Obama's Cap-and-Trade: Lifeline or Noose?
By Alan Bressler

Throughout his presidential campaign, Barack Obama pledged to address the "crisis" of anthropogenic global warming. Since taking office his cabinet appointments and policy initiatives have not disappointed those who believe such a crisis exists and that America should act boldly and decisively on this front.

In his February 24 address to the nation, Obama said, "I ask this Congress to send me legislation that places a market-based cap on carbon pollution and drives the production of more renewable energy in America." About a month later, Congressmen Henry Waxman (D-CA) and Ed Markey (D-MA) obliged by introducing the cleverly titled "America's Clean Energy and Security Act of 2009" (ACES) on March 31.

The legislation, which hinges on the cap-and-trade regimen favored by the president and key members of his administration, is currently working its way through various committees and subcommittees in the House of Representatives, though many pundits wonder aloud whether it has any chance ever to reach the Senate floor.

In addition to his cap-and-trade proposal and the ACES bill, both the stimulus legislation and the president's 2010 budget contain heavy incentives to move America away from fossil fuel-based energy (the energy form that enabled America to become the envy of the world in terms of standard of living). Obama and his followers on the environmental left promise that this new era of CO2 control and alternative energy development will "save us from the ravages of climate change," will create "green jobs," will enable America to lead the world in clean energy production, and are central to our emergence from the current deep recession.

But are these policies really the economic lifeline for America and a benefit to the planetary environment they have been portrayed to be by the administration and its neo-environmentalist supporters?

Huge New Tax Burdens

When he initially laid out his CO2 cap-and-trade policy, the president stated publicly his expectation that it would raise "revenue" (read: tax) of approximately $650 billion over eight years. But in a briefing to Senate staffers in late February, Jason Furman, deputy director of the National Economic Council and an Obama staffer, said the administration actually believed it could raise two to three times that amount through the cap-and-trade program during that period.

All credible analyses of the costs of a cap-and-trade approach to controlling CO2 emissions suggest it will cost the world 1 to 4 percent of global GDP. The United States is an approximately $14 trillion annual GDP economy. So for America, 1 percent = $140 billion annually, 2 percent = $280 billion annually, 3 percent = $420 billion annually, and 4 percent = $560 billion annually.

Supporters of cap-and-trade have endlessly attacked the 1 to 4 percent of GDP figure, but the Obama administration's own number uttered by Furman seems to kill their argument. Using even two times his publicly stated figure of $646 billion over eight years (which works out to more than $160 billion per year), even Obama admits that estimates of the cost of cap-and-trade in this range are realistic.

Thus it is pointless to argue the administration's numbers vs. the Congressional Budget Office's numbers vs. any number of calculations from top, credible environmental economists across the world (and there are plenty). In terms of what matters domestically, the Obama administration essentially concedes that annual costs in the range of 1 to 4 percent of America's GDP are just the freight we have to pay. Thank you for confirming this for us, Mr. Furman.

No Benefits

Since we now have a basic understanding of the costs of Obama's cap-and-trade policy, it seems appropriate to try and understand the potential benefits. Here too, the peer-reviewed literature helps.

If all Annex I and II nations had signed the Kyoto Protocol, implemented it, met their CO2 emissions reduction targets, and extended these protections in perpetuity, the most likely difference this would make to planetary temperatures by the year 2100 vs. business as usual would be approximately .13 to .20 degrees Celsius. In case you missed the decimal, that's less than a quarter of a degree Celsius, 91 years from now, at a cost of 1 to 4 percent of global GDP. And that means 1 to 4 percent of global GDP not once but annually, from now until the Earth explodes from "global warming" or humanity comes to its senses.

Feel free to fact check these figures. In fact, start with the high church of global warming policy, the United Nations Intergovernmental Panel on Climate Change (UN IPCC), because their own estimates are within this range.

Currently, global annual GDP is approximately $50 trillion. Ergo, 1 percent = $500 billion annually, 2 percent = $1 trillion annually, 3 percent = $1.5 trillion annually, 4 percent = $2.0 trillion annually. (As an aside, ask yourself this question: What could be done to improve the environment and the lot of humanity for this amount of money—or even a fraction of it—each year, every year?)

