



9. CALIFORNIA: New report bolsters analysis of climate law's economic impact (12/04/2009)

Debra Kahn, E&E reporter

California's modeling of the economic effects of its global warming policies is on track, according to a new [study](#) comparing the different models used to estimate the economic effects of A.B. 32.

Estimates by the California Air Resources Board, the Electric Power Research Institute and a University of California, Berkeley, professor all found slight increases or decreases in gross state product by 2020. The ARB study found a \$4 million increase to \$2.59 trillion, compared to \$2.586 trillion if no emissions reductions were undertaken.

The report, by the nonprofit Center for Resource Solutions, says that the uniformity of the analyses supports their use.

"I hope to provide some context for understanding the extent to which CARB's results are in the mainstream of these types of results," said report author Chris Busch, CRS's policy director. "Look at the decision we're making to go to war in Afghanistan. Do we have airtight modeling of the costs? No. The fact that the models don't hand policymakers an easy, optimized answer doesn't mean we shouldn't go forward."

The report did recognize flaws inherent in all three of the mainstream estimates, all of which relied on computable general equilibrium modeling. CGE modeling relies on several shaky assumptions, including that market participants will behave perfectly rationally and that each market sector can be represented by a single equation. The latter makes the model particularly unsuited to predicting behavior in response to flexible policies like cap and trade.

Models' uncertainties shouldn't paralyze action

"While being cognizant of the limitations of macroeconomic modeling, the state of the economic modeling science should not be blamed for its limitations, and decisions should not be delayed until perfect information is achieved," says the report. "Uncertainty is part of the territory when it comes to global warming. Lack of precise information about the future should not induce analytical or regulatory paralysis."

A new economic analysis of A.B. 32, due out later this month from the ARB, could change the case slightly, Busch said. The ARB has indicated it won't count the effects of the state's tailpipe emissions standards among the benefits of A.B. 32, as the standards were passed before the law. "It may be that the result flips, the central result will flip from a slight positive to a slight negative impact," he said.

The report found that a fourth study, conducted by two professors at California State University, Sacramento, failed to take the benefits of reducing emissions into account, even the most basic benefit of saving energy. That study found the state would lose \$183 billion per year in gross output from the small-business sector, or would have a 10 percent drop in total state output. That would translate into 1.1 million lost jobs, \$77 million in lost labor income and \$5.8 billion lost in indirect taxes ([ClimateWire](#), July 14).

Among the benefits that the study left out: improved energy security, local and regional clean air benefits, and improved labor productivity and student performance.

"Input-output models such as that used by [professors Sanjay] Varshney and [Dennis] Tootelian do not allow for input substitution effects in production, meaning that such models assume that industrial and commercial firms will continue using fossil fuels even as prices rise to reflect the introduction of a price on carbon pollution," the report says.

The report also found similarities between projections for California and the United States, citing modeling presented at Stanford University's Energy Modeling Forum in June. Four different modeling techniques,

including two that U.S. EPA is using to predict the effects of national climate legislation, found that capping U.S. emissions at 80 percent below 1990 levels by 2050 would reduce gross domestic product in 2020 by an average of 2 percent.

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