

The Carbon Credit Hoax

by Rob Urie

Rarely can a single story encapsulate so much of what is wrong with the economic system at work in the West as the one that follows. According to the *New York Times*, a group of industrial gas companies in India gamed the “carbon credit” system to (1) increase the quantity of greenhouse gases emitted while (2) earning large “profits” they wouldn’t otherwise have earned and in so doing (3) bought political influence to keep the practice going while (4) driving the price of their highly polluting product down so that (5) less polluting products couldn’t compete and (6) more of their highly polluting product was used. The purported intent of carbon credits is the exact opposite of all of this.

The basic story is that companies in India (and China) were producing a coolant gas that also produced a highly polluting waste by-product. Both the coolant and the by-product are potent greenhouse gases. Carbon credits were offered to induce the companies to destroy the by-product rather than releasing it into the atmosphere. But by paying the companies to both produce the gas and to destroy the waste the good capitalists running them quickly saw that the more gas and waste they produced the more money they made. In fact, it seems that the companies produced to the maximum limit of the carbon credits being offered, far more than they were previously producing, and then went home for the year.

The people running these companies knew that they were producing dangerous greenhouse gases and that their gain was the world’s loss. They were receiving carbon credits because their products were polluting. But what was economically rational to them, what maximized profits and paychecks, was to produce a much greater quantity of these products, and with them greenhouse gases, than they otherwise would have. They also understood that in a sane world they would be sent to prison for this behavior, or maybe even shot. So they took their “profits” and bought political influence to see that this didn’t happen. The Koch Brothers couldn’t have done it any better.

Carbon credits were developed by neo-liberal economists to replace environmental regulations with “market-based” incentives to reduce pollution. The premises behind them are that (1) industrial companies will pollute, (2) economic growth over time will mean that total pollution will increase over time, (3) regulations to restrict pollution are inefficient because industry knows better than regulators how to reduce it, (4) therefore providing financial incentives to individual firms to reduce pollution is the best way to get them to do so and (5) the best that can be done is to slow the growth of total pollution rather than reduce it.

The problem of pollution and other types of “cost shifting” was recognized by capitalist economists decades ago. Pollution was at different

times considered a form of economic totalitarianism—the unjust infliction of an economic harm (cost) on those who had not given their consent. The economic benefit to the polluter is the lower cost of production than if the producer had had to keep the pollution from occurring. Even the radical Austrian free-market economist Friedrich Hayek held a similar view early in his career:

There are, too, certain fields where the system of competition is impracticable. For example, the harmful effects of deforestation or of the smoke of factories cannot be confined to the owner of the property in question. But the fact that we have to

resort to direct regulation by authority where the conditions for the proper working of competition cannot be created does not prove that we should

suppress competition where it can be made to function. — Friedrich Hayek, *The Road to Serfdom*.

The path from Mr. Hayek’s views in 1940 to carbon credits required a number of theoretical “innovations.” Before global warming was identified, pollution was considered a specific harm to specific people. In Mr. Hayek’s formulation, those harmed by factory pollution were those in the vicinity of the factories. Variations on this view ultimately led to a series of civil lawsuits in the 1960s, 1970s and 1980s that resulted in limited

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recompense to specific people, or classes of people, for specific harms from pollution.

This “ambulance chasing” is the great bogeyman of the industrial right and still finds voice in Congress today amongst the antique Illiterati who decry “trial lawyers” as the assassins of free enterprise.

However, compensation for harm caused by pollution is after the fact—the harms have already been caused. By the 1970s the government effort in the US turned to preventing these harms from

occurring in the first place. Government agencies were created to study potential pollutants and companies were required to demonstrate that their practices didn't cause harm. Regulations were developed to protect workers and citizens from the harms of pollution. And for a brief while a few of them were actually enforced. The result was that pollution was effectively reduced.

Later in Mr. Hayek's life, when he was fully dependent for his living and physical well being (he was in poor health) on arch ideologue and polluting industrialist Fred Koch, father of the infamous Koch Brothers and founding member of the John Birch Society, he had the revelation that capitalism was such a gift to humanity that market based solutions to externalities like pollution were in almost all cases preferable to government regulation. This became the mantra for the radical right and industrial capitalists. A cottage industry of economic shills developing market-based schemes and contraptions was launched.

According to the *Times* article, the Indian government has no problem with their citizen-industrialists who gamed the credits because they (government) had been bought off with profits from the deals. It is European bureaucrats and the capitalist ideologues who conceived the credits that take issue with the way they were used. But what can be said when the premise behind the credits is that people are everywhere and always self-interested assholes who must be bribed to not kill the planet? These particular self-interested assholes took the bribes while increasing pollution and earning greater "profits" than they would have had they "played by the rules." Under the premises at hand, this makes them good capitalists.

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The question for proponents of schemes and contraptions like carbon credits is what they will do to prevent this type of outcome in the future? The possible answers illustrate the rank idiocy of the entire project. The first likely effort will be to write more comprehensive rules for use of the credits. But what this incident illustrates is that the rules writers didn't anticipate even the initial outcome (increased production), let alone the extended (Nth order) effects like having more polluting products crowd out less polluting products because of the carbon credit subsidy.

Another way to say this is that rules makers must conceive of circumstances that don't yet exist and write rules today to cover them. In the first case this isn't possible and in the second, even if it were possible the volume of rules and cross rules required to be effective wouldn't be effective because of the volume of rules and cross rules. Lawyers have jobs to argue paradox and ambiguity in rule based lan-

guage. Ultimately, successful interpretation comes down to social power, not the specifics of language, no matter how tightly written. (Think of those 40 page "disclaimers" that credit card companies were sending out a few years back. No army of lawyers could agree on what the legalese actually meant because the language contained paradox and ambiguity—in that case intentionally so).

The other question is one of enforcement. If profits can be used to buy government complicity in socially egregious behavior as the banks, insurance companies and the oil and gas industry etc. have done in the US and Europe, who would make firms

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comply with the intent of incentives? The Indian government isn't going to prosecute their Industrialists for gaming the carbon credits because the credits have no basis in Indian law and the issuers of the credits have no power to enforce their intent in India.

Readers should consider that these same issues of system gaming and the purchase of state power with ill-gotten profits lie behind all capitalist enterprise. When Barack Obama proposed the ACA (Affordable Care Act) I read through the details to see where the Department of Making Insurance Companies Do What You (Obama) Say They Will Do would be located and where the \$50 billion per annum (minimum) budget to fund said department had been signed off on by Congressional Republicans. True to form, Mr. Obama is using what could be called "insurance credits" to induce insurance companies to actually provide health care. But they just spent the last 30 years figuring out how to take in premiums without paying out claims. Again, who is going to make them provide health care?

Global warming puts not just our health at risk, but continued life on this planet. With stakes this high, science needn't prove that global warming exists in the legalistic framework of the right for prudent action to be taken. What isn't prudent is the game of cat and mouse (without the cat) behind carbon credit schemes and contraptions. With the entirety of the political establishment in the West in the pockets of greenhouse gas emitting industrialists and carbon trading profiteers, well-intentioned policy recommendations are unlikely to be heard. In a political system where money is power, those without it don't have a voice.

I invite incrementalist readers to explain how their good ideas will be turned in to concrete actions? Otherwise, the choices are to shut up or start a revolution.

Rob Urie is an artist and political economist in New York.

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