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New Heritage Memo Answers Age-Old Question: How Much Biased Economics Can Right-Wing Money Buy?

*In Criticizing CBO's Analysis of Climate Legislation,
Heritage Foundation Reveals Its Own Ignorance of Economics*

The Congressional Budget Office — the nonpartisan Congressional agency charged with reviewing legislation and budgets — recently completed an analysis of the climate legislation that is currently under discussion in Congress, HR2454, the American Clean Energy and Security Act (ACES). CBO estimated the cost of ACES to American households in the year 2020, and found that the number would be just \$175 per year — or just two-tenths of a percent (0.2%) of after-tax income.

Not surprisingly, the well-funded supporters of the status quo are trying to discredit the CBO's work. A case in point is the recent "Web Memo" and accompanying blog post written by the Heritage Foundation, titled "CBO Grossly Underestimates Costs of Cap and Trade." Not surprisingly, Heritage's arguments fail to hold up under examination. Their analysis once again shows just how much biased economics, empty rhetoric, and gross exaggeration a pile of right-wing money can buy. But it tells us little about climate legislation.

- *Heritage claims that the allowance cost numbers don't add up. FALSE.*

It's Heritage that gets the math wrong. Too lazy to model the actual legislation, Heritage simply multiplied the number of emission allowances available in the 2020 by the CBO's estimated allowance price, to get \$141 billion. That's larger than CBO's estimate of total allowance cost, which is \$94.1. But the difference is not hard to understand — in fact, CBO explains it quite clearly. The beauty of a cap-and-trade program is that it gives firms flexibility: the flexibility to reduce emissions by more than necessary, in order to build up a bank of allowances for later use; and the flexibility to buy high-quality offset credits for verified emissions reductions from sources outside the cap. That's why CBO also includes in its estimate of gross cost the estimated costs of purchasing those offsets — something Heritage completely ignores. The bottom line is that the flexibility of the market lowers the gross cost of compliance.

- *Heritage claims that CBO omits "economic damages from restricting energy use". FALSE.*

Heritage seems to be confused by the fact that CBO does not include an explicit GDP forecast. But that doesn't mean the CBO's analysis is not comprehensive. In its analysis of ACES, CBO estimates the full range of gross compliance costs to the economy, including the real economic costs of the program — that is, the resource costs associated with cutting

pollution and moving to a clean-energy economy. Those costs are fully taken into account in the \$175 figure cited above.

CBO's analysis focuses on household-level costs. Instead of using a "general equilibrium model," CBO relies on a survey of other models to estimate an allowance price, and then uses detailed data on production and consumption patterns to model how that allowance price would spread throughout the economy as currently structure.

For macroeconomic GDP impacts, we can look to the analysis of the legislation released by EPA. In 2020, EPA's modeling of GDP impacts in its core policy scenario ranges from a reduction of 0.6% to an *increase* of 0.1%.

- *Heritage claims that CBO's analysis is an "accounting analysis, not an economic one."* **FALSE.**

The argument here is basically the same one as in the point above. While it is true that CBO does not employ a dynamic general equilibrium model, it is completely false to suggest that CBO's analysis is not an economic one. Rather than using its own model, CBO surveys a wide range of dynamic general equilibrium models and comes up with a parameter that estimates the allowance price needed to achieve a given pollution reduction. As explained above, that allowance price is then fed through detailed data on production and consumption to estimate household impacts.

The Heritage analysts seem have made the elementary mistake of confusing the CBO's earlier "scoring" estimate of the legislation — which *is* an accounting exercise — with the estimate of the costs of climate legislation — which is a full-fledged economic analysis.

The key point here is that CBO's study does estimate the real economic costs of reducing global warming pollution. And it still finds those costs to be tiny — less than 50 cents a day per household.

- Finally, in its ill-founded attack, Heritage continuously refers to its own modeling of the economic impacts of ACES. Their analysis is based on unrealistic assumptions, some of which are completely contrary to the actual provisions in the bill, resulting in an ungrounded analysis that does not accurately model what the effects are likely to be.

Let's take a look at the facts. The CBO concluded that the net annual economy-wide cost of the cap-and-trade program in 2020 would amount to about \$175 per household (which includes all the costs of the policy). What's more, CBO predicts that households in the lowest income quintile will see an average *net benefit* of about \$40 in 2020.

And the CBO isn't the only one that predicts low costs for ACES. The EPA, which sets the gold standard in terms of peer-reviewed, transparent analysis, concluded that over the entire life of the legislation, the costs of cutting carbon pollution under ACES would only be about \$80 to \$111 per year for the average American household. That's about a dime a day per person.

And remember: all of these cost estimates are only looking at one side of the ledger—they don't incorporate the *benefits* of addressing the climate crisis.