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Obama's Energy Budget: More Taxes, Higher Prices

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President Obama recently released his budget blueprint, "The New Era of Responsibility," which outlines his spending plans for Fiscal Year 2010 and beyond.[1] Aside from providing general levels of federal spending, the blueprint foreshadows much of the President's policy agenda. The budgets for the Department of Energy (DOE), the Department of the Interior (DOI), and the Environmental Protection Agency (EPA) reveal that the President has a costly and economically harmful vision for energy policy.

While the DOE and EPA both get budget increases, the DOI's budget is reduced. The budget top-lines, however, are not the story: The real issue is how the money is spent and the policy implications thereof. Despite President Obama's rhetoric about advancing the interests of America's middle class, his policies will cost Americans more money, limit their access to America's energy resources, and provide little, if any, environmental benefit.

The Environmental Protection Agency. The EPA's budget has averaged $7.6 billion over the past three years, and it will increase slightly to $7.8 billion for 2009, but President Obama plans to increase it significantly to $10.5 billion in 2010.[2] The budget is being increased for policy goals that are disturbing, including a cap-and-trade program and an expansion of Superfund.

Sets the Stage for Cap-and-Trade. By far, the most onerous element of President Obama's budget is that it would institute his CO2 cap-and-trade proposal to reduce carbon emissions 14 percent below 2005 levels by 2020 and approximately 83 percent below 2005 levels by 2050.[3] The program would auction 100 percent of available carbon emission credits and use the revenue to fund other aspects of his budget.

While the budget blueprint euphemistically refers to this money as "climate revenue," in reality it is an energy tax that would force consumers to pay higher energy prices. In the blueprint, $646 billion of revenue would be generated through a cap-and-trade plan from 2012 through 2019, but many have suggested these auction permits would likely be much higher. The Heritage Foundation's Center for Data Analysis's estimate of climate revenue for 2012–2019, using less strict Lieberman-Warner caps, is between $1.6 trillion and $1.9 trillion, which results in even higher taxes on the consumer.

Of the $646 billion, $150 billion of this tax revenue would be allocated for clean energy investments a decade. This is old, tired thinking: The notion of government investing in clean energy technologies through tax breaks, incentives, and subsidies is tantamount to Washington picking winners and losers, which penalizes successful sources of energy that Americans use every day to subsidize unsuccessful ones.

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Furthermore, any legislation implemented to reduce greenhouse gas emissions will kill jobs and devastate the economy. The Lieberman-Warner cap-and-trade bill introduced last summer would have destroyed over 900,000 jobs, caused nearly 3 million job losses in the manufacturing sector by 2029, caused some manufacturing sectors (e.g., paper, chemicals, and plastics) to shed over 50 percent of their jobs, and generated up to $300 billion per year in government revenue while reducing income by nearly $5 trillion.[4]

Unnecessarily Strengthens Superfund. The budget blueprint would reinstate excise taxes that expired in 1995 to fund Superfund's efforts to clean up the toxic, contaminated areas around the country. Since the expiration of these excise taxes, general revenues have funded clean up activity. The Administration estimates $6 billion in revenue will be collected from this tax. Proponents of Superfund argue that reinstating the tax will create incentives for companies not to pollute, but there are already strict environmental laws in place, making this additional excise tax unessential and unwise.

The Department of Energy. DOE's budget for the fiscal year 2009 is just shy of $34 billion. This $10 billion increase from 2008 ($24.1 billion) is partly due to the $39 billion provided by the 2009 stimulus bill.[5] Included in the budget blueprint for DOE are troubling expansions of energy subsidies and a government-centric approach to electricity transmission modernization—the smart grid.

Expands Subsidies and Distorts the Market. DOE's budget includes subsidies to accelerate, deploy, and commercialize a number of energy sources including wind, solar, biofuels, and clean coal.[6] There are a number of problems with such subsidization: First and foremost, it distorts normal market forces and encourages government dependence. By subsidizing a portion of the actual cost of a project through a loan guarantee, the government is actually distorting the allocation of resources by directing capital away from a more competitive project.

Second, subsidies and loan guarantees encourage companies to pursue political profit rather than economic gains. When the government announces money will be allocated for specific projects or technologies, the result is hand-over-fist lobbying efforts by different power companies to secure government funding, since many of these projects are still economically uncompetitive and will otherwise not move forward without subsidies.[7] If the government continues to subsidize unproven technologies, it forces consumers to pay twice—once to fund the subsidies and another time with higher electric bills.

