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# Beware of Cap and Trade Climate Bills

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America's Climate Security Act of 2007 (S. 2191), sponsored by Senators Joseph Lieberman (I–CT) and John Warner (R–VA), is the latest and fastest-moving "cap and trade" bill introduced in Congress this year. All such climate change measures warrant careful scrutiny, as they would likely increase energy costs and do considerably more economic harm than environmental good.

**A Costly Proposition.** These measures would set a limit, or cap, on carbon dioxide emissions from fossil fuel use. The effect of such a cap would be to impose rationing of coal, oil, and natural gas on the American economy. Each covered utility, oil company, and manufacturing facility would be given allowances based on past emissions or some other formula. Those companies that emit less carbon dioxide than permitted by their allowances could sell the excess to those that do not; this is the trade part of cap and trade. Over time, the cap would be ratcheted down, requiring greater cuts in emissions.

Each proposal differs from the others on specifics: the stringency of the cap, the number and type of companies covered, the ground rules for allocating and trading allowances, and other details. S. 2191 is, in several respects, more stringent than other cap and trade bills. Its requirement that emissions decline to 15 percent below 2005 levels by 2020—even in the face of a growing population and rising energy demand—sets a very difficult target.[1]

Measures like S. 2191 that target carbon emissions aggressively will be costlier than those that give the economy more time to adjust to the energy constraints. For example, over the long term, energy companies may find ways to capture and store carbon dioxide emissions underground, rather than emit them into the air, or switch to lower-emitting alternative energy sources as they are developed. But most experts see these advances as taking decades—much longer than the initial targets in S. 2191 allow. In fact, these targets may actually complicate the development of longer-term innovations, as they will divert resources to near-term fixes.

Carbon dioxide is the unavoidable byproduct of fossil fuel combustion, which currently provides 85 percent of America's energy. Thus, it will be very costly to move away from this preferred energy source, and especially doing so as expeditiously as S. 2191 requires. A study by Charles River Associates puts the cost (in terms of reduced household spending per year) of S. 2191 at $800 to $1,300 per household by 2015, rising to $1,500 to $2,500 by 2050.[2] Electricity prices could jump by 36 to 65 percent by 2015 and 80 to 125 percent by 2050.[3] No analysis has been done on the impact of S. 2191 on gasoline prices, but an Environmental Protection Agency study of a less stringent cap and trade bill estimates impacts of 26 cents per gallon by 2030 and 68 cents by 2050.[4]

This paper, in its entirety, can be found at:
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Even these cost projections may underestimate the true costs, because they assume no unpleasant surprises. But the world has already witnessed many unpleasant surprises with Europe's ongoing efforts to impose a cap and trade program under the Kyoto Protocol, the international climate treaty to reduce greenhouse gas emissions.

In fact, European efforts have racked up significant costs while failing to reduce emissions.[5] Nearly every European country participating has higher emissions today than when the treaty was first signed in 1997. Further, despite ongoing criticism of the United States from Kyoto parties for failing to ratify the treaty, emissions in many of these nations are actually rising faster than in the United States.

The European experience also shows the problem of cap and trade fraud.[6] None other than Enron's Ken Lay was a strong supporter of carbon cap and trade when the idea was first floated in the 1990s, saying that it could "do more to promote Enron's business than almost any other regulatory initiative." These carbon allowances that will be bought and sold have a value estimated at $50 billion to $300 billion annually, and the trade in them would be a huge new business.[7] Enron may be gone, but others ready to take advantage of cap and trade—often at public expense—are not.

The actual cost of S. 2191 is difficult to estimate—as America has never had to deal with such severe energy constraints—but would likely be very high.

