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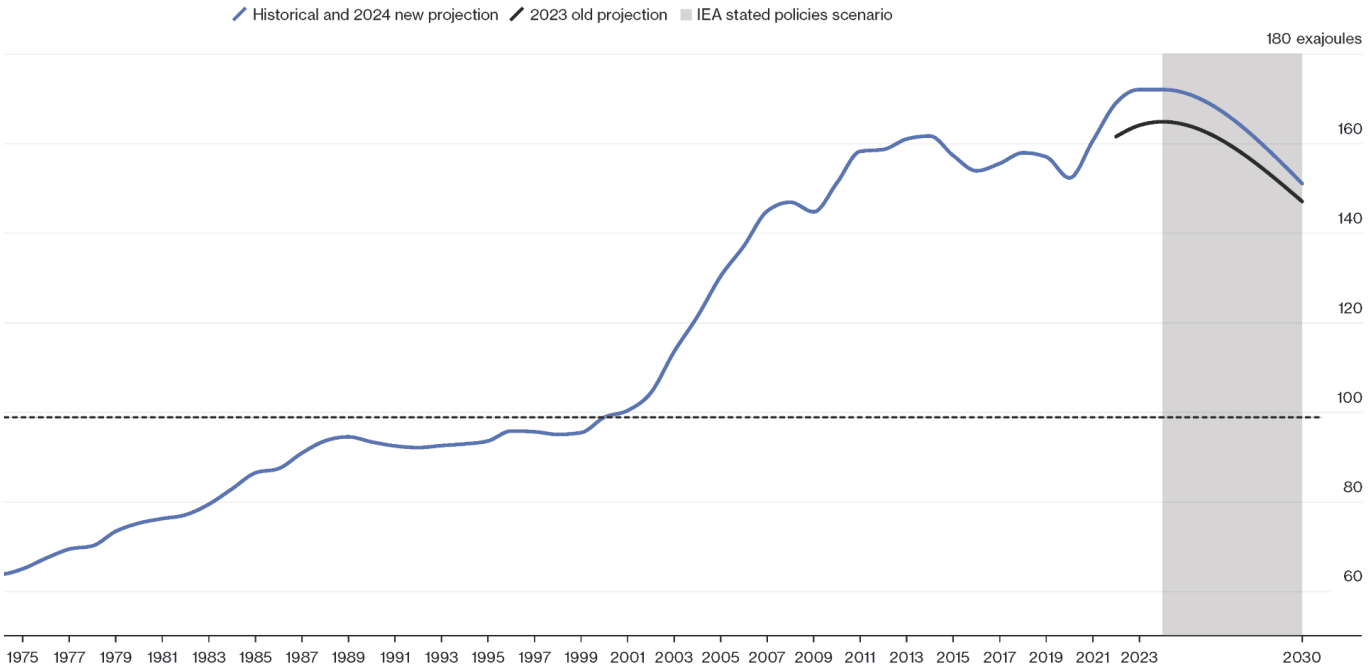
Climate Policy Revisited

DOUGLAS HOLTZ-EAKIN | OCTOBER 25, 2024

The Biden Administration placed climate change policies at the forefront of its agenda, passed into law a vast array of clean energy subsidies in the Inflation Reduction Act (IRA), and imposed draconian regulations to push the energy and transportation sectors toward renewable sources of energy such as solar and wind. As a recent opinion piece in Bloomberg points out, the United States was not alone in its push to the electrification of its economy.

> *In what should be one of the least surprising developments, global electricity demand is soaring everywhere as the world moves to electrify everything. Out go gasoline cars, in come electric vehicles; out go gas boilers, in come heat pumps; and so on and so forth. That's the energy transition.*

There is a catch, however: "As demand for power goes up faster than renewables can supply, the world is turning to a time-tested source to produce it: coal." In the graph (below) reproduced from the article, the horizontal dotted line represents global coal demand in 2000, the blue line is the current International Energy Agency (IEA) projection, and the black line is the projection from last year. The basic picture is that the peak year for global coal usage gets pushed out over time, occurs at a higher level of coal consumption, and diminishes more slowly. The main culprits in this pattern are India, China, and Asia more generally.



This has always been the danger of the U.S. strategy: It would undertake an expensive domestic effort that is not mirrored on the international stage. That is among the reasons Eakinomics has always favored a carbon tax as its approach to climate policy. A well-designed (and it must be well-designed), revenue-neutral carbon tax can effectively control emissions without impeding economic growth. Adopting such a tax would allow the United States to lead on climate policy without regrets if the rest of the world chooses not to follow.

As a final note, however, there remains hope. In its 2019 International Energy Outlook, the IEA projected that global, energy-related carbon emissions would be just above 43 billion tons in 2050. Despite the rapid uptake in coal over the intervening period, the latest projection has been reduced to roughly 40 billion tons.