ENVIRONMENTAL DEFENSE FUND

finding the ways that work

Heritage Receives "F" on Latest "Fact Sheet" on Climate Legislation

The Heritage Foundation has come out with yet another set of distortions about climate economics. We've graded their effort — and given it an F. Here's our assessment.

The Heritage Foundation
LEADERSHIP FOR AMERICA

THE HIGH COST OF CAP AND TRADE
Why the EPA and CBO Are Wrong

The EPA Is Wrong

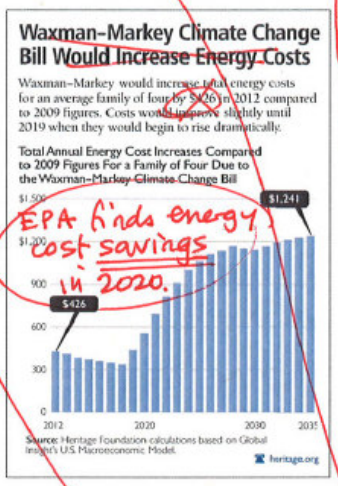
- **False Assumptions:** Proponents of cap and trade point to the low cost estimates by the EPA and CBO as a reason to pass Waxman–Markey. The EPA underestimates that the bill would cost households an additional $140 a year.
- **Based on Consumption:** The EPA's numbers are based on consumption changes, which are typically less than income changes, as families respond to income losses by saving less.
- **Uses Discounting:** Discounting is a reasonable approach for comparing costs and benefits that occur at widely different times. However, costs of climate change rarely use a discounted rate this high. Without discounting, the impact per household is $1,288 in 2050. Adjusting household size to reflect a family of four raises this cost to over $1,900.
- **Assumes Rebates:** The EPA assumes all the allowance proceeds will be rebated directly to consumers. This clearly isn't the case, since most of the allowances have been promised to industry.
- **No New Taxes?** The loss that the EPA calculates doesn't include the cost of the energy tax to consumers, since the EPA assumes that all of the money is rebated. The cost of the energy tax is actually $4,000 per family of four in 2035.

The CBO Is Wrong

- **False Assumptions:** CBO underestimates that the bill would cost households $175 in 2020. They assume that the carbon tax isn't a tax if the government spends the money. When have Americans ever seen all of a tax returned to them? It's like suggesting your tax rebate will be as large as the amount taken from your paycheck every year.
- **Numbers Don't Add Up:** The CBO's allowance cost numbers don't add up. They say the allowance price will be $28. Since there are 5.056 billion tons of CO2 equivalent in the cap that year, that implies a $141 billion gross cost. They list $91.4 billion.
- **Hard to Believe:** In the CBO's June 5 analysis, they projected allowance revenues of $119.7 billion, $129.7 billion, $136 billion, $145.6 billion and $152.9 billion for the years 2015–2019. It's hard to believe that the next number in that series would be $91.4 billion.
- **Ignores Economic Damage:** The CBO doesn't include the decrease in GDP as a result of the bill. The GDP hit in 2020 would be $161 billion (in 2009 dollars) according to our analysis. For a family of four, that is $1,870 that they ignore.

Cap and Trade Is Wrong

- **It's a Massive Energy Tax**
- **It Will Not Make a Substantive Impact on the Environment**
- **It Will Kill Jobs**
- **It Will Cause Electricity Bills and Gas Prices to Sharply Increase**
- **It Will Outsource Manufacturing Jobs and Hurt Free Trade**
- **It Will Make You Choose among Energy, Groceries, Clothing, and Haircuts**
- **It Will Be Highly Susceptible to Fraud and Corruption**
- **It Will Hurt Senior Citizens, the Poor, and the Unemployed the Worst**
- **It Will Cost American Families Nearly $3,000 a Year**
- **President Obama Admitted "Electricity Rates Would Necessarily Skyrocket" Under His Cap-and-Trade Program** (January 2008)



For more information, please visit: ***http://www.heritage.org/News/Cap-and-Trade-Global-Warming-Bill.cfm***

Fact Sheet #34 June 24, 2009

GRADE F

EPA uses two of the most widely respected, peer-reviewed, transparent models available.

Not true. In its updated analysis, EPA estimates the cost at just $80 to $111 per household per year. That's about a dime a day per person.

WRONG - See above.

See note on GDP.

Since consumption is a fraction of income, the impacts are smaller as a proportion of income

EPA finds energy cost savings in 2020.

Discounting is a perfectly standard approach to relate current and future costs. EPA uses a discount rate of 5 percent, on the low end of the common range.

Actually, over 40% of allowance value will go directly to households (vs. a little over 20% going to industry.) EPA's revised analysis took full account of the bill's allocation provisions.

It's Heritage that can't do math. CBO's figure takes into account banking and offsets, two key cost containment provisions in the bill

Actually, CBO does take the full economic cost of emissions reductions into account, using a survey of general equilibrium models.

Heritage's analysis is based on a number of biased assumptions, and ignores or misrepresents key provisions in the bill.

For the real story on the economics of climate policy, go to http://www.edf.org/economics