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ECONOMY | CAPITAL ACCOUNT

The Unrealistic Economics of the Green New Deal

Saving planet, creating jobs are noble ideas—but by combining them, Democratic plan exacts too high a cost

Rep. Alexandria Ocasio-Cortez (D., N.Y), center, and Sen. Ron Wyden (D., Ore.), in green coat, on Thursday at the Capitol as they unveiled their Green New Deal agenda. PHOTO: BILL CLARK/CQ ROLL CALL/NEWSCOM/ZUMA PRESS

By Greg Ip
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The Green New Deal that some Democrats unveiled last week is actually two deals: one to combat global warming, another to create millions of well-paid jobs for targeted groups.

Individually, both goals have their merits. But by combining them, the Green New Deal promises to make climate mitigation both absurdly expensive and deeply partisan and is thus more likely to set back than advance the climate cause.

The premise behind the Green New Deal is right. While the world may not spontaneously combust in 10 years, global carbon-dioxide emissions need to start dropping soon, by a lot, to keep temperatures from rising more than 1.5 degrees Celsius from 1800s levels, according to the Intergovernmental Panel on Climate Change. Increases beyond that raise the probability of extreme weather, deadly heat and rising sea levels.

Because the private market has no incentive to reduce carbon emissions, government intervention is necessary. But not all interventions are created equal, and the Green New Deal's seem engineered to be as expensive as possible.

Consider its goal of massive public investment to achieve 100% renewable energy in as little as 10 years. Kevin Book, head of research at ClearView Energy Partners, a research firm, estimates replacing the 83% of current U.S. generation that is not renewable with solar photovoltaic, wind and biomass would cost $2.9 trillion—nearly a full year's tax revenue.

This excludes any cost for interest, operations, maintenance, new transmission lines or compensation to private investors for writing off natural-gas and coal plants with plenty of useful life left. It assumes cheap battery storage that doesn't yet exist. Even so, this works out to $83 to avoid one metric ton of carbon dioxide.

The Green New Deal's plan to upgrade every building in the U.S. to "maximum energy efficiency" is even more questionable. A study by Meredith Fowlie, Michael Greenstone and Catherine Wolfram in the Quarterly Journal of Economics found the federal government paid an average of $4,585 each to weatherize homes in Michigan. Extrapolate that to 95 million homes nationwide, and the bill tops $400 billion. The cost of avoided carbon dioxide: up to $285 per ton.

Germany was able to drastically cut the price of solar power by having producers bid to supply energy at the lowest possible subsidy. PHOTO: ALEX KRAUS/BLOOMBERG NEWS

To understand how high $83 to $285 per ton of carbon dioxide is, consider that Barack Obama's economists put the economic harm of a ton of CO_2 at $50. Or that you can pay a power producer just $6 to reduce emissions by one ton in New England, $15 in California, and $25 in the European Union, based on emission permit prices in those jurisdictions, notes Mr. Greenstone, an economist at the University of Chicago.

Yet in the Green New Deal, trillion-dollar price tags are a feature, not a bug. That is because its mission is to create "millions of good, high-wage jobs" in "front-line and vulnerable communities." The higher the price tag, the more jobs it creates. How to pay for it? Its Democratic sponsors would raise taxes on the rich and borrow the rest, including from the Federal Reserve, just as the U.S. did during World War II, dramatically boosting output and employment.

But in 1941, the U.S. had plenty of unused resources to mobilize: just 28% of prime-aged women had jobs. By 1945, 35% did and today, 74% do. (The data aren't strictly comparable due to changing definitions.) The war effort still spurred intensive inflation pressure, contained only with wage and price controls. The U.S. is now close to full employment and its debts are far higher. Even in today's world of low inflation and low interest rates, the scale of deficit spending the Green New Deal implies would likely push both higher.

Republicans and business groups have long fought even modest costs to mitigate climate change. Jacking up the price to finance leftist Democratic priorities will only

intensify their opposition. Indeed, Republicans and President Trump are itching to run against the Green New Deal. This guarantees inaction on climate unless Democrats win the White House, House of Representatives and 60 Senate seats.

What the U.S. needs is the Green New Deal's sense of urgency combined with market mechanisms that incentivize carbon reduction at the lowest price, such as a carbon tax, carbon credits or tradable emission permits. This will also spur innovation that other countries can adopt to tackle their own emissions, which will be 88% of the global total by 2040.

Germany's experience is illustrative. In 2000 it began targeting subsidies to renewable power and by 2017, renewables' share of power consumption had risen fivefold to 38%. Because renewable generation was initially so small, the subsidies weren't that burdensome, says Michael Pahle of the Potsdam Institute for Climate Impact Research. The priority, he says, was spurring innovation to drive down costs. But, he says, as renewables became much larger, cost became much more worrisome.

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In 2015 Germany introduced reverse auctions, in which producers bid to supply energy at the lowest possible subsidy. By attracting the lowest-cost supply, this has driven solar photovoltaic prices down by half. Some bids have required no subsidy at all.

Even so, because Germany is phasing out nuclear power and hasn't targeted transport, industry and agriculture emissions, it is behind on its emissions reductions. This underlines the need for an economywide carbon price, Mr. Pahle says. That is a lesson Americans should learn now, not after they've spent trillions on a Green New Deal.

Write to Greg Ip at greg.ip@wsj.com