Spending on the Smart Grid. The smart grid is a two-way, transactive electric power grid that is capable of responding to dynamic pricing and would theoretically improve the overall functionality of the country's electricity grid. While there is promise in upgrading the nation's electricity transmissions system, the stimulus bill already included $11 billion for high-tech electricity infrastructure, which creates additional concerns about investing more government money at this point.[8] Upgrading the nation's grid has large potential value, but it cannot

1. U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (Washington, D.C.: U.S. Government Printing Office, 2009), *http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf* (March 17, 2009).
2. *Ibid.*, pp. 99–102.
3. *Ibid.*, p. 100.
4. William W. Beach, David W. Kreutzer, Ph.D., Ben Lieberman, and Nicolas D. Loris, "The Economic Costs of the Lieberman–Warner Climate Change Legislation," Heritage Foundation *Center for Data Analysis Report* No. 08-02, May 12, 2008, at *http://www.heritage.org/Research/EnergyandEnvironment/cda08-02.cfm.*
5. U.S. Office of Management and Budget, *A New Era of Responsibility.*
6. *Ibid.*, pp. 63–66.
7. Rebecca Smith, "States Vie for Share of Clean-Coal Cash," *Wall Street Journal*, March 22, 2009 at *http://online.wsj.com/article/SB123776640682509321.html#mod=rss_Politics_And_Policy* (March 25, 2009).
8. *Ibid.*, pp. 63.

be a centrally planned strategy, nor should it be used to subsidize renewable energy sources. Instead, a transition to a smarter grid should be driven by the private sector and should provide consumers options on how to use energy more efficiently. Eventually, if smart grid technologies will help consumers save on their electricity bill, they will choose to buy into it without the government telling them to do so. A decentralized, coordinated effort that focuses on specialization with a number of market players will lead to a more economically efficient system.[9]

All but Kills Yucca Mountain. The DOE's funds would be limited to answering Nuclear Regulatory Commission inquiries regarding the commission's review of the Yucca Mountain construction permit. Consequently, progress on building the repository would be stopped. This allows the federal government to remain technically compliant with current law—which obliges it to open the Yucca Mountain repository—while yielding to pressure to stop all Yucca activities. This middle-of-the-road approach may help the Administration delay any final decisions on Yucca, but it does little to resolve the greater problem of reforming America's dysfunctional system of managing spent nuclear fuel.

The Department of Interior. The Blueprint would increase the budget for the DOI from $11.3 billion in 2009 to $12.0 billion in 2010, with annual increases thereafter.[10] This increase is funded through punitive tax increases on oil and gas industries and would enable DOI to implement obstructionist regulations to limit access to America's energy resources.

Raising Taxes and Fees on Reliable Domestic Energy Production. The budget includes a number of provisions that raise costs on domestic energy production. Overall, $31 billion in additional revenues would be collected, yet the oil and gas industry already has effective tax rates as high or higher than the industrial average.

When gasoline prices hit $4 per gallon, the American public demanded the government produce policies to increase energy supply in the United States and ultimately lower prices. The DOI's budget proposal for new excise taxes on offshore oil and gas production, termination of funds to coal states to clean up abandoned mines, and user fees for oil companies for processing oil and gas permits on federal land do the exact opposite.

Use It or Lose It. The budget mentions that DOI will make sure gas and oil companies do not sit on their leases and fail to make progress on land already open for exploration and drilling. Proponents of "use it or lose it" that seek to punish delays have yet to produce a single credible example of an oil company dragging its feet on a green-lighted project.[11] In certain cases, there is simply not any gas or oil to be found. Dry holes happen, and just because the law allows drilling somewhere is no guarantee of success. However, plenty of unavailable leases are sitting atop oil that is likely to remain underground for years, and perhaps permanently if DOI continues to obstruct both onshore and offshore drilling.

An Expensive Budget. President Obama's costly energy proposal will spend more and raise energy prices for Americans by taxing cheaper, reliable sources of energy to invest in unproven ones. One of the most alarming features of the entire budget is the cap-and-trade proposal, which if enacted by Congress, could be one of the largest tax hikes in U.S. history. With no end to the recession in sight, President Obama's energy proposals promise only more pain for the American consumer.

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9. Lynne Kiesling, "Markets, Technology and Institutions: Increasing Energy Efficiency Through Decentralized Coordination," EcoAlign Project Energy Code, February 2009, at *http://www.ecoalign.com/node/276* (March 25, 2009).
10. *Ibid.*, pp. 77–80.
11. Ben Lieberman, "Environmental Activists, Not Oil Companies, Blocking Domestic Drilling," Heritage Foundation *Commentary*, August 15, 2008, at *http://www.heritage.org/press/commentary/ed081508c.cfm*.