

## **Krugman's Argument #1. Only cap-and-trade is politically viable**

Now Krugman's a great economist, but his first reason for cap-and-trade is pure politics. In fact before he got political on us, he said:

"The idea of pollution taxes is one of those iconic positions, like free trade, that commands the assent of virtually every card-carrying economist."

So what's this new political insight that trumped his economics? Let's check Krugman's op-ed—the one that ran right next to yours. It begins

"Maybe I'm naïve, but I'm feeling optimistic about the climate talks starting in Copenhagen."

So if he takes himself seriously, he's got to conclude he was a bit naïve on the politics -- quite a bit naïve.

And of course, last time international capping didn't work, the Senate voted 95 to zero not to do domestic caps. So you could say Krugman should rethink his politics and go back to his economics. In his heart he knows a tax is better, and now he knows this politically viable argument was naïve.

And if he can't predict Copenhagen politics one week in advance, why should he think he can predict cap-and-trade politics three years from now when those crazy cap-and-trade prices go through the roof, and the papers announce that the Wall St. traders just doubled our carbon taxes?

## **Krugman's Argument #2. Cap-and-trade is just like a carbon tax**

Again, I think Krugman knows he's got a problem. He won't come out and actually say taxes and caps are the same, he hides behind what he calls "basic economics." Sure basic economics says they're almost identical, and they could be almost the same — except for the politics. He's got the economics nailed, but the politics keeps giving him trouble.

The reason politicians like caps is because caps let them hand out free carbon pollution permits, and the economists give the politicians cover. Krugman and the others tell us the free permits won't hurt the cap. Well economically that's right. But what they know and don't say—well sometimes they say it but rather softly—is that those permits are money, so they can totally change the politics.

Handing out so-called free permits, gives whoever gets them the right to collect the carbon tax. That's right. The money they make on those permits

is exactly the money you want to collect with a carbon tax and refund to all the people in this country equally. We can discuss that more in a minute.

But the point here is that Krugman is technically right about basic economics but way wrong when we look at the 1400 page reality of the Waxman-Markey bill. Basic economics says a cap shouldn't look like that, but that's how it looks in reality.

#### **Krugman's Argument #4. Cap-and-trade worked for acid rain so it will work for climate change**

Krugman, and all cap proponents, often tell us how caps worked for acid rain. In the early 1990's we capped the sulfur dioxide from coal plants so won't capping the CO2 from coal plants be just the same?

Well, No. There are two little differences. First let's look at Copenhagen. The idea was to use cap-and-trade for the world because caps worked on U.S. coal plants. So what *were* they thinking?! That China and India are just like big coal plants? It seems maybe they were thinking that, given how they treated China and India. It turned out China and India didn't like pretending to be coal plants.

Now let's look at the U.S.

Capping coal plants worked politically because they gave those plants 100% of the permits for free, and because sulfur is not such a big deal, no one noticed the value of those permits. Well, try scaling that up 100 or 200 times from 2 billion dollars to say 300 billion dollars per year. We will need to go even higher. Try sneaking by with a give-away to polluters of even \$150 billion. Even the sleepy press will wake up eventually.

Again, the politics are different. And the politics of a \$300 billion tax, half handed out in back-room deals using so-called "free" permits, is not going to fly. On top of that we have market speculators setting the tax rate, which bounces around like crazy from year to year. The headlines will read—market speculators double our gasoline and electricity taxes in just three months. And where are those taxes going???

One obvious conclusion. Anyone who still thinks we have to have caps because the politics of caps is a slam dunk is — well, like Krugman said — naïve. Maybe they should go back to explaining why the idea of pollution taxes is so great, like they were doing before they hopped on Washington's political bandwagon.