

Global Challenge, Domestic Gamble

Economic realities complicate climate change legislation

By Mike Federman

With the world watching, the United States is struggling to draft climate change legislation that reduces carbon emissions without hamstringing the economy.

The U.S. House passed its version of climate change legislation in June by the slim margin of 219-212.

H.R. 2454, or the American Clean Energy and Security Act of 2009, calls for a 17-percent reduction in greenhouse gases by 2020 and an 83-percent reduction by 2050 based on 2005 levels.

To reduce pollution under H.R. 2454, an emissions cap would be placed on greenhouse gases, primarily carbon dioxide from the burning of fossil fuels. In the energy sector, this means curbing emissions from coal, natural gas and diesel used to generate electricity.

A U.S. Senate bill similar to H.R. 2454 was introduced in draft form in September. Senate Bill 1733 differs slightly from H.R. 2454 by calling for a 20-percent reduction in greenhouse gases by 2020 and an 80-percent reduction by 2050 based on 2005 levels.

The draft bill also eliminates cap-and-trade terminology. It labels greenhouse gas trading provisions as a "pollution reduction and investment" program.

Senate committee hearings on climate change legislation were announced for late October.

There is an urgency by some to act before the international community meets in Copenhagen, Denmark, in

December to discuss global warming.

The world climate conference is expected to be attended by more than 120 countries, with the goal of devising a plan to replace the 1997 Kyoto Protocol.

The United States never ratified the Kyoto Protocol. China and India rejected the agreement's mandatory emissions limits. The Obama administration has said any new international pact must include emission restrictions for developing nations.

Despite its desire for credibility on the issue, the United States has been criticized by the international community for its perceived lack of leadership.

President Obama countered that criticism in a speech to the United Nations during a one-day climate change summit in September.

"The United States has done more to promote clean energy and reduce carbon pollution in the last eight months than at any other time in our history," Obama said, noting a federal investment to double renewable generation in three years.

Republican Sen. James Inhofe of Oklahoma panned Obama's speech as lacking specifics and demanded that "any treaty or agreement avoid causing harm to our economy."

The Cost in Real Dollars

Determining how climate change legislation will affect the average American pocketbook is complicated and often contradictory. Financial forecasts are based on numerous variables.

Republican leadership this spring



said a 2007 study by the Massachusetts Institute of Technology (MIT) indicated the annual cost of climate change legislation would be \$3,100 a year per household.

Information in a more recent internal U.S. Treasury Department memo was taken by some to mean Americans could see a \$1,761 annual increase in household expenditures because of climate change legislation.

Treasury and MIT spokespeople responded to these claims, saying their data was misinterpreted and the resulting dollar amounts were incorrect.

Much of the data in the MIT study focuses on emission reductions based on 1990 levels rather than 2005 levels proposed in the House and Senate bills.

An analysis of H.R. 2454 by the U.S. Environmental Protection Agency suggests the economic hardships would be modest, with an average annual cost increase between 2010 and 2050 of less than \$150.



How these costs are determined is somewhat elusive because projections are not based solely on one indicator, such as an increase in household energy costs due to pressure on industry to reduce carbon emissions.

A higher-than-expected increase in one of many commodities would affect economic modeling.

The nonpartisan Congressional Budget Office (CBO) released a report in September that separates incomes into five categories and bases its data on a household's overall purchasing power.

The lowest income households would actually see a gain of \$125 in purchasing power by 2020 under provisions in H.R. 2454. Middle and upper-middle income households would lose as much as \$375 in purchasing power.

By 2050, middle and upper-middle income families could see their purchasing power decrease by about \$600 to \$800 based on 2010 income levels.

The CBO report says the U.S. gross

domestic product (GDP) could shrink by as much as 3.4 percent by 2050, although inflation-adjusted costs to households would be smaller than changes in GDP.

The report acknowledges there is no financial consideration of the potential economic benefits from a cleaner planet through fewer carbon emissions.

Theory in Practice Still Vague

To meet goals outlined in H.R. 2454, the CBO report identifies a combination of changes that need to occur:

- The U.S. economy transforms from one that runs on carbon-emitting fossil fuels to one that relies increasingly on nuclear and renewable fuels.
- Substantial improvements are made in energy efficiency.
- There is large-scale capture and storage of carbon dioxide emissions.

The report emphasizes the importance of how climate change policy is designed and implemented as having the greatest impact on how well it meets its goals and

the effect it has on the economy.

Policy-makers could counteract the impact of a cap-and-trade program—energy cost increases and the resulting shifts in income—by having the government sell emission allowances.

While the revenue from these allowances could be returned to businesses and households, it would not fully compensate the financial burden at all income levels, according to the CBO.

A recent ABC News/Washington Post poll found that a small majority, 52 percent, of Americans support cap and trade for reducing carbon emissions. Even if their monthly electric bill increased by \$10, 58 percent still support this energy policy.

But when the personal cost escalates, those same Americans quickly put the brakes on cap and trade, with 59 percent opposing a significant increase in their electric bill. ■

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Online Resources

Several federal agencies and nongovernmental groups have weighed in on the economic impact of climate change legislation.

- ▶ Documents related to H.R. 2454—including the bill's full text, the analysis by the U.S. Environmental Protection Agency mentioned in this story, and an analysis by the U.S. Energy Information Administration—can be found under "Publications" at <http://energycommerce.house.gov>.
- ▶ An analysis by the Congressional Budget Committee mentioned in this story and a summary can be found at www.cbo.gov/doc.cfm?index=10573.
- ▶ The 2007 Massachusetts Institute of Technology study mentioned in this story can be found at http://globalchange.mit.edu/pubs/abstract.php?publication_id=718.
- ▶ To read Senate Bill 1733, with majority and minority opinions related to the draft legislation, go to the U.S. Senate Committee on Environment and Public Works Web site at <http://epw.senate.gov>.