

How cap-and-trade is like ritual self-flagellation

Climate legislation signals to the world that we repent our selfish ways and we'll now take our lumps for the team. But are we ready for a green hair shirt?

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Will Wilkinson

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Ultra-orthodox Jews in heavy beards and heavier black coats pray for hours each day at Jerusalem's Western Wall, even under a sweltering summer sun. Each year, Shiite Muslims whip their backs bloody with chains during the religious holiday of Ashura. Religious vegetarians in Phuket, Thailand, similarly drive knives and skewers through their cheeks.

From an outsider's perspective, religious displays of self-inflicted pain can seem pointlessly barbaric. But many anthropologists and evolutionary psychologists believe they have an important function: to facilitate collective action by requiring members to send a costly, hard-to-fake signal of commitment to the group's common creed.

The same impulse, in a rather less impassioned form, seems to animate the Democrats' climate change bill. Coordinating international political action to achieve significant reductions in carbon emissions is a collective action problem of grand, global scale. One way to achieve and maintain such coordinated effort is to detect and punish shirkers. (Governments keep money rolling into their treasuries by threatening tax dodgers with jail.) However, there is no world government with the power to bring wayward nations into line, no world-ranging whip to keep countries pulling in time.

This is the glaring flaw in plans for carbon taxes and cap-and-trade regimes: The world's wealthy nations may now be willing to paddle their boat upstream, but if the developing world won't row along with them, if they

insist on a free ride, the boat is going nowhere.

Yet there are other tricks for encouraging cooperation and weeding out "free-riders." Consider the self-flagellating Shiites and face-piercing Thai vegans. These are extreme examples of a cooperation-enabling strategy that game theorists call "costly signaling." Those who display an unflinching devotion to even the most burdensome rules of common life are more likely to pull their weight, to uphold their end of a deal. Talk is cheap, but the willingness to pay a price signals to others the commitment of a real team player.

President Obama would like to walk into the climate-change talks in Copenhagen this December flashing a clear signal that America is willing to pay a price in the fight against carbon and its depredations. Indeed, the best one can hope from the climate legislation languishing in Congress is that, if passed, it will put the world on notice that the United States, the Earth's greatest per-capita carbon font, can be trusted to pull its weight in a global climate deal.

The signal would certainly be costly. According to the Congressional Budget Office, the Waxman-Markey cap-and-trade scheme passed by the House would reduce GDP growth between .03 percent and .09 percent per year for the next 40 years. That may not sound like much, but annual growth rates, like annual interest rates, are compounding, which means that the cost grows considerably over time. At the conservative .03 percent annual penalty, the CBO estimates the U.S. economy in midcentury will be short more than \$300 billion a year compared with a future without Waxman-Markey.

What would Americans get in return? Nothing, nada, zip, zilch—unless most of the world plays along. As the CBO put it: "As long as a significant fraction of the world did not adopt similar policies, some of the reductions in the United States would probably be offset by increases in emissions elsewhere." That is to say, if countries like India and China won't agree to (and, more important, stick with) painful cuts that will slow their steady rise from poverty, American sacrifice will do next to nothing to combat the threat of melting ice caps and a more livable Canada.

Costly signals can make sense if they deliver the benefits of cooperation. Won't proof of our faith help skeptical governments in the developing world see that international cooperation is possible after all? It's unlikely.

The Democrats' cap-and-trade bill is stalled in legislative limbo because Americans are far from united about its merits. It would be reasonable for international players to suspect that an American electorate unhappy with the costs of a future carbon cap might have a change of heart. And then there's the bill itself: a patchwork of exemptions, subsidies, and special favors. If political horse-trading produced something so convoluted from the start, it is fair to assume that it will become even more compromised as time goes on, leaving the U.S. unable to actually meet the legislation's aims. Most important, a costly signal clinches trust only among those on the same wavelength. Overheated ultra-orthodox Jews and lacerated Shiite Muslims probably don't much impress each other. Likewise, the signal broadcast by the willingness of wealthy nations to cut their carbon emissions may fail to impress poorer counties with fundamentally different priorities. They are not free-riding if they never asked to be in the boat.

It is hard to see the point of legislation that promises certain costs and improbable benefits. Still, there could be a point. Many Americans would find profound meaning in passing legislation like Waxman-Markey and gladly bear its costs—even if it does little to secure international cooperation, and even if it does nothing to slow global warming. The law would nevertheless speak to what Americans value, what we aspire to, who we are, what we're about. It would say that we're not so bad, that we repent our industrial sins, that over here we know full well that green is the new black.

Alas, this is not a statement of faith most Americans are prepared to make, or a cost they are prepared to pay.

They should not be asked to don a green hair shirt just to show the world that some of us care.

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