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Cap and Trade: A Handout for Corporations and a Huge Tax on Consumers

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A "market-oriented" cap-and-trade program to reduce carbon dioxide emissions proposed in the U.S. House of Representatives by Henry Waxman (D–CA) and Ed Markey (D–MA) has had a difficult time gaining support as more people recognize that it is a significant tax on energy that will inflict a severe amount of economic pain.

Knowing that large taxes generate large amounts of revenue, businesses sent thousands of lobbyists to flood the halls of Congress asking for a piece of the "climate revenue" pie. With the majority of the energy tax revenue handed out to large corporations, less will be made available to the public, leaving the American consumer to pick up the costly tab.

An Energy Tax in Disguise. The goal of a cap-and-trade program is to reduce the amount of carbon dioxide and other greenhouse gases in the atmosphere. Absolute limits on total emissions of greenhouse gases are established. Before those in a covered sector can emit a greenhouse gas, they need to have the ration coupons (also known as allowances) for each ton emitted.

Because the ration coupons will have a value—and therefore a cost—cap and trade becomes a tax on fossil fuels that produce greenhouse gases when they generate energy. Since 85 percent of America's energy needs come from fossil fuels, cap and trade would be a massive tax on energy consumption.

Although more people are beginning to see cap and trade for its true colors, only 24 percent of Americans could properly identify a cap-and-trade program as something that dealt with environmental issues; in fact, more thought it was a measure to regulate Wall Street.[1] Members of Congress are using this confusion and lack of awareness to their advantage, constructing the cap-and-trade bill in hopes that the public does not recognize it as a tax. Knowing very well the term "energy tax" will be met with immediate public disapproval, many politicians are reluctant to call it what it is.

How Big Is the Tax? The Heritage Foundation's Center for Data Analysis (CDA) found that, after adjusting for inflation, the government would collect \$5.7 trillion in tax revenue between 2012 and 2035. CDA's economic analysis found that, by 2035, the Waxman–Markey cap-and-trade legislation would also:

- Raise electricity rates 90 percent after adjusting for inflation;
- Raise inflation-adjusted gasoline prices by 58 percent;
- Raise residential natural gas prices by 55 percent; and
- Raise an average family's annual energy bill by \$1,241.[2]

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www.heritage.org/Research/EnergyandEnvironment/wm2476.cfm

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But the $1,241 annual energy bill is just the direct increase in energy prices that consumers face. As energy prices increase, the cost of making products becomes more expensive. Businesses will pass the higher costs of operating onto the consumer, which will be reflected in the higher prices Americans pay for products.

Higher energy prices also result in a slower economy, which means less production, higher unemployment, and reduced income. As the higher production costs ripple through the economy, household pocketbooks get hit again and again. When all the direct and indirect energy tax impacts have been added up, family-of-four costs rise by $2,979 per year on average over the 2012–2035 timeframe. In 2035 alone, the cost is $4,609.[3]

Over the same timeframe, gross domestic product losses—the excess burden or deadweight loss of taxation—totals $9.4 trillion. It is important to note that these higher energy bills come after people have to use much less energy as a result of increased prices.

Where Does the Tax Revenue Go? In order to get the Waxman–Markey cap-and-trade bill through the House Energy and Commerce Committee, Members promised generous handouts for various industries and special interests. President Obama's budget proposal suggested a 100 percent auction of the emission allowances, forcing companies to bid on the right to emit. Businesses, knowing very well this would impose a severe cost on their bottom line, sent their lobbyists to Washington to protect them. And it worked.

About 85 percent of the allowances have been promised for free. The biggest winners are the electric utilities, which get 35 percent of the allowances. Some energy-intensive manufacturers also made out well. So only 15 percent of the allowances will be auctioned, at least in the initial phase of the bill, and even that may get promised away as the bill moves forward. Eventually the percentage of allowances given to industry declines in future years, and the government auctions them off to the highest bidder.

