Testimony Submitted for the Record

on

Protecting Lower-Income Families from the Consequences of Climate Change Legislation

by
H. Sterling Burnett, Ph.D.
Senior Fellow
National Center for Policy Analysis

Ways and Means Subcommittee on Income Security and Family Support
United States House of Representatives
March 12, 2009

Dallas Headquarters: 12770 Coit Road, Suite 800 ▪ Dallas, Texas 75251 ▪ 972-386-6272 ▪ Fax: 972-386-0924 ▪ www.ncpa.org
Washington Office: 601 Pennsylvania Ave. NW, Ste 900, South Bldg ▪ Washington, D.C. 20004 ▪ 202-220-3082 ▪ Fax: 202-220-3096

Mr. Chairman and members of the Subcommittee, please accept my comments for the record regarding the March 12 hearing on the effects of climate change legislation on low and moderate-income families. I am Dr. Sterling Burnett, a senior fellow of the National Center for Policy Analysis, a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

Current proposals to regulate greenhouse gas emissions will raise energy prices, reduce economic growth, and disproportionately affect low- and moderate-income families. As the Subcommittee considers the potential harm to families, I urge you to carefully scrutinize the regressive effects of the various climate change proposals.

Higher Energy Costs

Though current climate change bills with cap and trade provisions have yet to be finalized, in previous sessions of Congress several bills have been considered that would cap CO_2 emissions and allow the trading of excess allowances. The United States Environmental Protection Agency (EPA) analyzed three bills that would cap and trade greenhouse gas emissions[1]. The least restrictive, sponsored by Senators Jeff Bingaman (D-NM) and Arlen Specter (R-PA), would have required trimming U.S. emissions by less than 4 percent by the year 2050. A more stringent bill, by Senators Joe Lieberman (I-CT) and John McCain (R-AZ), would have required reductions in U.S. emissions of nearly 16 percent by 2050. One of the most restrictive bills, introduced by Lieberman and John Warner (R-VA), would have forced businesses and consumers to cut their emissions by 44 percent by 2050.

According to EPA and the Congressional Budget Office (CBO), each of these bills would substantially raise energy prices and reduce economic growth. A June 2003 analysis by the U.S. Energy Information Agency of the probable economic effects of McCain-Lieberman bill found that by 2025[2]:

- Gasoline would cost 40 cents more per gallon than it would otherwise.
- The average household would spend $444.00 more per year on energy including a 46% increase in electricity prices.
- Gross domestic product would be $675 billion to $1.63 trillion lower, in present dollars.

A study by an economic research institute, the American Council for Capital Formation, underscored these findings, estimating that under the McCain-Lieberman bill[3]:

- By 2020, gasoline prices would increase 30 to 50 cents per gallon.

---

[1] **Environmental Protection Agency, *Analysis of the Lieberman-Warner Climate Security Act of 2008*, March, 14, 2008.**
[2] **U.S. Energy Information Agency, *Analysis of S. 139, the Climate Stewardship Act of 2003*, June 2003**
[3] **American Council for Capital Formation, *Estimated Costs of the McCain-Lieberman Bill*, July 2004**

- Electricity prices would increase 43 percent and average household income would fall by as much as $2,255 per year by 2020

- By 2025, US GDP would be reduced by $164 billion to $525 billion per year.

- More than 600,000 jobs could be lost in the U.S.

The EPA also documented severe economic consequences beyond consumer energy prices. The agency found by 2050 the Bingaman-Specter bill could cost the United States as much as $1.2 trillion annually (in 2005 dollars) from lost economic production. Lieberman-McCain could cost as much as $1.3 trillion annually, and Lieberman-Warner could cost nearly $3 trillion per year[4].

It should be noted that previously considered bills would have given out all or most of the initial carbon emission credits to affected industries. This stands in contrast to the bills currently, according to press reports, being debated before Congress and what President Obama assumes in his recently introduced budget proposal, in which the initial credits would be auctioned off to industry. Charging for the initial credits ensures that industry will face substantially higher costs at the outset of the program, and much of these costs will undoubtedly be passed onto consumers. Indeed, the Obama administration assumes that the carbon credit auction could bring in more than $650 billion in revenue. That's a $650 billion dollar energy tax on top of the costs estimated for previous bills. In addition, much of the present discussion centers setting a goal of cutting carbon emissions 80 percent lower than 2006, a much more stringent goal than any bill previously analyzed. Deeper cuts equal higher costs. Government gets the gold (carbon credit income) and consumers get the shaft.

Disproportionately Hurts the Poor

Energy taxes are extremely regressive, disproportionately affecting seniors and low income households. Analyses of previous bills confirm that any cap and trade bill, acting as nothing less than an indirect energy tax, will harm the poor the most. This is because the poor and those on fixed incomes spend a greater portion of their disposable income on food and fuel than the average household and are least able to afford newer, more fuel-efficient technologies. Energy costs already consume 15 percent of the poorest households' income, compared to only 3 percent for average households. CBO found that cutting carbon dioxide emissions by merely 15 percent would reduce the disposable income of the poor by an additional 3.3 percent, compared to a 1.7 drop for the richest Americans[5]. Deeper carbon dioxide cuts would inflict still more severe economic harm on low-income citizens.

