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Green Stimulus: Tying Economic Package to Energy and Environment Plan Is Not Workable

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There is plenty of reason to believe that Congress's proposed stimulus package will not work. A recent Heritage Foundation analysis noted that such government spending "cannot be stimulative because every dollar that government spending 'injects' into the economy must first be taxed or borrowed out of the economy. Rather than create new purchasing power, these policies merely redistribute existing purchasing power."¹

Even worse than being a zero-sum game, government spending creates less economic activity than if the money had been left in the private sector.²

This misallocation of resources is only worsened with the attempt to fashion a green stimulus, as the spending projects deemed environmentally acceptable tend to be ones that are especially questionable from an economic standpoint. A better approach would involve removing the impediments to private investment rather than substituting them with misguided public investment.

A Green Stimulus Is a Contradiction in Terms. First and foremost, it should be noted that a green stimulus is an inherent contradiction in terms. The environmental movement itself is, by design, anti-growth. After all, these are the individuals and organizations that regularly fight to *stop* new factories, power plants, and construction projects. For them, environmental concerns, real or exaggerated, almost always trump economic ones, and it is rare for them to be lacking an excuse to oppose a project. Several leading environmentalists even admit that reduced economic growth is part of their strategy. For exam-

ple, scientist and activist John Holdren, President Obama's choice for chief science advisor, once stated that "[a] massive campaign must be launched to restore a high-quality environment in North America and to de-develop the United States."³

The environmental movement's many successes in imposing this agenda has for decades been a drag on the economy and a net destroyer of jobs, especially high-wage blue-collar jobs in such areas as manufacturing and energy production. And even when environmental obstructionists do not ultimately prevail, their routine use of protracted litigation and other delay tactics would almost certainly negate any attempts at an immediate boost to the economy.

Granted, the environmental community does support some politically correct projects for things like renewable energy, public transportation, and efficiency improvements in buildings. These types of endeavors will comprise the green component of the stimulus package. But in terms of economic activity and jobs, these items are miniscule compared to the myriad activities environmentalist continue to oppose, including virtually all heavy industry, the production and use of the fossil fuels,

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and many if not most major construction projects such as new roads and housing developments.

Overall, an economy that tries to operate to the satisfaction of environmental activists will be a substantially weakened one, and an attempt at a stimulus via a greening of the economy will always be self-defeating and a net job killer.

To the extent the new Administration and Congress pay heed to the wishes of environmental activists, they will be embarking on an anti-stimulus package that will swamp even the largest stimulus. This will be even truer if the 800-pound gorilla of anti-stimulus packages—a crackdown on fossil energy use in the name of combating global warming—is ever imposed.

Renewable Energy Is Anti-Stimulus. Part of the green stimulus involves using taxpayer dollars to subsidize renewable energy, especially wind and solar for electric generation and biofuels for transportation. This would backfire and hurt the economy. It is well established that affordable energy is critical to economic health, and higher energy costs will hurt the prospects for an economic recovery and post-recovery growth. But virtually all of the alternative energy sources that are part of the green stimulus are more expensive than their conventional counterparts.⁴

If renewables like wind and solar energy or biofuels were economically competitive, they would already be in growing use without federal subsidies. The fact that they currently enjoy many government handouts and apparently need even more from the stimulus package is a red flag that they cost too much. Indeed, this is why federal efforts to pick winners and losers among energy sources invariably end up backing losers: The winners are the ones that do not need Washington's help.

Support for renewables would likely cost more jobs than are created. For example, subsidies for

wind and solar energy would, at least from the narrow perspective of the wind and solar industries, create new jobs as more of these systems are manufactured and installed. But the tax dollars needed to help pay for them cost jobs elsewhere, as would the pricey electricity they produce.

The only reason to consider promoting these renewables is for their environmental benefits, which are questionable in most cases. But the economic argument for saddling the nation with this costlier energy falls completely flat. Some suggest that an entire “new” economy could be based on renewable energy sources, but the only thing new about it would be how weak and globally uncompetitive it is.

