countries are the largest potential source of inexpensive emissions credits. But the Kyoto Protocol exempts developing countries from binding emissions targets and, hence, from trading.

It is not even clear how much trading the U.S. would be permitted to do with other industrial countries. Article 17 states that emissions trading “shall be supplemental to domestic actions” undertaken to limit or reduce emissions. How much of our target we would be allowed to meet through “supplemental” trading rather than through “domestic actions” remains to be

negotiated. The European Union has taken the position that no party should be allowed through trading to meet more than 50% of its obligations.

In recent issues of *World Climate Report*, Mark Mills demonstrates that if the EPA classifies carbon dioxide as a pollutant for purposes of capping emissions and facilitating trades, over a million small businesses become regulated stationary sources. Caught in EPA's regulatory net would be 28% of all schools and 25% of all health care facilities. To comply, these newly regulated entities would need new staff to "install, identify, evaluate, and operate emissions monitoring equipment; some other people to undertake record-keeping and documentation control; yet another team to become expert in and monitor regulatory compliance; still others to consider and implement engineering solutions to the problem of complying with emissions reduction." Finally, legal staff would also be needed to cope with the liabilities arising under the new regulatory regime.

Mills estimates that these compliance activities will require one person-year of effort if done "in-house" and half a person-year if contracted out. The latter option, he conservatively calculates, will cost about \$30,000. Since the threshold for coming under EPA's regulatory scrutiny is \$8,000 in fossil fuel purchases, the cost of fossil fuel for a small business effectively jumps from \$8,000 to \$38,000 – a 300%-plus increase. Somewhat larger firms that spend \$100,000 on fossil fuel will see their costs rise by "only" 30%. The total collective cost of these new regulatory burdens on small business could reach \$100 billion annually.

What about those federal R&D investments in wind and solar power? Mills calculates that to fill just 30% of the projected growth in national electricity demand over the next two decades, wind and solar would have to increase their supply of electricity from about 10 million kilowatt-hours to 370 billion kilowatt hours. In other words, wind and solar will have to increase total output by 37,000 times! Asks Mills, "Does anyone really believe that any amount of taxpayer-funded Apollo program-style federal projects, tax incentives, outright grants, gifts, and similar silliness could lead to a 37,000-fold increase in solar/wind in just 20 years?"²

Clearly, Kyoto's premium payments will be higher than the Administration's estimates – perhaps staggeringly so.

How Much Protection Will It Provide?

The last question we must consider in assessing Kyoto as an insurance policy is how much protection it will provide. Here we should note that in popular parlance, "insurance" may refer either to a policy that reduces the likelihood of a bad thing happening, or to a policy that

² Mark Mills, "Energy Arithmetic," *World Climate Report*, July 13, 1998, p. 8.

reduces the impact of a bad thing once it has happened. Real insurance usually does some of both. For example, if one has a safe driving record, it is easier to qualify for auto insurance, or to get the best rates. Auto insurance thus encourages safe driving, reducing the likelihood of accidents. And if we have an accident, the policy will alleviate the financial impact.

Let's look at Kyoto under those two aspects. First, how much would Kyoto reduce the likelihood of global warming, assuming for the moment that the climate models are right? As Patrick Michaels demonstrates in his recent Cato Institute monograph, Kyoto would do next to nothing to cool the planet. Even if all nations – not just the industrial countries – cut their greenhouse gas emissions as much as Kyoto would require the U.S. to do, greenhouse gas concentrations would still rise over the next 50 years. By the year 2047, equivalent carbon dioxide concentrations would reach 602 parts per million rather than 655 parts per million. That 53 parts per million difference means that Kyoto would cool the planet by less than 0.2 degrees Celsius. "It is doubtful," observes Dr. Michaels, "that this change could even be extracted from ground-based temperature measurements, because of interannual climatic noise."³

Finally, would Kyoto be of any help in making us whole after harmful global warming has occurred? Here's where the insurance analogy completely breaks down. Kyoto can do nothing to put us back on our feet once we have suffered damages from destructive climatic change. Quite the contrary, whatever resources we apply under Kyoto to prevent climate change, we cannot use to adapt to climate change if and when it occurs. Kyoto is all premium and no coverage.

This last point leads to a question that should be at the heart of the global warming debate. *Which type of social insurance policy is likely to deliver the most protection?* Should we try to prevent global change by rationing energy and further politicizing economic and technological development? Or should we try to increase mankind's ability to adapt to change by reducing political barriers to enterprise, invention, and innovation?

Under the latter option – let's call it a Resiliency Strategy – policy makers would work to eliminate the political barriers (high taxes, burdensome regulations, wasteful subsidies) that impede economic growth and technological progress. Wealthier, more technologically advanced societies are better able to anticipate, withstand, and recover from extreme weather events and other natural disasters.

For example, both Florida and Bangladesh experience tropical storms. When a typhoon hits Bangladesh, tens of thousands of people may die. In contrast, when a hurricane strikes Florida, there may be tremendous property damage, but comparatively little loss of life. The

³ Patrick Michaels, "The Consequences of Kyoto," *Cato Institute Policy Analysis*, No. 307, May 7, 1998, p.10.

reason is not that typhoons are worse than hurricanes but that Florida is wealthy, Bangladesh poor. In Florida, homes are built to withstand high-velocity winds. A developed infrastructure is in place to provide early warning, continuous communication, medical services, and emergency relief. Also, car ownership is widespread, allowing people to drive to safer locales before the storm hits. This suggests we should be exceedingly wary of policies that would stifle economic growth, distort technology development, or limit mobility.

A Resiliency Strategy is clearly the superior option given the uncertainties surrounding the global warming hypothesis. Many possible catastrophes may befall us in the next century – the outbreak of new viral plagues, increased tectonic plate activity, an errant meteor, nuclear terrorism, chemical or biological warfare, even global cooling. Making societies freer and wealthier is inherently desirable, and would better prepare us to deal with whatever shocks and surprises the future may hold. In sharp contrast to Kyoto, the Resiliency approach is all coverage and no premium.

The Kyoto Protocol would restrict our freedom, diminish our prosperity, and mobilize tremendous resources to fend off a threat that may prove to be non-existent or trivial compared to the age-old scourges of poverty, hunger, and disease. America does not need and cannot afford that kind of insurance.