

# THE ECONOMIC IMPACT OF THE WAXMAN-MARKEY CAP-AND-TRADE BILL

*by Ben Lieberman*

Testimony before the Senate  
Republican Conference  
on June 22, 2009



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My name is Ben Lieberman, and I am the Senior Policy Analyst for Energy and Environment in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

I would like to thank the Senate Republican Conference for extending me the privilege of participating in today's hearing. I'll be discussing the costs of the cap-and-trade approach to addressing global warming and The Heritage Foundation's economic analysis of H.R. 2454, the American Clean Energy and Security Act of 2009 (Waxman-Markey). As you know, the House is currently considering this bill, which is similar to but has more stringent targets and timetables than the Lieberman-Warner cap-and-trade bill that was rejected by the Senate last June.

It is clear that cap-and-trade is very expensive and amounts to nothing more than an energy tax in disguise. After all, when you sweep aside all the complexities of how cap and trade operates--and make no mistake, this is the most convoluted attempt at economic central planning this nation has ever attempted--the bottom line is that cap and trade works by raising the cost of energy high enough so that individuals and businesses are forced to use less of it. Inflicting economic pain is what this is all about. That is how the ever-tightening emissions targets will be met.

The only entities directly regulated by Waxman-Markey would be the electric utilities, oil refiners, natural gas producers, and some manufacturers that produce energy on site. So, the good news for the rest of us – homeowners, car owners, small-business owners, farmers – is that we won't be directly regulated under this bill. The bad news is that nearly all the costs will get passed on to us anyway.

What are those costs? According to the analysis we conducted at The Heritage Foundation, which is attached to my written statement, the higher energy costs kick in as soon as the bill's provisions take effect in 2012. For a household of four, energy costs go up \$436 that year, and they eventually reach \$1,241 in 2035 and average \$829 annually over that span. Electricity costs go up 90 percent by 2035, gasoline by 58 percent, and natural gas by 55 percent by 2035. The cumulative higher energy costs for a family of four by then will be nearly \$20,000.

But direct energy costs are only part of the consumer impact. Nearly everything goes up, since higher energy costs raise production costs. If you look at the total cost of Waxman-Markey, it works out to an average of \$2,979 annually from 2012-2035 for a household of four. By 2035 alone, the total cost is over \$4,600.

Beyond the cost impact on individuals and households, Waxman-Markey also affects employment, and especially employment in the manufacturing sector. We estimate job losses averaging 1,145,000 at any given time from 2012-2035. And note that those are net job losses, after the much-hyped green jobs are taken into account. Some of the lost jobs will be destroyed entirely, while others will be outsourced to nations like China and India that have repeatedly stated that they'll never hamper their own economic growth with energy-cost boosting global warming measures like Waxman-Markey.

Since farming is energy intensive, that sector will be particularly hard-hit. Higher gasoline and diesel fuel costs, higher electricity costs, and higher natural gas-derived fertilizer costs all erode farm profits, which are expected to drop by 28 percent in 2012 and average 57 percent lower through 2035. As with American manufacturers, Waxman-Markey also puts American farmers at a global disadvantage, as other food-exporting nations would have no comparable energy-price raising measures in place.

Overall, Waxman-Markey reduces gross domestic product by an average of \$393 billion annually between 2012 and 2035, and cumulatively by \$9.4 trillion. In other words, the nation will be \$9.4 trillion poorer with Waxman-Markey than without it.

It should also be noted that the costs are not distributed evenly. Low-income households spend a disproportionate share of their incomes on energy, and thus would be hit harder than average by Waxman-Markey. Of course, the bill has provisions to give back some revenues to low-income households, but it is likely that these rebates will amount only to some portion of each dollar that was taken away from them in the first place in the form of higher energy costs and higher costs for other goods and services. Waxman-Markey also disproportionately burdens those states, especially in the Midwest and South, that still have a substantial number of manufacturing jobs to lose, as well as those that rely more heavily than others on coal for electric generation. In addition, because the bill raises energy costs, it hurts rural America much more than urban America. Rural Americans, farmers and non-farmers, spend an average of 58 percent more on energy as a percentage of income than their urban counterparts, and those costs would go up.

In conclusion, it's not surprising that support for Waxman-Markey is heaviest in those parts of the country, the urban centers in the West Coast and Northeast, that are least harmed by it. Even there, the economic damage would be bad enough, but the citizens in the rest of the country and their representatives should really be asking many tough questions about the economic impact of cap and trade. Thank you.



**Source:** <http://www.heritage.org/Research/EnergyandEnvironment/tst062609a.cfm>.

