# Digest of Green Reports and Studies

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| **Title** | *Too Good to Be True? An Examination of Three Economic Assessments of California Climate Change Policy* |
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| **Organization** | Robert Stavins, Harvard University<br>Judson Jaffe and Todd Schatzki, Analysis Group, Inc. |
| **Author Contact** | n/a |
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| **URL** | http://www.uspolicy.be/issues/climatechange/climatechange2.asp |
| **Summary** | ▪ Executive Summary: Three previous studies have shown that California can comply with the Global Warming Solutions Act of 2006 with no net economic cost. However, the authors find that these studies have underestimated the costs of compliance—by billions of dollars—and overestimating offsetting savings.<br>▪ Previous studies failed to account for emissions leakage and policy interaction.<br>▪ California studies underestimated the costs of the emissions reduction policies by omitting important cost components and overstating savings and the investments that are necessary to reduce emissions and underestimated costs of policies necessary to bring about those actions and investments.<br>▪ Significant uncertainty will remain regarding the cost of meeting California's 2020 emissions target, especially with policies using sector-specific standards as opposed a to cap-and-trade system.<br>▪ The significant cost variation in policies examined by the California studies shows how important it is to evaluate each policy on its own rather than as a group.<br>▪ Differences in cost estimates and in the types of policy instruments examined by the California studies should not be interpreted as an indication that a standards-based, sectoral approach to climate policy would be a less costly alternative to economy-wide market-based policies.<br>▪ Core market failure contributing to excessive GHG emissions is failure of individuals and firms to internalize the social cost of their emissions.<br>▪ With a safety-valve provision, a cap-and-trade system can be designed in a way that bridges the gap between those who believe aggressive near-term targets can be met at no cost and those who believe such targets may impose unacceptable economic consequences.<br>▪ A market-based policy should be the core policy instrument employed to achieve California's emissions target. |
| **Key Findings** | ▪ The "California studies" (see "Data Sources Cited" section) underestimated the costs of the emissions reduction policies and the investments that are necessary to reduce emissions and underestimated costs of policies necessary to bring about those actions and investments. The difference between these studies and the current study is on the order of billions of dollars. |
| **Recommendations** | ▪ Policymakers must determine emission targets for the years before and after 2020, the emission sources that will be regulated to meet those targets, and the policy instruments that will be employed.<br>▪ A market-based policy (such as a cap-and-trade system) should be the core policy instrument as it is the most cost-effective.<br>▪ Analyses focusing on the implications of alternative policy design are needed.<br>▪ Policymakers should carefully examine the merits of each policy on its own rather than as a group.<br>▪ The possibility of no-cost emission opportunities suggests that additional, carefully targeted policies should be considered.<br>▪ Additional policies can be established to cover emission sources and sinks that cannot be targeted effectively by a core-based market policy.<br>▪ Complementary policies must be tailored to address very carefully to reflect the specific market failures they are intended to address.<br>▪ To develop complementary policies that efficiently target no-cost opportunities, policymakers need better information about the extent and nature of the market failures that lead to those opportunities. |
| **Definition of "Green"** | n/a |
| **Methodology** | Economic analysis |
| **Data Sources Cited** | Center for Clean Air Policy (CCAP) (2006); California Climate Action Team (CAT) (2006a); |

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| | and Roland-Holst, University of California at Berkeley (2006a) |
| **Report Geography** | California |
| **Green Occupations Cited** | n/a |
| **Green Industries Cited** | n/a |
| **Keywords** | Emissions leakage, California studies, Demand-side management, bottom-up analysis, social cost, private cost, social savings, private savings, GHG (greenhouse gas) emission standards, baseline behavior, deterministic analysis |
| **Legislation Cited** | Global Warming Solutions Act of 2006 |
| **Bibliography (Y/N)** | Y |
| **Reviewer Name/Org** | Tracy Santoso |