Throwing New Money After Old. Most of the ideas that comprise the green stimulus are not new. Things like public transit and energy efficiency programs have long been accorded politically correct status and have been the favorites of Washington spenders for decades—with little to show for it.

There already are a host of federal laws providing subsidies for public transportation as well as tax code provisions encouraging its use. And the 2005 and 2007 energy bills added to the array of existing programs encouraging energy efficiency, from new home appliance and automobile efficiency standards to tax breaks encouraging the use of insulation and other energy-saving devices in homes and commercial buildings.

As is the case with renewable energy, such past federal efforts have a mixed track record. For example, decades of generous federal funding has propped up a number of transit systems with inadequate ridership (less than 2 percent of all passengers and 5 percent of commuters use public transit), which along with other problems negates any economic and environmental benefits.⁵ And while market forces have led to increased energy effi-

1. Brian M. Riedl, “Why Government Spending Does Not Stimulate Economic Growth,” Heritage Foundation *Background* No. 2208, November 12, 2008, at <http://www.heritage.org/Research/Budget/bg2208.cfm>.
2. *Ibid.*
3. John Holdren, Paul Ehrlich, Anne Ehrlich, *Human Ecology: Problems and Solutions* (San Francisco: W. H. Freeman and Company, 1973), p. 279.
4. See International Energy Agency, “Projected Costs of Generating Electricity: 2005 Update,” Executive Summary, at <http://www.iea.org/Textbase/npsum/ElecCostSUM.pdf> (January 26, 2009).

ciency in nearly all energy-using products and industrial processes, there are a number of federally mandated efficiency measures that have backfired, from energy-saving clothes washers whose performance was panned by Consumer Reports to automobile fuel economy standards that were found by the National Academy of Sciences to make vehicles less safe.⁶

Removing Environmental Impediments: A Real Stimulus Package. There are better options for creating worthwhile economic activity. The real way toward a stimulus is through the private sector, and much could be done by streamlining environmental impediments to private sector growth and job creation.

For example, consider the benefits of removing the legal and regulatory roadblocks to increased domestic oil and natural gas production.⁷ Vast energy-rich onshore and offshore areas are currently off-limits, and energy companies are eager for the opportunity to expand into them. In sharp contrast to the renewable energy expenditures in the stimulus package, the jobs created by increased domestic oil and natural gas drilling would be paid for

entirely by the private sector. And the extra production would lower oil and natural gas prices, thereby providing further economic benefits that accompany affordable energy—the exact opposite of what happens when the government tries to foist uncompetitive renewables onto the market.

The Wrong Stimulus. A stimulus package can create makework jobs, including green makework jobs, but since these jobs require federal funding that must come from somewhere else where jobs are being lost, the exercise is zero-sum at best. And after the green stimulus money is spent, the end result is primarily boondoggles with little long-term economic value. The private sector could better use those resources, especially if legal and regulatory impediments are removed.

Trying to spend ourselves rich has always proven to be a bad idea. And trying to simultaneously spend ourselves rich and green would be even more disappointing.

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5. See Ron Utt, “Washington Metro Needs Reform, Not a Federal Bailout,” Heritage Foundation *WebMemo* No. 1665, October 16, 2007, at <http://www.heritage.org/Research/Budget/wm1665.cfm>; Randall O’Toole, “Does Rail Transit Save Energy or Reduce Greenhouse Gas Emissions?” Cato Institute *Policy Analysis*, April 14, 2008, at <http://www.cato.org/pubs/pas/pa-615.pdf> (January 26, 2009).
6. ConsumerReports.org, “Washers & Dryers: Dirty Laundry,” June 2007, at http://www.consumerreports.org/cro/appliances/washing-machines/washers-and-dryers-6-07/overview/0607_wash_ov_1.htm (January 26, 2009); National Academy of Sciences, “Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards,” 2002, p. 3.
7. David Kreutzer, “The Economic Case for Drilling Oil Reserves,” Heritage Foundation *WebMemo* No. 2093, October 1, 2008, at <http://www.heritage.org/Research/EnergyandEnvironment/wm2093.cfm>.