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Climate-Change Bill Hits Some of the Right Notes but Botches the Refrain

By Steven Pearlstein
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Something very important has been happening this week -- more important, if you can believe it, than what Nancy Pelosi knew about waterboarding or why Kris Allen scored his upset victory on "American Idol."

I refer to the marathon committee markup on Capitol Hill of a monster piece of legislation that promises to reduce by 83 percent over the next 40 years the amount of carbon emitted into the atmosphere from American cars, power plants and factories.

There remains a robust argument over whether the American Clean Energy and Security Act of 2009 represents a crucial step in preserving life as we know it. But there is no question that there are few pieces of legislation that are likely to have a more profound effect on the U.S. economy. It would bring about dramatic changes in the relative prices of energy and goods produced by energy-hungry industries. It would redistribute trillions of dollars in business sales and household income and generate hundreds of billions in government revenue. And it would represent the most dramatic extension of government's regulatory powers into the workings of the economy since the early days of the New Deal.

For all that, there are probably not more than a few hundred people who really understand what's in this legislation, how it would work and what its impact is likely to be. As it moves through the legislative process, it's worthy of closer attention.

Given the bill's scope and complexity, just getting it out of committee is a monumental achievement on the part of its principal authors, Democrats Henry Waxman of California and Ed Markey of Massachusetts. To do so, they had to make numerous compromises and concessions to powerful special interests and regional voting blocs that would be most affected by the transition to a system in which companies and consumers are forced to pay, indirectly, for the environmental damage they cause. Waxman and Markey are wily and experienced politicians, so it is a fair assumption that the bill their committee passed last night in a 33-25 vote is pretty close to what the U.S. political system is now willing to accept.

The other thing to say about it is that it is a badly flawed piece of public policy. It is so broad in its reach and complex in its details that it would be difficult to implement even in Sweden, let alone in a diverse and contentious country like the United States. It would create dozens of new government agencies with broad powers to set standards, dole out rebates and tax subsidies, and pick winning and losing technologies, even as it relies on newly created markets with newly created regulators to set prices and allocate resources. Its elaborate allocation of pollution allowances and offsets reads like a parody of industrial policy authored by the editorial page writers of the Wall Street Journal. The opportunities for waste, fraud and regulatory screwup look enormous.

To test my reaction to the House bill, I called Paul Portney, an old friend and the former president of Resources for the Future, a Washington think tank that brings economic rigor and a market sensibility to environmental issues. Portney is now dean of the University of Arizona's business school.

As Portney explained it, there are three basic approaches to reducing carbon emissions.

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The simplest is to impose a carbon tax that would raise prices so much that households and businesses would use less energy from coal, oil and natural gas. Proceeds from the tax could be rebated to consumers or used for other government purposes.

Another is the cap-and-trade system that would limit carbon emissions and require companies that produce or use carbon energy to buy carbon emission credits from the government or an open market.

A third approach would use a command-and-control model in which government would set carbon emission standards for power plants and factories, and energy-efficiency standards for cars, buildings and appliances, while favoring other energy sources with tax breaks and subsidies.

The problem with the House bill, Portney said, is that to satisfy the various political constituencies and exigencies, it wound up using all three approaches. The result is an unwieldy compromise with lots of belt-and-suspenders redundancy.

The Waxman-Markey bill may be the best bill that the political system can produce, and surely it is far preferable to doing nothing. But now that we know what a climate-change bill looks like when it is jury-rigged to accommodate all the special interests, maybe Americans will be willing to reconsider one of the cleaner, simpler approaches -- a carbon tax with all the revenue rebated to households, for example, or a cap-and-trade system that generates enough revenue to erase the national debt, or even a tough new regulatory regime requiring businesses to produce more fuel-efficient cars, buildings and appliances.

It's not too late to change our minds.

Steven Pearlstein can be reached at pearlsteins@washpost.com.

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