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The 2009 Energy Bill: Anti-Market and Anti-Consumer

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On March 31, Chairman Henry Waxman (D–CA) of the House Energy and Commerce Committee and Chairman Edward Markey (D–MA) of the House Energy and Environment Subcommittee introduced draft legislation that includes clean energy investment, energy efficiency mandates, a cap-and-trade program, and protectionist policies that will supposedly help the consumer cope with higher energy prices.[1]

Presented as a comprehensive energy bill, the American Clean Energy and Security Act of 2009 (ACES)[2] offers nothing more than subsidies and mandates for unsuccessful, unproven energy sources coupled with taxes on reliable energy sources that falsely claim to stimulate the economy by investing in clean technology and creating green jobs. This government-centric approach will destroy jobs and drive up energy prices for years to come.

Title 1: Clean Energy. ACES includes a renewable electricity standard (RES) that requires 6 percent of electricity to come from renewable energy by 2012. This requirement will increase to 25 percent in 2025.

A federally mandated RES is proposed only because renewables are too expensive to compete otherwise. In effect, Washington is forcing costlier energy options on the public. Since renewables are lavished with substantial tax breaks, a national mandate will cost Americans both as taxpayers and as ratepayers. Any incentive proposed by government should in truth be read as a handout.

Moreover, subsidies are poor policies because they distort normal market forces and encourage government dependence. By subsidizing a portion of the actual cost of a non-competitive project, the government is artificially making it cheaper and distorting the allocation of resources by directing capital away from more competitive projects.

Title 1 of ACES also includes incentives to develop cleaner energy technologies and facilitate the transition to a smart grid, as well as authorization for the Federal Energy Regulatory Commission (FERC) to take control of building new transmission lines.

While upgrading the nation's electric grid has merit, such a project cannot be approached bureaucratically, nor can it be used as a subsidy to advance renewable energy sources. More efficient grid technology should be an investment made by the private sector, and if upgrading the grid will save consumers money—as Congress purports it will—consumers will respond to price signals and buy it.

Although a new grid could help store large amounts of electricity for the first time, which would benefit intermittent sources such as wind and solar power, smart grid investment is not auto-

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matically coupled with transmission investment. If companies believe the benefits to such an investment will outweigh the costs, they will make the investment. Instead, any federal policy should focus on removing regulatory barriers to upgrading the grid to allow for more consumer choice and protect private property rights.

Title 2: Energy Efficiency. ACES includes new energy efficiency standards for new buildings, rebates to low-income families to buy Energy Star-rated manufactured homes,[3] appliances, and transportation.[4]

Energy efficiency can be beneficial for consumers, but it rarely does good when Washington tries to force it on them. Energy-efficient appliances and mechanisms will not painlessly lower electricity bills: These measures impose costs, and consumers benefit only if the energy savings outweigh such expenses. Mandatory improvements in efficiency usually raise the purchase price of appliances; sometimes the increase is more than enough to negate the energy savings. In addition, the forced reduction in energy use can result in decreased product performance, features, or reliability, which destroys value for the consumer.

The law of supply and demand is perfectly capable of determining the proper balance between energy efficiency and other product attributes. Rigid federal standards give efficiency priority over all other concerns, often to the detriment of families and businesses.

Title 3: Global Warming Regulation. Although the rest of ACES is bad enough, the most alarming section is the government's attempt to regulate carbon dioxide. The third title of the bill introduces a "market-oriented" cap-and-trade program that would reduce carbon dioxide by 20 percent below 2005 levels in 2020 and by 83 percent below 2005 levels in 2050. Furthermore, it calls for strict oversight by FERC and calls on the Environmental Protection Agency to use the Clean Air Act to reduce black carbon and hydroflurocarbons.

Despite Washington policymakers' best attempt to call cap-and-trade a market-oriented approach, the reality is that any carbon capping plan is a costly energy tax in disguise—raising energy prices and unemployment with little, if any, environmental benefit. A global warming tax could generate as much as $1.9 trillion in tax revenue over eight years, which amounts to an annual tax of nearly $2,000 on every American household.[5]

Since 85 percent of U.S. energy demand is met by fossil fuels, taxing the lifeblood of the American economy would have disastrous consequences. The Heritage Foundation's Center for Data Analysis's study of the Lieberman–Warner cap-and-trade bill found that legislation would result in aggregate real GDP losses of nearly $5 trillion and job losses of 400,000 and 800,000 jobs per year.[6] The targets and timetables in the ACES discussion draft are considerably more stringent than those in Lieberman–Warner and thus would be costlier.

Title 4: Transitioning to a Clean Energy Economy. Because ACES would put manufacturers at a disadvantage, the last title of the bill attempts to lessen that burden by rebating money to "sectors that use large amounts of energy, and produce com-

1. "Chairmen Waxman, Markey Release Discussion Draft of New Clean Energy Legislation," House of Representatives Committee on Energy and Commerce, March 31, 2009, at *http://energycommerce.house.gov/index.php?option=com_content&task=view&id=1560&Itemid=1* (April 1, 2009).
2. The American Clean Energy and Security Act of 2009 (discussion draft), 111th Cong., 1st Sess., at *http://energycommerce.house.gov/Press_111/20090331/acesa_discussiondraft.pdf* (April 2, 2009).
3. For more information on Energy Star-rated manufactured homes, see Energy Star, "Getting Started with ENERGY STAR Qualified Manufactured Homes," at *http://www.energystar.govindex.cfm?c=bldrs_lenders_raters.pt_builder_manufactured* (April 2, 2009).
4. Chairmen Waxman, Markey Release Discussion Draft of New Clean Energy Legislation.
5. Calculations by The Heritage Foundation's Center for Data Analysis.
6. William W. Beach, David W. Kreutzer, 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.*

modities that are traded globally" or by having "foreign manufacturers and importers…pay for and hold special allowances to 'cover' the carbon contained in U.S.-bound products." The bill also stipulates that if countries reach an international treaty on global warming, the U.S. will provide aid assistance to developing countries for clean technology.

In essence, raising the costs on foreign manufacturers and importers is a carbon tariff. As a result, not only will energy costs increase, but now everything Americans import will be more expensive too. Furthermore, imposing a carbon tariff could lead to a trade war among a number of countries on which the U.S. depends for affordable goods. Protectionism begets more protectionism: Other countries will view such measures as unfair and respond by implementing more tariffs. Also, any international carbon reduction plan would likely reverse progress made in the developing world—even with the proposed U.S. aid for clean technology. Developing countries' prosperity relies heavily on free trade. Exporting goods in which countries hold a comparative advantage is critical to their economic growth, just like it is to America's.

Counting the number of green jobs created by a transition to a clean energy economy while ignoring the jobs destroyed by any such shift ignores the legislation's net effect on employment: Support for renewable energy would likely cost more jobs than it creates. 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. Proponents of renewable energy, however, argue that these energy sources create more jobs per kilowatt hour and thus are a good investment.[7] But this logic should not be the measuring stick for implementing new energy sources—it proves only that clean energy sources are an inefficient use of human capital and these resources could be more beneficial in other sectors of the economy.

Not the Right Prescription for an Ailing Economy. The architects of ACES argue that the bill will create millions of clean energy jobs and help Americans save on energy costs, but in reality it will do just the opposite. Using taxpayer dollars to invest in inefficient energy sources while artificially driving up the costs of reliable energy with a cap-and-trade program will only cause more economic pain for the consumer—with no environmental benefit to show for it.

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7. American Wind Energy Association, "What Are the Factors in the Cost of Electricity from Wind Turbines?" at *http://www.awea.org/faq/cost.html* (April 1, 2009.)