But alas, these cost/benefit figures assume all Annex I and II nations implement Kyoto, meet their CO2 emissions reduction targets, and extend those reductions in perpetuity. If we assume that China, India, and Brazil will not implement such policies (and they already have indicated they won't, as their bigger priority is pulling millions out of poverty, a goal technologically and financially incompatible with restricting CO2 emissions), the calculated benefit to global temperatures from just the current Kyoto signatories continuing their efforts, plus adding the United States using the Obama administration's cap-and-trade plan, is even less than .13 to .20 degrees Celsius.

If it were clear that taking such drastic measures would surely avert a planetary crisis, there might be an argument for spending such enormous amounts, because the cost/benefit tradeoff would be obvious. But alas, computer models are not clear evidence of harm from anthropogenic CO_2 (they are merely predictions) and no such hard evidence exists. In fact, much evidence to the contrary has been known to scientists for many years, and more arrives almost daily.

At less than a quarter of a degree Celsius by the year 2100—an amount which cannot even be differentiated from natural climate variability—taking such measures today "for future generations" makes no sense at all. In fact, ironically enough, it fits precisely the term Al Gore has used to brand those who disagree with him: "morally reprehensible."

Huge Drag on Economy

It is thus clear that the Obama administration's cap and trade policy will be (a) environmentally inconsequential and (b) extremely costly. The administration also claims that cap-and-trade is a key to our economic growth and emergence from the current deep recession. But in addition to the direct cost (expressed above as a percentage of annual GDP), there is a substantial indirect cost to the economy that is conveniently overlooked by many proponents of cap-and-trade policy.

No one on the environmental left suggests with a straight face that cap-and-trade won't raise energy prices; actually, most proponents are rather proud of this fact and say "that's exactly the point." Raising energy prices has a demonstrable negative effect on economic growth. This is not just a computer model projection or hypothesis; it has been proven true in the real world over and over again. Witness the drag on the U.S. economy caused by high energy prices in the past, including as recently as the summer of 2008. Since it is a foregone conclusion that cap-and-trade will raise energy prices, it is safe to bet the farm that such a policy will have a long-term negative effect on U.S. GDP growth, in addition to the direct cost in the range of hundreds of billions of dollars per year.

Annual U.S. GDP growth in the twentieth century averaged approximately 3 percent in real dollars. If we hinder this growth by even 1 percent of total GDP (one-third of our average GDP growth) through a cap-and-trade CO_2 policy, as many credible analyses show, it is difficult to see how such a policy can be viewed as creating future economic growth and a way out of the current recession.

Inefficient Pursuit of Other Goals

Obama and left-leaning environmentalists also portray cap-and-trade as a means of creating "green" jobs. However, academic analyses of the potential green jobs created by the administration's cap-and-trade proposal, the green jobs elements of the recently passed stimulus bill, potential green jobs related to Obama's renewable energy standard preferences (25 percent of electricity from renewables by 2025), and the experiences with green job creation in many

European Union countries all suggest that using such means to create job growth is a net negative to society.

A recently released study from Spain's Juan Carlos University on Spain's renewable energy initiatives, for example, found that for every "green" job that was created, 2.2 "dirty" jobs were destroyed. Yet Obama regularly holds Spain out as a shining example of the "green jobs" policy he favors.

Punishing fossil fuel-based energy, closing coal-fired power plants, shifting to alternative forms of energy with much higher costs, and transforming 100 years of energy use patterns overnight with the stroke of a pen will eliminate many jobs in the power and utility, heavy manufacturing, steel, cement, and other energy-intensive industries. Many of these jobs will simply head to countries without strict CO2 emissions regulation.

In effect, we will have willingly created a situation where the United States experiences net job losses and at the same time exports "carbon leakage," where domestic CO2 reductions are more than offset by increases in emissions in another country, hampering our economy while helping the economies of developing countries (some of which, like China, are direct competitors). And we will have done so in the hope of an environmentally inconsequential effect on the planet's climate that we will fail to achieve.

