U.S. Abdicates from the Paris Climate Change Accord

By Don Sutherland

On June 1, President Donald Trump **announced** that the United States would be withdrawing from the Paris Agreement on climate change. With the passage of time, June 1, 2017, might wind up becoming an obscure historical footnote of American leadership failure or the day on which the U.S. formally abandoned the leadership role it has played in the post-World War II international order that arguably commenced on October 24, 1945 with the establishment of the United Nations.

"The Paris Climate Accord is simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers…and taxpayers to absorb the cost in terms of lost jobs, lower wages, shuttered factories, and vastly diminished economic production," Trump declared. "Compliance with the terms of the Paris Accord and the onerous energy restrictions it has placed on the United States could cost America as much as 2.7 million lost jobs by 2025 according to the National Economic Research Associates." The President's rationale for withdrawal is an enormous "alternative fact."

First, the **Paris Agreement** imposes no mandatory "energy restriction" on any of the parties to the Agreement. It is strictly voluntary. Without such flexibility, consensus among the **196 parties** involved in its negotiation likely would not have been possible.

Article 4 of the Agreement states, in part, "Each party shall prepare, communicate and maintain successive nationally determined contributions that it intends to achieve." That language renders the argument that the Paris Agreement would have 'disadvantaged' the United States "to the exclusive benefit of other countries" at the expense of U.S. workers inaccurate.

Second, parties to the agreement were not mandated to impose requirements on companies or industries. Article 6 explained, "Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions…" Again, no "onerous energy restrictions" were involved.

Third, the specific job-related impact takes the referenced **study** out of context. The National Economic Research Associates (NERA) study did not examine the impact of the Paris Agreement. It provided a partial analysis of the impact of President Obama's proposed Climate Action Plan. The NERA study explained that it examined potential costs, but not benefits. Footnote 3 stated:

The study results only reflect the least cost approach to meet emission reduction targets. It does not take into account potential benefits from avoided emissions. The study results are not a benefit-cost analysis of climate change… The model does not take into consideration yet to be developed technologies that might influence the long term cost. The impacts estimated are based on current technology costs and availability assumed in our model.

In other words, the NERA study provided a sort of "worst-case" analysis, as it assumed no technological change and no benefits. For purposes of illustration, consider the following hypothetical investment exercise. A company is seeking to construct a new plant. It calculates the estimated costs over the lifetime of the factory (construction, maintenance, additional costs). That's where the NERA study stopped. At that point in the analysis, it would not make sense to construct the plant. Both in nominal and discounted terms, the company would lose money from doing so.

However, the hypothetical company in question would also have to consider the revenue streams associated with the investment. Afterward, it would then discount all of the cash flows—revenue and expenses—to determine whether it made sense to construct the plant.

For perspective, 2.7 million lost jobs amount to approximately 1.8% of U.S. employment. The just-released employment situation report revealed that the U.S. had 152.923 million employed persons in May 2017. Considering the historic experience in which the state of technology has been dynamic, continual industry dynamism, and secular U.S. economic and employment growth, a scenario of 2.7 million lost jobs is highly unlikely.

All said, the decision to withdraw the United States from the Paris Agreement is largely, and perhaps entirely political in nature. It is not economic in nature. In the larger policy context that takes into consideration the Administration's decision to withdraw from the Trans-Pacific Partnership (TPP) trade agreement, the President's recent failure to reaffirm NATO's Article 5 collective defense obligation, and its budget proposal that aims to slash basic research investment, the decision to withdraw from the Paris Agreement appears to be a building block of an emerging doctrine of "American Retreat" from the world.

That trend brings us back to the opening question concerning the historical impact of the U.S. abdication from the Paris Agreement. The resolution of that question remains to be determined. Both paths, one that leads to obscure historical footnote and one that marks the beginning of the end of the U.S.-led post-World War II order, are currently available. The latter path could be perilous.

One need only look back to just before the outbreak of World War II for insight. Then Assistant Secretary of State, Francis E. Sayre, observed, "When forces of evil are abroad, the supine abandonment of the world to them means to all practical intent siding with the evil against good. Ultimately, if unchecked, these forces of evil will become sufficiently strengthened to reach and batter down even storm-cellar doors."

Nothing quite so dramatic may lie ahead should the U.S. cede its leadership role. Nevertheless, the vacuum created will be filled by others, not all of whom will be benign actors. Choices have consequences.