# Oil Spill Doesn't Justify Wrecking US Economy

Saturday, 12 June 2010 13:42
Written by The Heritage Foundation

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President Obama recently used the Gulf oil spill to stress the need for Congress to pass cap and trade, specifically the bill introduced by Senators John Kerry (D–MA) and Joe Lieberman (I–CT) after much delay. The 987-page American Power Act (APA) aims to reduce 2005 levels of carbon dioxide ($CO_2$) emissions by 80 percent by 2050, the same target that the House version passed last year.



Despite promises of consumer protection, however, the economic effects are the same. APA aims to increase energy prices, which would kill jobs and protect large corporations at the expense of the consumer—all for a minimal effect on the earth's temperature.

### Carbon Cuts Come with Significant Costs

The purpose of the bill is to drive energy prices high enough to reduce consumption. In effect, consumers would be forced to pay more for less energy. Higher energy costs would spread throughout the economy as producers everywhere try to cover their higher production costs by raising their product prices, further impacting consumers.

APA attempts to shield the economic pain from consumers by passing two-thirds of the carbon permit revenue back to the consumer through energy discounts or direct rebates. This leaves 33 percent of the revenue to go elsewhere. Regardless, these rebates would clearly not compensate for the higher energy prices that impact all the goods and services consumers purchase.

Cap and trade has macroeconomic effects that would do economic harm that no rebate check would cover. Higher prices lower consumer demand, and the lower demand prevents higher prices from completely offsetting production cost increases. As a result, businesses must make production cuts and reduce labor. The Congressional Budget Office recently affirmed that job losses from a slower economy would outweigh those created by clean energy investments: "Job losses in the industries that shrink would lower employment more than job gains in other industries would increase employment, thereby raising the overall unemployment rate."[1]

In the end, the economy would be trillions of dollars weaker with climate change legislation in place than without it, as Heritage Foundation analyses of past cap-and-trade bills have shown.[2]

### Growing Public Skepticism

Senator Kerry, after acknowledging that the bill is not perfect, said that "our planet cannot wait"[3] to address climate change. The American public, however, can wait. Several recent polls have shown that reducing greenhouse gas emissions is a far lower priority than economic growth.[4]

Adding to the public's uncertainty is the controversy surrounding the validity of global warming concerns. Leaked e-mails from the University of East Anglia's Climate Research Unit revealed alleged conspiracy, exaggerated data, possibly illegal destruction and manipulation of data, and attempts to freeze out dissenting scientists from publishing their work in reputable journals. Furthermore, errors exposed in the IPCC report have only increased public skepticism.

Regardless, the benefits of the Kerry–Lieberman are almost nonexistent. According to an analysis by climatologist Paul C. Knappenberger, the global temperature reduction from APA would be .077 degrees Fahrenheit by 2050 and 0.200 degrees by 2100.[5]

One critical reason for such a negligible environmental impact is that China, which emits more carbon than the U.S. and is increasing its emissions levels at a much faster rate, has no intentions of cutting back. India and other fast-developing nations have repeatedly made it clear that they would not slow down their own economic growth with carbon cutting measures.[6]

### A Special Interest Corporate Buyoff

APA's supporters sought to garner corporate buy-in from affected industries, which delayed introduction of the bill. In the bill's current form, even the companies that would be regulated and would see their costs increase (coal producers, oil companies, natural gas and electric utilities) stand to gain from the bill in the short run, which is why many of these industries publicly support it.

One reason for their support is the guaranteed windfall profits the companies would receive from the protections and handouts outlined in the legislation. The bill has a host of subsidies, tax credits, protections, and programs that benefit certain special interests at the rest of America's expense. Other industry representatives—particularly advocates of renewable energy—are calling for even more protection, such as the inclusion of a renewable electricity mandate. The fact that renewable electricity needs a mandate on top of carbon caps only accentuates the point that it is simply not cost competitive.[7]

The more the government becomes involved in decision making, the more lobbyists become involved. Kerry–Lieberman would be an unprecedented expansion of government control over the energy economy; therefore, it should be no surprise that corporations are actively lobbying against APA's cost increases to their bottom lines, but in reality, businesses would pass these cost increases on to the consumer. In other words, these companies have assured revenue increases from government handouts and protections, but the increased costs from carbon caps would be handed down to car drivers, homeowners, and small businesses.