Finally, the Obama administration portrays its cap-and-trade proposal as a critical means of funding "alternative energy research and development." Spending a portion of GDP to develop future low- or no-carbon energy supplies that lessen our dependence on foreign oil would likely be a good thing for America, even if it provides no meaningful effect on global climate. But is a cap-and-trade policy the best means of providing funds for this purpose?

The initial figures coming from the Obama administration suggested that $646 billion in "revenue" (read: taxes) would be raised via its cap-and-trade proposal for the period 2012-2019, and that $150 billion of this would be dedicated to clean energy R&D. That means only 23 percent of the cap-and-trade tax money will go to alternative energy R&D. Regardless of whether we use the administration's figures, the Congressional Budget Office's figures, or any other analysis to arrive at the total direct cost (the so-called "revenue"), we can assume that 23 percent of the actual revenue will go to fund alternative energy R&D if Obama gets his way.

By his own administration's measure, then, every dollar spent on alternative energy R&D will cost us $4.35 under Obama's cap-and-trade plan. If we want to spend $15 billion or so per year on alternative energy R&D—a wholly worthwhile pursuit at some level of expenditure—wouldn't we be better off directly burdening the U.S. economy to the tune of $15 billion per year than $81 billion per year (or as much as $240 billion per year by Mr. Furman's own admission)?

Real Agenda: Redistribution of Wealth

All of this brings us right back to the title of this article. Is Obama's cap-and-trade policy for controlling CO2 emissions and saving the planet "from the ravages of climate change" (his words, certainly not mine), creating "green jobs," and reconstituting America as the global epicenter of clean energy really a lifeline or a noose? Before we decide, let us quickly review:

* We have credible evidence suggesting the president's cap-and-trade policy won't affect the global temperature in any amount distinguishable from natural climate variability, with or without the participation of China, India, and Brazil.

* We have the Obama administration itself telling Senate staffers that the real direct cost of this policy is within the range of 1 to 4 percent of U.S. GDP every year.

* We have credible analyses suggesting we will lose one or more "dirty" jobs for every "green" job we create (no net gain, possibly worse).

* By the administration's own figures, only 23 percent of the tax money raised via cap-and-trade will go towards alternative energy R&D.

Hidden Agenda?

Since cap and trade won't fix "global warming," will be very costly for a minuscule (if any) climatic benefit, won't be a net job creator for the U.S., and is a poor means of funding alternative energy R&D, might there be something else going on here? The answer lies in the numbers.

If 23 percent of the tax money raised from Obama's cap-and-trade policy is going toward alternative energy R&D, then 77 percent is going somewhere else. Where is all that money going? Most of it is going to two specific purposes.

First, a significant portion of this 77 percent will come right off the top and be used to fund the new gargantuan bureaucracy to administer CO2 emissions regulations and the cap-and-trade program itself. During the debate over Lieberman-Warner-Boxer last summer, it became obvious that 40 or more new agencies, departments, or other edifices of government would have to be created to administer the program. CO2 emissions allowances have to be calculated, tracked, and enforced. The legislation would create an entirely new government commodities market in CO2 emissions allowances out of thin air, and that would require regulation, monitoring, and other administrative efforts. These examples merely scratch the surface.

Second, as has become obvious over the past two months, the administration plans to use something on the order of 50 to 70 percent of the revenue raised from his cap-and-trade plan to directly provide "middle class" tax cuts, much of them to people who are already essentially net tax consumers rather than net sources of tax revenue.

All of this is to say that what's really going on here isn't about saving the planet, efficiently funding alternative energy R&D, creating green jobs, or helping America emerge from the current recession. What it is really about is using the Teflon shield of environmental apocalypse as one of many means to pay for Obama's wealth redistribution agenda. As an added benefit, neo-environmentalists love cap-and-trade because it puts the brakes on economic growth, redirects America away from consumerism (which they blame for all planetary ills), and shifts more power to the government. A "three-fer," if you will.

Are we really in a position right now to impose a huge added cost on society, burden our economic recovery, drive more manufacturing jobs overseas, and pay for tax breaks for people who don't pay taxes, all for something that is inconsequential to the planet's climate?

America may need a lifeline, but what it doesn't need is to be sold a lifeline that turns out to be a noose.

Alan Bressler is a policy advisor to The Heartland Institute and president of a corporation that deals with the environment and real estate.