Opinion Exchange

Climate-change policies come with a price tag

- A study projects job losses, lower incomes and higher basic costs. This should be part of the discussion.

By MARGO THORNING

As Congress considers far-reaching federal climate-change legislation, there has been far too little discussion on the economic costs such policies would impose at the state, local and household levels. Make no mistake: From a financial standpoint, the burdens for Minnesotans would be substantial.

Add to this that Minnesota is considering state-specific and regional-climate change proposals, and it is clear that it is time to have an honest discussion on the potential economic impact such policies would have on families, businesses and governments.

The primary federal legislation set for debate in Congress, the Climate Security Act of 2007 — sponsored by Sens. Joe Lieberman, an independent from Connecticut, and John Warner, a Republican from Virginia — would establish a cap on the emission of greenhouse gases resulting from economic activities. The federal cap seeks to stabilize the concentration of these gases, with the goal of reducing 2005 emission levels 65 percent by 2050.

Efforts at both the federal and state levels are undoubtedly motivated by sincere desires to pass on a cleaner environment to future generations. Yet, these efforts overlook critical economic realities that are likely to undermine an already weakened economy and reduce living standards for decades. The question for lawmakers is whether they believe the anticipated benefits can be achieved and at what economic costs.

The Lieberman-Warner legislation would involve dramatically curtailing the burning of fossil fuels, which are used in 66 percent of primary energy production nationally. Thus the effect of such caps would be to raise the price of energy, thereby discouraging its use. In that sense, the cap on emissions serves as a sizable tax on energy use.

Energy is a significant chunk of state and local budgets. Rising costs will result in higher taxes or reductions in spending.

Let's consider the costs to the state economy should the federal bill alone become law. A recent American Council for Capital Formation and National Association of Manufacturers study conducted by the Independent Science Applications International Corporation assessed the national and state economic impacts of Lieberman-Warner. Estimates for Minnesota include:

- Gross state product losses of up to $4 billion in 2020 and up to $12.6 billion per year in 2030.
- Employment losses of up to 32,735 jobs in 2020 and up to 74,569 jobs in 2030.
- Household income losses of up to $3,455 per year in 2020 and up to $8,201 per year in 2030.
- Electricity price increases of up to 39 percent by 2020 and up to 153 percent by 2030.
- Gasoline price increases (per gallon) of up to 67 percent by 2030 and up to 140 percent by 2030.
- Natural-gas price increases of up to 38 percent by 2020 and up to 153 percent by 2030.

Moreover, the federal legislation places a disproportionate burden on low-income earners and fixed-income earners such as seniors. These groups spend a greater percentage of their personal budgets meeting basic needs, including home heating, cooling and transportation needs, all of which are energy-intensive. By 2020, the higher energy prices resulting from new federal regulations and taxes will mean that low-income families in Minnesota will be spending 16 to 18 percent of their incomes on energy costs alone.

We must also consider what’s in store for state and municipal governments and for those who rely on their services. Basic energy costs are a significant chunk of state and local budgets. Consider that municipal utilities use electricity to light Minnesota's 3,454 schools and universities, as well as some 147 hospitals. Electricity price increases of more than 150 percent by 2030 translates into a sizable rise in operating costs for state and local governments — a rise that will have to be paid for through higher taxes or reductions in spending and services.

And remember that local governments fill the fuel tanks of their police cars, garbage trucks and fire trucks with carbon-emitting fuels. Under these new emissions caps, per gallon gasoline prices will climb even more rapidly than today, further straining operating budgets.

What's more, by raising the costs of a key input into local economies — energy use — the federal legislation will stifle employment and overall job creation. A serious ripple effect will likely result. Less employment will mean a smaller tax base, which in turn will affect state budgets and local economies. And by expanding the unemployment and welfare rolls, these increased financial burdens will ultimately drive up state assistance and welfare costs.

What is most worrisome about proposed policies now being considered at both the federal and state level is not just the costs, but that the benefits are unknown. Keep in mind that China recently surpassed the United States as the world's largest emitter of greenhouse gases. But China is not engaged in emission-reduction efforts, nor is India, or other fast-growing developing economies. The net effect is that any sacrifice made by Americans will be overwhelmed by emissions increases in other countries.

So as lawmakers ponder whether to support federal and state climate-change policies, they need to decide whether the benefits of such measures are worthwhile given the high costs they would impose.

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