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**ECONOMIC VIEW**

# **Carbon Offsets: A Small Price to Pay for Efficiency**

**By ROBERT H. FRANK**

ARE carbon offsets a good thing?



They are intended to reduce the environmental impact of consumption. Traveling by plane, for example, causes carbon dioxide to be emitted into the atmosphere, so travelers can pay a specialist to offset those emissions some other way — perhaps by planting vegetation or installing renewable-energy technologies. It all sounds reasonable.

Yet carbon offsets have drawn sharp criticism, even ridicule. A British Web site called [Cheat Neutral](#) parodies the concept — by offering a service under which someone who wants to

cheat on his partner can pay someone else who will refrain from committing an act of infidelity. The site's founders say they wanted to use humor to demonstrate why the market for carbon offsets is a moral travesty.

But the criticism is misguided. If our goal is to reduce carbon emissions as efficiently as possible, offsets make perfect economic sense.

Consider the decision of whether to buy a hybrid car. Because of the expensive batteries and other complex equipment in such cars, they can cost much more than similar vehicles powered by standard combustion engines. Many people drive so little that they wouldn't save enough on gasoline to recoup the higher cost. Yet many such people buy hybrids anyway, because they think they are helping the environment. Well and good, but they could help even more by buying a standard car and using the savings to buy carbon offsets.

The same goes for someone who wonders whether it's O.K. to eat foods grown far from home. A New Yorker may worry, for example, that the diesel fuel burned to ship California-grown tomatoes to him in winter will accelerate [global warming](#). But suppose he would be happy to pay \$10 more than the cost of shipping those tomatoes rather than eat locally grown root vegetables nine months a year. That would buy more than enough carbon offsets to neutralize the greenhouse

gases emitted by shipping the tomatoes. So it would be much better, for him and the planet, if he bought offsets and ate winter tomatoes.

Of course, carbon offsets alone won't eliminate global warming. People also need stronger incentives to take into account the environmental consequences of their actions.

[President Obama](#) has proposed attacking the problem with a carbon cap-and-trade system. The government would first set a limit on annual carbon emissions, then auction emissions permits to the highest bidders. Companies could still use processes or sell products that emit carbon, but only by first buying a permit for each unit of carbon released. If the government wanted to limit carbon emissions to five billion tons a year, for example, it would auction that many tons of annual carbon permits.

This approach was first used in the United States to address acid rain, when the [Clean Air Act](#) established a market for permits to emit sulfur dioxide. Compared with more traditional regulatory measures, the auction method substantially reduced the cost of achieving the law's air-quality target.

As people learn more about such an approach, they seem less likely to oppose it. Although several environmental groups once bitterly opposed pollution permit auctions, they now

endorse them enthusiastically.

A carbon cap-and-trade system is functionally similar to a carbon tax. Both approaches would raise the cost of activities that generate carbon dioxide emissions, giving people a powerful incentive to reduce their carbon footprints. Carbon offsets are no substitute for the stronger incentives inherent in carbon taxes or cap-and-trade, but they can reinforce their effects. Both carbon taxes and permit auctions would also generate revenue that could be used to buy additional carbon offsets.

Dozens of companies, nonprofit and for-profit, sell carbon offsets, and some critics question how their work can be verified. But with various certification programs now in place — including the Gold Standard and Green-e Climate, to name two — there is no reason that fraud should be harder to curb in carbon-offset markets than in other domains.

AT last count, Cheat Neutral, the British infidelity neutralization Web site, said it had offset 65,768 cheats, and had recruited a roster of “9,002 faithful people ready to neutralize your misdemeanors.” The Web site draws out the parallel this way: “When you cheat on your partner you add to the heartbreak, pain, and jealousy in the atmosphere.” Cheat Neutral claims that its plan “neutralizes the pain and unhappy emotion and leaves you with a clear conscience.”

Actually, no. Only you will know whether your conscience is clear, but it is certain that higher rates of marital fidelity in London do nothing to eliminate the anguish caused by straying spouses in Manchester. In contrast, one person's reduction in carbon dioxide emissions anywhere on the planet fully offsets anyone else's contribution to the total.

Carbon offsets, though much maligned, are an excellent idea. If you want to help reduce carbon emissions, consider buying some.

*Robert H. Frank, a Cornell University economist, is a visiting faculty member at the Stern School of Business at New York University. He is the author of "The Economic Naturalist's Field Guide: Common Sense Principles for Troubled Times," which will be published on Monday.*