The Social Cost of Carbon: A Made-Up Figure

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The social cost of carbon (SCC) measures how much damage is done to society by an additional ton of carbon dioxide (CO2) emissions. It is a cost estimate, and as such, it is factored into the required cost-benefit analysis of any regulation that would affect emissions. A high enough SCC means that nearly any regulation that seeks to reduce CO2 will appear justified under cost-benefit analysis. The SCC serves to justify and legitimize cap-and-trade, carbon taxes, wind power mandates and green subsidies, says Marlo Lewis, a senior fellow at the Competitive Enterprise Institute.

There has been a 17-year pause in global warming, and climate model projections and actual observations have continued to diverge over the years. On average, climate models overshot warming of the past 15 years by 300 percent, and climate studies indicate that today's climate is better than earlier models had predicted. As such, shouldn't the Obama administration's SCC estimates be lower today than they were four years ago?

- In fact, the SCC estimate has only gone up.
- Its 2010 SCC estimates for the year 2020 were $6.80, $26.30, $41.70 and $80.70, while its 2013 estimates for that same year were $12, $43, $65 and $129.

Cato Institute climatologist Chip Knappenberger chalks the higher numbers up to nothing more than political calculation.

To raise the SCC, analysts use a low discount rate (the rate that helps to calculate the present value of a future sum). By using a low discount rate, the value of CO2 damages and the SCC is much greater.

- The Obama administration used discount rates of 2.5 percent, 3 percent and 5 percent in its 2010 and 2013 analyses. For example, in 2013, it found that a 5 percent discount rate produces an $11 per ton SCC, while a 2.5 percent rate produces a $52 per ton SCC.
- The Office of Management and Budget, however, instructs agencies to use discount rates of both 7 percent and 3 percent. What would have happened if the administration had used the 7 percent rate? The SCC estimate would have fallen by more than 80 percent.

The Environmental Protection Agency uses a global SCC number (rather than a domestic one) for its cost-benefit analysis. The global SCC estimate for 2010 was $33 per ton, but the domestic impact was only $2 to $8 per ton. By using the global number, the regulations can pass a cost-benefit test, even though Americans suffer a net loss with $25 in compliance costs. According to Cato Institute calculations, there is actually no way that a domestic carbon-reduction scheme could pass a cost-benefit test.

In short, SCC analysis makes cheap power, such as coal, look unaffordable while it makes expensive power, such as wind, appear well worth the costs.

Source: Marlo Lewis, "The Social Cost of Carbon," Capital Research Center, February 2014.