**Energy Independence Not the Right Policy Goal**

Politicians on the Left and the Right have clamored to end America's addiction to foreign oil and achieve energy independence, and many have justified APA on these grounds. But achieving energy independence should not be a driver for any energy policy, especially not for a cap-and-trade system. It is nonsensical to think that the U.S. would benefit by denying itself its least expensive and most relied upon fuels. Doing so would result in fewer energy sources and less wealth for Americans. The U.S. gets 50 percent of its electricity from coal and relies on oil for transportation. Using a cap-and-trade scheme to replace these critical energy sources with more expensive, less abundant, and technologically precarious alternatives would seriously damage the U.S. economy.

Furthermore, the folly of such approaches is already clear. The ethanol mandate has proven to be costly and electric cars are much more expensive and rely heavily on government subsidies.[8] When discussing the prospects of electric cars, one automaker CEO remarked, "We are negotiating with the U.S. government to make sure we have a reasonable return on our investments."[9] The future might tell a different story for electric vehicles, but currently they cannot compete—even with lavish subsidies.

**If It Walks Like a Duck**

The American Power Act will be sold as an economic stimulus, a planet saver, and an answer to the conditions that led to the oil spill. But the only winners are the big corporations who managed to get a seat at the table when the bill was crafted. For the large majority of Americans who did not, the bill would have a negative net impact.

APA is a significant tax on energy that would reduce Americans' income, destroy jobs, and greatly shrink the economy. No amount of protections or rebates would save consumers from skyrocketing energy costs. And worst of all, there would be little environmental benefit to show for it.

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**NOTES:**

[1]Congressional Budget Office, "How Policies to Reduce Greenhouse Gas Emissions Could Affect Employment," May 5, 2010, at http://www.cbo.gov/ftpdocs/105xx/doc10564/05-05-CapAndTrade_Brief.pdf (May 13, 2010).

[2] David Kreutzer et al., "What Boxer–Kerry Would Cost the Economy," Heritage Foundation Backgrounder No. 2365, January 26, 2010, at http://www.heritage.org/Research/Economy/bg2365.cfm.

[3]Senator John Kerry (D–MA), "Introducing the American Power Act: On Strategy and Substance," Grist.org, May 12, 2010, at http://www.grist.org/article/2010-05-12-introducing-the-american-power-act-on-the-strategy-and-substance (May 13, 2010).

[4]Jeffrey Jones, "In U.S., Many Environmental Issues at 20-Year-Low Concern," March 16, 2010, at http://www.gallup.com/poll/126716/Environmental-Issues-Year-Low-Concern.aspx (June 8, 2010).

[5]Chip Knappenberger, "The American Power Act: A Climate Dud," MasterResource, May 12, 2010, at http://www.masterresource.org/2010/05/the-american-power-act-a-climate-dud/ (May 13, 2010).

[6]Bibhudatta Pradhan, "India Rejects Any Greenhouse-Gas Cuts Under New Climate Treaty," June 30, 2009, at http://www.bloomberg.com/apps/news?pid=20601091&sid=aWs0Pts2Kxes (June 8, 2010).

[7]See David Kreutzer et al., "A Renewable Electricity Standard: What It Would Really Cost Americans," Heritage Foundation Center for Data Analysis Report No. 10-03, May 5, 2010 at http://www.heritage.org/Research/Reports/2010/05/A-Renewable-Electricity-Standard-What-It-Would-Really-Cost-Americans.

[8]Jerry Taylor, “Ethanol Makes Gasoline Costlier, Dirtier,” Cato Institute, January 27, 2007, at http://www.cato.org/pub_display.php?pub_id=7308 (June 8, 2010).

[9]Holman W. Jenkins, Jr., “Welfare Wagons,” The Wall Street Journal, May 12, 2010, at http://online.wsj.com/article/SB10001424052748703880304575236692175987752.html (May 14, 2010).

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