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EPA Proposes Next Step of Regulatory Cap-and-Trade

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The Environmental Protection Agency (EPA) has released its draft regulation to limit greenhouse gas (GHG) emissions from existing power plants. Along with the EPA's New Source Performance Standards for new electricity generating units, the Administration is pursuing the regulatory equivalent of cap-and-trade that would drive up energy costs for families and businesses while achieving no significant reduction in global emissions.

Congress should prohibit the EPA and all other agencies from regulating GHG emissions and instead work to remove regulatory impediments that prevent industries from making efficiency upgrades.

Cap and Trade Through Executive Fiat

With Congress unable to pass cap-and-trade legislation as the Administration hoped, the EPA is moving forward with its own set of climate change regulations. The EPA's New Source Performance Standards for GHG emissions from existing sources sets reduction targets at 25 percent below 2005 levels by 2020 and 30 percent by 2030. For comparison, the Waxman–Markey cap-and-trade legislation set reduction targets of 20 percent by 2020 and 42 percent by 2030.

More than 80 percent of America's energy needs are met through carbon-emitting conventional fuels. Last year, coal and natural gas provided 66 percent of U.S. electricity generation, which is why both cap-and-trade and EPA regulations target utilities. After all, it was candidate Barack Obama who said, "Under my plan of a cap-and-trade system, electricity rates would necessarily skyrocket."[1] Doing the equivalent through regulations would have the same desired effect of shutting down power plants and driving up prices to curtail energy use.

Cap-and-Trade-Like Costs

Whether it is by cap-and-trade, regulation, or a straightforward tax, restricting carbon emissions would harm American families and businesses through higher energy costs and provide no environmental benefit. Families would pay more to use less electricity. The costs would reverberate throughout the economy as affected industries passed higher costs onto consumers. Simply put, consumers would consume less and producers would produce less, resulting in income cuts, jobs destroyed, and lost economic output.

While not directly modeling the EPA's regulations, Heritage Foundation analysts modeled the economic effects of a phase-out of coal between the years 2015 and 2038, which is what EPA's GHG regulations would effectively do. Using the Heritage Foundation Energy Model, a derivative of the Energy Information Administration's National Energy Model System, we found that by the end of 2023:

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- Nearly 600,000 jobs would be lost,
- A family of four's income would drop by $1,200 per year, and
- Aggregate gross domestic product would decrease by $2.23 trillion over the entire period of the analysis.[2]

The costs would likely be higher as a result of the regulatory inefficiencies of enacting the regulations and the EPA's pursuit of GHG regulations for industries other than power plants, such as refiners and major industrial sectors.

Who Would Be Hit the Hardest?

The economic pain stemming from the EPA's regulation would spread throughout the country, but some would be harmed more than others. Those disadvantaged the most by the EPA's regulations include:

- **Low-income families.** A tax that increases energy prices would disproportionately eat into the income of the poorest American families. While the median family spends about 5 cents out of every dollar on energy costs, low-income families spend about 20 cents.[3]
- **Manufacturers.** Some industries are undoubtedly more energy-intensive and thus hit harder by higher energy prices. Particularly alarming is the damage that the EPA regulations would inflict on America's manufacturing base. Over 300,000 of the jobs lost in the Heritage analysis are manufacturing jobs.
- **The Midwest.** The Heritage analysis of manufacturing job losses finds that districts in Wisconsin, Ohio, Indiana, Michigan, and Illinois would be hit especially hard. In fact, 19 out of the top 20 worse-off congressional districts from the Administration's energy regulations are located in the Midwest region.

No Meaningful Climate Impact

Carbon dioxide and other GHG emissions do not have direct adverse health impacts. The EPA is regulating GHG emissions because of the alleged contribution to global warming that would result in harmful effects to human health and the environment. A near-universal consensus does exist that man-made emissions have some warming effect; however, the controversy is about whether human activity is the *primary driver* of climate change and the magnitude of climate change induced by GHG emissions. Most important, no matter what one believes regarding climate change, one thing is clear: The regulations would not have any noticeable impact on global temperatures.

Even assuming that climate sensitivity models are accurate, cutting carbon emissions 83 percent below 2005 levels by 2050 (as required by previous cap-and-trade bills) would reduce global temperatures by only a few tenths of a degree Celsius by the close of the century.[4] That is largely because future carbon emissions will come overwhelmingly from developing nations such as China and India.

Proponents of the regulation often argue that if the U.S. leads, other countries will follow, but these economies are still very much developing and show little appetite for squeezing economic growth to address a non-issue. More important, forcing carbon caps on developing nations is immoral when these populations have more problematic environmental concerns, such as gaining access to breathable air and drinkable water.

1. Erica Martinson, "Uttered in 2008, Still Haunting Obama in 2012," *Politico*, April 5, 2012, http://www.politico.com/news/stories/0412/74892.html (accessed June 2, 2014).
2. See Nicolas D. Loris and Filip Jolevski, "EPA's Climate Regulations Will Harm American Manufacturing," Heritage Foundation *Issue Brief* No. 4158, March 4, 2014, http://www.heritage.org/research/reports/2014/03/epas-climate-regulations-will-harm-american-manufacturing.
3. Roy Innis, Congress of Racial Equality, remarks at 2011 International Conference on Climate Change, March 9, 2011, http://www.core-online.org/News/newsletter/newsletter.htm (accessed June 2, 2014).
4. Chip Knappenberger, "Climate Impacts of Waxman–Markey (Part II)—Global Sign-Up," Master Resource, May 7, 2009, http://www.masterresource.org/2009/05/part-ii-a-climate-analysis-of-the-waxman-markey-climate-bill%e2%80%94what-if-the-world-played-along/ (accessed June 2, 2014).

EPA's Flexibility Will Not Help

Building up to the release of the draft, EPA officials toured the country touting the flexibility of the forthcoming rule. To attract state buy-in, the agency's rule has different targets for different states and would allow states flexibility in implementing plans. But flexibility would merely shift the costs around, not prevent them from happening.

If anything, state and regional implementation plans would protect special interests, which could then pass the costs on to American families. Whether the states implement renewable electricity standards, regional cap-and-trades, efficiency mandates, or other programs, the economic pain would be felt.

Congress Needs to Step Up

If Congress is serious about job creation and economic growth, it should drive back the regulation of GHGs. The massive regulatory costs would be either passed on to American families and businesses or offset by cuts in operations and investment—or both. The results would be fewer jobs and less income for American families, all for a futile impact on climate change.

Wealth creation—for which affordable, reliable energy is a critical input—has provided Americans with the capacity and wherewithal to care for the environment. When economies are free to grow, environmental quality improves. This is true around the world, not just in the United States. Free economies better equip people to tackle environmental challenges and address climate-related events, whether human-induced or not.[5]

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5. Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2014), http://www.heritage.org/index.