Recognizing that energy taxes disproportionately impact the poor, the Obama administration has proposed giving some of the carbon auction revenue back to middle income Americans to pay for the continuation of the Administration's "Making Work Pay" refundable tax credit that has already been enacted. However, this refund will only cover a portion of the increased energy costs, for a portion of the citizenry – and does nothing to mitigate the impact on the nation's

---

[4] **Environmental Protection Agency, *Analysis of the Lieberman-Warner Climate Security Act of 2008*, March, 14, 2008**
[5] **Congressional Budget Office, *Trade-Offs in Allocating Allowances for CO2 Emissions*, April 25, 2007**

energy providers. In addition, since taxpayers are already receiving the tax credit, they are unlikely to perceive the rebate starting in 2011 as recompense for the new indirect tax imposed by a cap-and-trade regime as it comes online.

Energy is the lifeblood of the economy, yet it is unclear whether the Administration has considered the impact that increasing the costs to energy providers will have on the overall economy. While we all share the Administration's hope that the economy will have recovered from its current downturn by the year 2011 when energy companies and other industries will be required to purchase the initial round of carbon credits at auction, it may well still be in recession. Raising taxes on energy production and consumption during a recession is virtually guaranteed to prolong it. On the other hand, if the economy is just beginning to recover, or the recovery, underway for a while, is tentative or fragile, low energy costs would be a critical factor in continuing economic progress. As such imposing a substantial tax at such a critical time could stall the recovery or at least slow it. There is a third, rose colored glasses scenario (which few economists are predicting), under which the economy has fully recovered and growth is on the horizon for the foreseeable future. If this comes to pass, energy prices will already likely be higher than at present and rising as a result of increased demand from industry, the commercial and retail sectors and consumers. At a time of rising energy prices, it is doubtful that consumers will think kindly of a legislature that ladles additional costs onto already higher energy prices. Just recently, voters were calling on legislators to do something – almost anything – to reduce high fuel and electricity prices. Voter's wrath will only multiply if high energy prices driven by demand are exacerbated by new costs, or worse, fuel scarcity, stemming from a new carbon cap-and-trade scheme coming online.

Ineffective for Climate Change

Advocates of climate change legislation argue that avoiding the cumulative environmental impacts of climate change --- including higher sea levels, more powerful hurricanes and the spread of tropical diseases--- far outweigh almost any economic costs. However, there is little reason to believe the emission reductions called for in the legislation would stop or even substantially slow global warming. Thus, they will not prevent the harms warming is predicted to exacerbate.

For instance, research from the National Center for Atmospheric Research reveals that even if all the signatories of the Kyoto treaty met emissions targets by 2012, global temperatures would still be only 0.07 to 0.19 degrees Celsius cooler in 2100 than without Kyoto[6]. This would not be enough to avoid the two to six degree increase in average global temperatures some scientists claim will irreparably harm the environment.

Of the three bills discussed above, only Lieberman-Warner would provide more emission reductions than those required of the United States under Kyoto — the others would fall far

---

[6] Wigley, T. M. L., 1998: *The Kyoto Protocol: CO_2, CH_4 and Climate Implications*. Geophysical Research Letters, **25**, 2285-2288.

short. Yet, even Lieberman-Warner would be ineffective because it is unilateral. Developing countries — such as China, India, South Korea, Brazil and Indonesia — are exempt from current international climate change agreements and would not be covered by domestic legislation. Even if all developed countries stopped using energy entirely, there would be little impact on overall greenhouse gas emissions or atmospheric concentrations. Why? Because fast-growing developing countries are expected to account for 85 percent of emissions growth in the next two decades and beyond. Indeed, China has already passed the United States as the world's largest CO 2 emitter and its economic growth rate is more than three times greater than ours.

The EPA's own analysis indicates that just to significantly slow emissions growth (not even stabilize emissions), the United States would have to meet its emission reduction targets under Lieberman-Warner, other developed countries bound by Kyoto would have to slash their emissions by more than 50 percent below their 1990 levels, and developing countries would have to cut their emissions to 2000 levels by 2035[7].

Conclusion

The benefit promised by recently proposed climate change legislation—lower global temperature---is unlikely to materialize because they don't include developing nations. Moreover, every economic analysis to date indicates domestic legislation proposed to regulate greenhouse gas emissions will harm the U.S. economy and specifically, the most vulnerable in our society--- the poor. Lawmakers should not adopt laws that sacrifice the economic well-being of those living in the United States for nonexistent environmental gains.

Thank you.

---

[7] **Environmental Protection Agency, *Analysis of the Lieberman-Warner Climate Security Act of 2008*, March, 14, 2008**