Worksheet 6.1

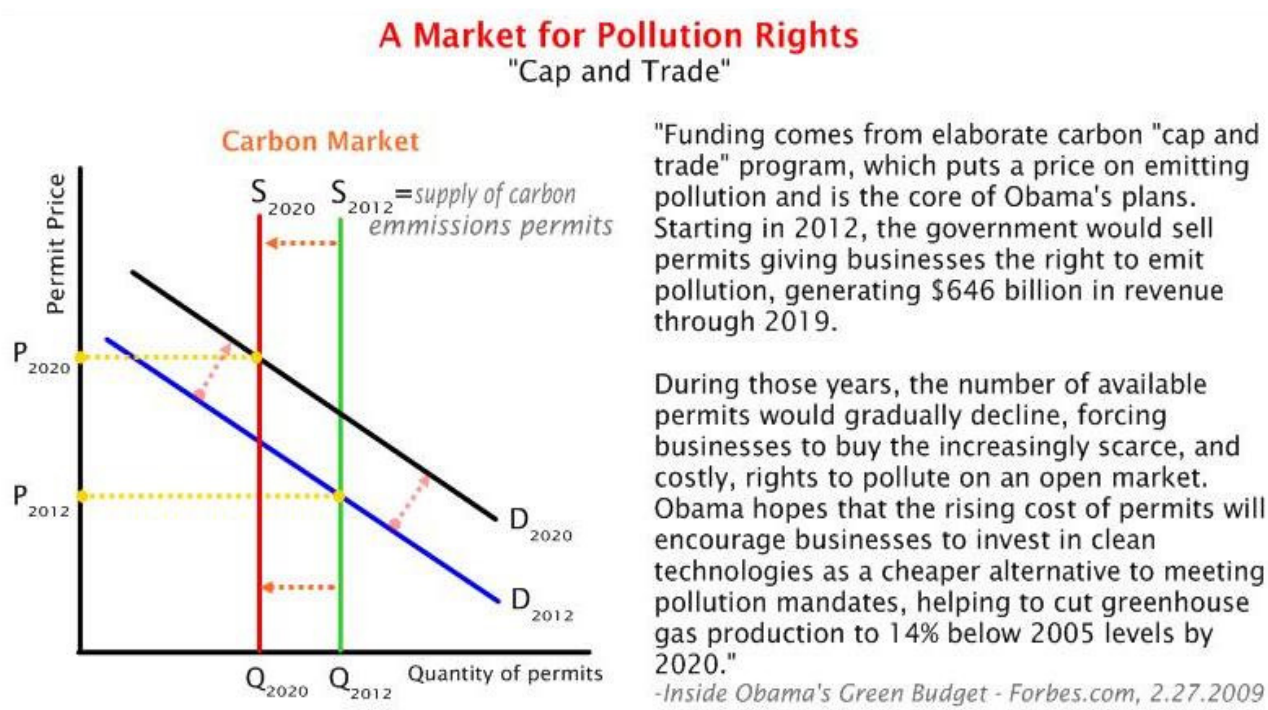
Obama's Carbon Market

Some say that Global Warming may be the greatest market failure of all. This podcast was originally broadcast in January of 2007 during the US presidency of George W. Bush. The commentator claims that global warming is 'nothing but one giant market failure', arguing that the United States therefore must get serious about tackling the problem.

The allocation of resources towards carbon emitting industries has almost undoubtedly contributed to the warming of the planet over the last half century. Only recently have governments begun taking active measures to reduce the impact of industry on the environment through greater regulation of polluting industries, employing corrective taxes in some instances and market-based approaches to pollution reduction in others.

US President Barack Obama, unlike his predecessor George W. Bush, initially appeared to be serious about correcting the 'market failure' represented by global warming: read paragraphs four to seven from this link.

Below is a diagram that illustrates precisely how the Obama cap and trade plan was meant to work. Notice that between 2012 and 2020 the cost to firms of emitting pollution will increase dramatically, while at the same time the total amount of carbon emissions in the US economy will fall due to regular reductions in the number of permits issued to industry.



The Obama cap and trade scheme would not have been not the first experiment with such a market based approach to externality reduction: read from ‘Europe established...’ to the end of the paragraph from this article.

Europe's cap and trade program took a few years before it began having any noticeable impact on the emission of carbon by European industry. While unpopular among the firms who are forced to pay to pollute, the fall in emissions in Europe shows that a market for carbon may be effective in forcing firms ‘internalize’ the costs of carbon emissions, which until now have been born by society and the environment in the form of the negative effects of global warming.

Questions:

1. Why do you think tradeable pollution permits are more politically viable than a direct tax on firms' carbon emissions?
2. Why did Europe's carbon emission permit market fail to reduce emissions over its first couple of years of implementation?
3. Is making firms pay to pollute a good idea in the middle of a recession? Do you think that we should even be worrying about the environment when millions of people are losing their jobs and entire industries are struggling to survive?