

Understanding Cap and Trade

“Cap and trade, in other words, is a scheme to redistribute income and wealth -- but in a very curious way. It takes from the working class and gives to the affluent; takes from Miami, Ohio, and gives to Miami, Florida; and takes from an industrial America that is already struggling and gives to rich Silicon Valley and Wall Street ‘green tech’ investors who know how to leverage the political class.” Wall Street Journal, March 9, 2009

The House Energy & Commerce Committee is considering legislation this week to impose so-called “cap and trade” regulations on carbon dioxide. Carbon dioxide is a naturally occurring greenhouse gas.

Many groups, including most politicians, favor reducing CO₂ emissions via a “cap-and-trade” system. Under this system, government would place a cap on total emissions. Then it would either auction or give away allowances to the affected industries, permitting them to emit carbon dioxide. Companies could buy and sell these allowances, trading among themselves or with others.

For consumers as a whole, the effects of a cap-and-trade policy would be similar to that of a carbon tax. The cost of these credits will be passed on in the form of higher prices. Their response will be to reduce their consumption of products that require high CO₂ emissions in their production (law of demand) and to switch to alternative energy-based products (substitution in consumption).

A recent *Wall Street Journal* editorial “Who Pays For Cap and Trade,” stated:

“Politicians love cap and trade because they can claim to be taxing “polluters,” not workers. Hardly, says the Wall Street Journal. Once the government creates a scarce new commodity -- in this case the right to emit carbon -- and then mandates that businesses buy it, the costs would inevitably be passed on to all consumers in the form of higher prices. Stating the obvious, Peter Orszag -- now President Obama’s budget director --

told Congress last year that “Those price increases are essential to the success of a cap-and-trade program.”

Hit hardest would be the “95 percent of working families” Obama keeps mentioning, usually omitting that his no-new-taxes pledge comes with the caveat “unless you use energy.” Putting a price on carbon is regressive by definition because poor and middle-income households spend more of their paychecks on things like gas to drive to work, groceries or home heating.”

According to the Congressional Budget Office (CBO):

- Price hikes from a 15 percent cut in emissions would cost the average household in the bottom-income quintile about 3.3 percent of its after-tax income every year; that’s about \$680, not including the costs of reduced employment and output.
- The three middle quintiles would see their paychecks cut between \$880 and \$1,500, or 2.9 percent to 2.7 percent of income; the rich would pay 1.7 percent.

The National Center for Policy Analysis’ position is that while a direct carbon tax would be preferable to a cap-and-trade scheme, the U.S. should undertake neither, rather we should focus on policies that allow us to adapt or respond to the impacts of future climate change regardless of the cause.

As America seeks to reduce environmental hazards and progress toward energy independence, National Center for Policy Analysis experts focus on implementing energy and environmental policy reforms grounded in sound science

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that focus on economic prosperity and better, more efficient protect of the environment and our natural resources.

Thousands of copies of the National Center for Policy Analysis *Global Warming Primer* have been read by legislators, school children and interested citizens; it takes an objective, sound science approach to the topic. The purpose of this primer is to explore some of the main scientific, economic and political issues surrounding the topic of global warming.

You can read the primer by visiting <http://www.ncpa.org/pdfs/GlobalWarmingPrimer.pdf>.

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- Basing regulations on sound science
- Be willing to make tradeoffs between economic costs and environmental benefits
- Using appropriate environmental safeguards while removing barriers to domestic production and delivery

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