**A Regressive Tax.** By limiting the supply of fossil fuels, S. 2191 would raise the cost of energy. For consumers, cap and trade means more expensive gasoline and electricity as well as net job losses in energy-dependent sectors. Senator Lieberman himself concedes costs into the hundreds of billions of dollars. And as the Congressional Budget Office has noted, such energy cost increases act as a regressive tax on the poor.[8]

**Lost Jobs.** The net job losses from S. 2191 are estimated by Charles River Associates to be 1.2 million to 2.3 million by 2015.[9] Some of these jobs will be lost for good, due to the impact of higher energy costs on economic activity. Others, chiefly in the manufacturing sector, will be sent overseas. In the very likely event that S. 2191 significantly raises domestic manufacturing costs and that developing nations refuse to impose similar restrictions, the American economy could experience a substantial outsourcing of manufacturing jobs to those nations with lower energy costs.

**Little Environmental Gain.** While the costs of aggressive cap and trade proposals are substantial, the environmental benefits are suspect. This is true even if one fully accepts the claim of man-made global warming. The most ambitious measure to date is the Kyoto Protocol, but even if the U.S. were a party

1. Margo Thorning, "The Impact of America's Climate Security Act of 2007 (S. 2191) on the U.S. Economy and on Global Greenhouse Gas Emissions," Testimony before the Committee on Environment and Public Works, United States Senate, November 8, 2007, pp. 3–4, at *http://epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=132d40b2-ff1d-4dcc-a58d-022c80aa824d*.
2. Anne E. Smith, prepared statement at the Legislative Hearing on America's Climate Security Act of 2007, S. 2191, the Committee on Environment and Public Works, United States Senate, November 8, 2007, p. 6, at *http://epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=80bc79be-c338-4a76-b438-205eb79da3d5*.
3. *Ibid.*, p. 9.
4. Environmental Protection Agency, "EPA Analysis of The Climate Stewardship and Innovation Act of 2007," July 16, 2007, p. 2.
5. European Environment Agency, "Greenhouse Gas Emission Trends and Projections in Europe 2006," EEA Report No. 9, 2006, pp. 17–22, at *http://reports.eea.europa.eu/eea_report_2006_9/en*; and Open Europe, "Europe's Dirty Secret: Why the EU Emissions Trading Scheme Isn't Working," August 2007, at *www.openeurope.org.uk/research/etsp2.pdf*.
6. *Ibid.*, pp. 19–26, 46–49.
7. Congressional Budget Office, "Trade-Offs in Allocating Allowances for CO2 Emissions," *Economic and Budget Issue Brief,* April 25, 2007, p. 2, at *www.cbo.gov/ftpdocs/80xx/doc8027/04-25-Cap_Trade.pdf*.
8. *Ibid.*, p. 3.
9. Smith, "Legislative Hearing on America's Climate Security Act of 2007," p. 6.

to this treaty and the European nations and other signatories were in full compliance (most are unlikely to meet their targets), the treaty would reduce the Earth's future temperature by an estimated 0.07 degrees Celsius by 2050—an amount too small even to verify.[10] S. 2191 would at best do only a little more.

Indeed, a number of economists, including many who are far from global warming skeptics, warn of overly aggressive cap and trade measures imposing costs exceeding the benefits.[11] In other words, the costs of implementing such measures would be higher than the value of the global warming damage that they would prevent.

**The Slippery Slope.** It is a near certainty that the first climate bill enacted will not be the last one. In fact, most major environmental organizations have already criticized S. 2191 and other pending global warming bills as inadequate, or as at best "a good first step." The economic impacts of S. 2191, though substantial in their own right, could be a mere down payment toward costlier subsequent measures.

**Conclusion.** Cap and trade bills are nothing short of a government re-engineering of the American economy. And S. 2191, with its aggressive targets to reduce emissions from fossil fuel use, would put the nation on a path of serious economic harm not justified by any benefits.

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10. Thomas Wigley, "The Kyoto Protocol: CO2, CH4 and Climate Implications," *Geophysical Research Letters*, Vol. 25, No. 13 (1998), pp. 2285–2288.
11. See William Nordhaus, "The Challenge of Global Warming: Economic Models and Environmental Policy," September 11, 2007, pp. 8–32, at *http://nordhaus.econ.yale.edu/dice_mss_091107_public.pdf*.