A Cap-and-Trade System is Not Enough

Regulators will be forced to adopt additional costly policies

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The latest iteration of SB 5735, the proposed cap-and-trade bill, falls short of creating transparent policies that will lead to economic security, innovation and reductions in CO_2 emissions. Our research finds that "the politically designed rules of cap-and-trade are complex and prone to manipulation."[1]

Following are three specific policies that, if adopted, would create conflicts with current policies and would provide additional problems and costs for state officials, local jurisdictions, business owners and taxpayers. The legislature should explore each of these policies further.

Reduction of Vehicle Miles Traveled

The first policy would require that jurisdictions located in a county with a population of more than two hundred forty-five thousand to adopt a regional transportation plan that implements the state's goals to reduce annual per capita vehicle miles traveled (VMT).

Our recent report on the state's VMT reduction targets shows that reducing driver mobility will exacerbate current budget problems and endanger transportation projects that are funded through state fuel taxes.[2]

Our analysis shows that, if state officials achieve the first phase of VMT reductions by 2020 as planned, state fuel tax revenue would fall by about 10 percent or $1.486 billion. Other key findings from the report include:

- Washington motorists now drive an estimated average of about 31 miles per day. State officials want to reduce how much people drive to 22 miles per day by 2035.
- Not only does state officials' mandate to reduce drivers' VMT cause fuel tax revenues to fall, revenues actually peak in 2014, start declining and, based on the official long term reduction targets, revenues never recover.
- Washington relies heavily on fuel tax revenue to pay for the transportation budget, which means a 10.2 percent reduction in fuel tax revenue could jeopardize funding for the Nickel and Transportation Partnership Account (TPA) projects and the $2.4 billion in state fuel tax collections set aside for the Seattle Viaduct project.

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[1] "Create incentive to cut emissions with carbon price," by Todd Myers, *The Seattle Times*, February 23, 2009.
[2] "State's Mandate to Reduce Driver Mobility Threatens Revenue for Transportation Projects," by Michael Ennis, Director, Center for Transportation, Washington Policy Center, January 2009.

A policy of reducing VMT for drivers, while simultaneously adopting widespread tolling as a primary revenue stream that relies on driving, shows that state officials have adopted public policies that work against each other. One policy or the other has to fail. Either state officials will not prevent citizens from driving as much as they do now, or the tax revenue collected by the state will not be enough to fund planned transportation projects. Based on their current policy decisions, state officials cannot achieve both goals.

In 2008 the state adopted a policy to reduce greenhouse gas (GHG) emissions, including a requirement to reduce VMT by 18 percent by 2020. However, in order to achieve the goal of reducing GHG the state must adopt additional policies that will increase government regulation and eliminate personal choice, like limiting mobility.

Costs of Growth Management

That leads to our second policy concern. This legislation amends the state Growth Management Act (GMA) so it becomes a mechanism for meeting the state's VMT reduction target. As part of the VMT reduction mandate, local agencies will be required to use transportation planning to expand land use regulations. New land use restrictions would add to the complicated process that local jurisdictions are required to go through in order to comply with the GMA.

Since the adoption of the GMA in 1990 there have been over one hundred amendments and more than one thousand court challenges, without any comprehensive study or analysis of whether GMA is working.[3] Simply put, no study of the effectiveness of GMA as it currently exists has been completed.

Before lawmakers adopt this cap-and-trade proposal or any further amendments to the GMA they should consider the following policy questions:

1. What are the costs and benefits of the Growth Management Act?
2. How have amendments and Growth Management Hearing Board decisions changed the effectiveness and intent of the Growth Management Act?
3. Should further amendments to the Growth Management Act be approved without a comprehensive independent cost/benefit analysis?

A comprehensive review of the GMA would help policymakers understand the answers to these questions before they add new land-use requirements. A high-quality comprehensive review would include the following:

- An independent party, such as the State Auditor, should conduct the review.
- All interested parties, including property owners, should be allowed to participate.
- Goals of GMA should be reviewed to see if they are being achieved.
- The final report should be presented in the form of a cost/benefit analysis addressing the three questions above.

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[3] "Is the Growth Management Act Working," by Brandon Houskeeper, Washington Policy Center, January 2009.

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Allow for Innovative Technologies

The third policy policymakers should review is the mandate that sets a preference for a renewable highway corridor. This policy assumes lawmakers know which technologies are best. However, it is extremely difficult to know what practical technologies are on the horizon and public officials are notoriously bad at predicting what will work in the future. For more than twenty years California officials tried to manipulate the innovation markets using preferences for hydrogen and electric vehicles.

Despite that official favoritism, neither hydrogen nor electric vehicles emerged as the winning innovation. Hybrids, a market driven technology, have emerged over the last decade as the best option for reducing auto emissions. Indeed, few auto engineers, let alone public office holders, could have predicted in 1994 that hybrids would be the promising technology they are today. Meanwhile, the technologies chosen by California officials—hydrogen and electric—have failed to live up to expectations.

Asking the Department of Transportation to "limit renewable fuel and vehicle technology" favored in the bill to those "with a forecasted demand over the next fifteen years" would have almost certainly ruled out hybrids fifteen years ago and will likely rule out technologies that may be popular fifteen years from now. Such language guarantees that we are fighting the last technology war, not the next.

The lesson for our state is that it is impossible to predict what technologies to protect the environment will emerge through innovation in the coming years. Policymakers therefore, should not block certain innovations from taking their natural course, and they should not artificially promote favored technologies that may end up as failures. Instead they should encourage multiple sectors of innovation in the technology marketplace by using broad incentives like investment tax cuts and a stable carbon price. The normal discipline of the market will then discover which emerging technologies, like the Honda Prius, actually do the most to help the environment.

Conclusion

The policies discussed above are only necessary because of the weakness of a cap and trade system as a stand alone policy.

Proponents of a cap-and-trade system have told lawmakers that it is working in Europe.[4] Our research shows that this is simply untrue. Cap-and-trade is not improving CO_2 emissions in Europe but the fact that advocates say it is shows how easily the cap-and-trade system can be politically manipulated.

A more sensible way to reduce CO_2 emissions would be to allow market choice and technological innovation through the establishment of a revenue neutral carbon price and investment tax cuts. By providing a stable carbon price, businesses and individuals will be able to decide for themselves how best to reduce their emissions and help create a cleaner environment.

Brandon Houskeeper is a policy analyst with Washington Policy Center, a non-partisan independent policy research organization in Seattle and Olympia. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

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[4] "The Misleading and Misplaced Statistics of Cap-and-Trade in Britain," by Todd Myers, Washington Policy Center, March 2009.