Value of Allowances Handed Out, by Industry

In Billions of Current Dollars

Industry	2012	2012–2022	2012–2035
Electric utilities	$47.51	$489.64	$994.46
Natural gas	$9.77	$119.13	$248.94
Heating oil	$2.03	$20.99	$42.62
Auction for low income	$16.29	$198.55	$850.86
Energy intensive industries	$2.17	$170.84	$519.22
Domestic refiners	–	$22.21	$57.61
Carbon capture and storage	–	$46.80	$264.23
State renewable energy	$10.31	$97.01	$314.44
Auto	$3.25	$25.11	$33.07
Clean energy research and development	$1.08	$13.23	$56.72
Adaptation health/wildlife	$2.17	$30.71	$334.40
International adaptation	$2.17	$30.71	$334.40
Worker assistance	$0.54	$7.67	$51.16
Total allowance revenue	**$108.6 billion**	**$1.3 trillion**	**$5.7 trillion**

Source: American Clean Energy and Security Act of 2009, H.R. 2454, 111th Cong., 1st Sess.; World Business Council for Sustainable Development, "Waxman, Markey Outline Plan for Dividing Allowances," Greenwire, May 15, 2009, at *http://www.wbcsd.org/plugins/DocSearch/details.asp?type=DocDet&ObjectId=MzQ0NDA* (June 10, 2009).

Table 1 • WM 2476 heritage.org

More Painful for Consumers. Free allowances do not lower the costs of Waxman–Markey; they just shift them around. Although the government awarded handouts to businesses, the carbon dioxide reduction targets are still there, and the way they

1. Rasmussen Reports, "Congress Pushes Cap and Trade, But Just 24% Know What It Is," May 11, 2009, at *http://www.rasmussenreports.com/public_content/politics/environment/congress_pushes_cap_and_trade_but_just_24_know_what_it_is* (June 10, 2009).
2. William W. Beach, David Kreutzer, Karen Campbell, and Ben Lieberman, "Son of Waxman–Markey: More Politics Makes for a More Costly Bill," Heritage Foundation *WebMemo* No. 2450, May 18, 2009, at *http://www.heritage.org/Research/EnergyandEnvironment/wm2450.cfm.*
3. *Ibid.*

will be met is by raising the price of energy and thereby inflicting more economic pain. Prices have to go up enough to force people to use less energy, and so if anyone is bought off with free allowances, the costs for everyone else are that much higher.

When there is money on the table with big government programs, lobbying by special interests is inevitable. Politics governed by special interests typically makes things worse for the consumer, and cap and trade is no exception. Approximately 2,340 energy lobbyists worked on the cap-and-trade bill[4] to lower costs for their clients—i.e., utilities and other industries. That leaves consumers to bear the entire cost of the price increases required to meet CO_2 targets; meanwhile, industry gets a free windfall.

The Benefit? Is all of this economic pain justified by gains against global warming? Higher energy prices dramatically slow the economy. These higher energy prices push unemployment up by 1,145,000 jobs on average, with peaks over 2,479,000. In aggregate, GDP drops by over $9.4 trillion. The next generation will inherit a federal debt pumped up by $28,728 per person.[5] All of these costs accrue in the first 25 years of a 90-year program that, as calculated by climatologists, will lower temperatures by only hundredths of a degree in 2050 and no more than two-tenths of a degree at the end of the century.[6]

Waxman–Markey has evolved into a corporate welfare program for businesses interested in protecting their bottom lines, making it that much more painful for the energy consumer. And this is all being done for a change in the temperature too small to ever notice.

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4. Marianne Lavelle, "The Climate Change Lobby Explosion," Center for Public Integrity, February 24, 2009, at *http://www.publicintegrity.org/investigations/climate_change/articles/entry/1171* (June 5, 2009).
5. Beach *et al.*, "Son of Waxman–Markey."
6. For instance, see Chip Knappenberger, "Climate Impacts of Waxman-Markey (the IPCC-based arithmetic of no gain)," MasterResource, May 6, 2009, at *http://masterresource.org/?p=2355* (June 4, 2009).