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Cap and Trade Sold under False Pretenses

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The 1,500-page cap-and-trade climate legislation, also known as Waxman–Markey, passed by a narrow margin late in the day on June 26. Members of Congress added 300 of those pages early in the morning on the day of the vote. It is safe to assume that hardly any of the 435 Members of Congress read the bill in its entirety, meaning one of the costliest bills in American history was rushed through so politicians could enjoy their 4th of July recess.

Cap and trade is nothing more than a massive energy tax, which is why its chief alternative is a carbon tax, and it has been sold under the following false pretenses:

- It will not cost anything;
- It will increase jobs;
- It will increase green investment; and
- It will save the environment.

A Lot More Than a Stamp a Day. A commonly quoted cost estimate of Waxman–Markey comes from the Congressional Budget Office (CBO), which claims that cap and trade will cost the equivalent of a postage stamp per day—$175 per household in 2020.[1]

But CBO admittedly ignores economic costs such as the decrease in gross domestic product (GDP) as a result of the bill[2] and the fact that consumers and business will change their behavior as a result of higher energy prices. This is a serious oversight that has significant economic consequences.

In The Heritage Foundation's economic analysis of the Waxman–Markey climate change legislation, the GDP loss in 2020 was $161 billion (in 2009 dollars).[3] For a family of four, that translates into $1,870—more than 10 times the size of the $175 CBO claim. Furthermore, the Heritage analysis found that for all years, the average GDP loss was $393 billion, or more than double the 2020 loss. In 2035 (the last year analyzed by Heritage), the inflation-adjusted GDP loss works out to $6,790 per family of four.

Energy-intensive industries will also suffer significant losses. For instance, farming is very energy-intensive, with fuel, chemical, electricity, and fertilizer costs; since cap and trade drives up the cost of energy prices, farmers' losses will undoubtedly outweigh any money they collect from offsets (the money businesses would pay farmers to reduce carbon emissions by either not farming or using more efficient technologies). The Heritage Foundation's Center for Data Analysis found that farm income (or the amount left over after paying all expenses) is expected to drop $8 billion in 2012, $25 billion in 2024, and over $50 billion in 2035. These are decreases of 28 percent, 60 percent, and 94 percent, respectively. The average net income lost over the 2010–2035 timeline is $23 billion—a 57 percent decrease from the baseline.

It Is a Jobs-Destroying Bill. President Obama and Democratic House leaders claimed that Wax-

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man–Markey is a jobs bill. With the lavish subsidies for green investment placed in the bill, surely companies will hire workers to build solar panels and windmills; however, the number of "green" jobs will pale in comparison to the number of jobs lost due to higher energy prices and slower economic growth.

The goal of cap and trade is to drive up the costs of energy in order for people to use less of it. Because just about every business uses energy to produce goods and must pay their own electricity bills, the cost of production for businesses increases, and consumer demand falls for two reasons:

1. Price hikes on goods reduce demand, and
2. People have less disposable income due to higher energy prices.

Overall, production cuts and reduced consumer spending destroy jobs and slow economic growth, which further increases unemployment.

The Heritage analysis found that over the 2012–2035 timeline, job losses average over 1.1 million. By 2035, a projected 2.5 million jobs are lost below the baseline—without a cap-and-trade bill.[4] Some jobs will be lost completely, while others will move to different countries where the cost of production is cheaper. Again, these losses are on top of "green jobs" created as a result of the bill.

Less Renewable Energy. The final House bill contained many renewable energy investments in an effort to attract votes. The Waxman–Markey proposal even requires that more electricity come from so-called renewable sources, chiefly wind energy but also others like biomass and solar. Ironically, according to an analysis of the bill by the Environmental Protection Agency (EPA), Waxman–Markey would actually result in less renewable energy produced than without the bill because of the overall decline in electricity use.[5]

Green projects do not pay for themselves; it is the taxpayers who fund the research and development of renewable energy and the cost of the subsidies that are required to make renewables competitive. Yet renewable energy still only provides a small fraction of America's energy needs, and it is more expensive per kilowatt hour than traditional, reliable sources of energy. Consumers lose doubly, paying more as taxpayers and as ratepayers.

It Will Not Save the Planet. The alleged benefit from cap and trade is that the regulations will reduce carbon dioxide emissions enough to slow warming and reduce global temperatures.

According to climatologist Chip Knappenberger, Waxman–Markey would moderate 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] Even EPA Administrator Lisa Jackson concurred, recently saying, "I believe the central parts of the [EPA] chart are that U.S. action alone will not impact world CO_2 levels."[7]

A multilateral approach would not fare much better. In the case of international cooperation, India, China, and the rest of the developing world

1. Congressional Budget Office, "The Estimated Costs to Households from the Cap-and-Trade Provisions of H.R. 2454," June 19, 2009, at *http://www.cbo.gov/ftpdocs/103xx/doc10327/06-19-CapAndTradeCosts.pdf* (July 7, 2009).
2. David Kreutzer, Karen Campbell, and Nicolas Loris, "CBO Grossly Underestimates Cost of Cap and Trade," Heritage Foundation *WebMemo* No. 2503, June 24, 2009 at *http://www.heritage.org/Research/EnergyandEnvironment/wm2503.cfm.*
3. 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.*
4. *Ibid.*
5. Bryan Walsh, "What the Energy Bill Really Means for CO_2 Emissions," *Time*, June 27, 2009, at *http://www.time.com/time/health/article/0,8599,1907528,00.html* (June 30, 2009).
6. 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 30, 2009).
7. U.S. Senate Committee on Environment and Public Works, "Jackson Confirms EPA Chart Showing No Effect on Climate Without China, India," July 7, 2009, at *http://epw.senate.gov/public/index.cfm?FuseAction=Minority.PressReleases&ContentRecord_id=564ed42f-802a-23ad-4570-3399477b1393* (July 7, 2009).

would have to revert to their 2000 levels of CO_2 emissions by 2050. On a per-capita basis, China would backtrack to about one-tenth of what the U.S. emitted in 2000. India and most of the developing world would have to drop to even lower levels. This scenario, in addition to being highly unlikely, would de-develop the developing world.

Moving Forward. Now that the bill has passed the U.S. House of Representatives, it will likely move to the U.S. Senate this fall. It is important to remember that everything policymakers have promised this bill will do will in fact do the opposite. Cap and trade will drive up energy costs for years to come, resulting in economic pain and higher unemployment. All of these points will be equally important, if not more so, in the Senate debate.

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