

Top 10



TOP 10 REASONS TO OPPOSE CAP AND TRADE

By: Rob Jordan

Nancy Pelosi has repeatedly stated that Cap and Trade will be a priority for the 111th Congress. Embraced some years ago in Europe and a few other countries, cap and trade creates an artificial market for various industries to buy, sell, and trade allowances that permit a certain amount of carbon output. It has long been on the wish list for American liberals and extremist environmentalists. And with Democrats now in control of Congress and the White House, you can bet they will soon engage an all effort to enact cap and trade. In fact, in the 2010 White House budget, President Barack Obama calls for a sweeping cap and trade program that would raise \$646 billion in new revenues. *Here are FreedomWorks' Top 10 reasons why they shouldn't...*

1. It will raise energy costs: While different nuanced approaches continue to surface, any analysis of any cap and trade scheme comes to the same conclusion; energy costs will go up. The latest serious attempt to enact cap and trade in the United States, America's Climate Security Act of 2007 sponsored by Sens. Joseph Lieberman (I-CT) and John Warner (R-VA), serves as a good example. [An analysis](#) of this legislation cited during a Senate hearing held by the Committee on Environment and Public Works estimated the costs to the average American household would be between \$800 and \$1,300 by 2015, and then increasing to \$1,500 to \$2,500 by 2050.

2. It doesn't help the environment: If energy costs are going to go up for Americans, shouldn't there be significant environmental benefit and progress towards reversing climate change? You would think so. But even if the most aggressive of cap and trade schemes were properly adhered to, scientists that both advocate and oppose a cap and trade program widely agree that the maximum drop to the earth's temperature would be no more than 0.07 degrees Celsius by the year 2050. To give some sense of just how negligible this decrease would be, we cannot even estimate [the absolute mean surface temperature](#) of the earth within 0.07. What's worse is that cap and trade actually provides incentives to emit more carbon, not less. An article by the [Christian Science Monitor](#) explains: "By turning carbon emissions into commodities that can be bought and sold, cap-and-trade policies could remove the stigma from producing such emissions." In other words, if industries understand they are working within a legal framework when they output carbon, the public pressure for them to cut down is weakened. Evidence of this can be seen in Europe where most countries have seen carbon emissions go up, even though the European Union has had a cap and trade regime in place since 2005.

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3. It doesn't work where it has been tried: Speaking of Europe, let's take a closer look at how cap and trade is failing. As mentioned earlier, the EU is watching carbon emission levels rise despite the fact that they have had a cap and trade system since 2005. Furthermore, [the Heartland Institute](#) reports that 12 of the 15 EU nations taking part in the 1997 Kyoto Protocol, a program that sets greenhouse gas reduction targets and serves as a precursor to cap and trade, are failing to meet their reduction targets, with three going over by more than 10 percent and another three going over by more than 20 percent. In fact, emissions for all EU countries went up on average 2.1 percent between 2000 and 2004. Compare this with the United States where currently no such regulatory regime exists and yet emissions went up only 1.3 percent during the same time period. Nonetheless, President Obama has announced an aggressive set of targets for reducing greenhouse gas emissions, promising to "work expeditiously with key stakeholders and the Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050."

4. It will cost Americans jobs: This calculation is a pretty simple one. For U.S. industry to comply with a cap and trade scheme, they have to reduce their carbon emissions. There are two ways to do this: (1) produce less – this obviously hurts jobs as companies would seek to streamline their workforce to compensate for a drop in production, or (2) buy carbon allowances in order to keep production up – this, too, would threaten jobs as companies would be forced to devote more internal resources to allowances, negatively effecting their bottom lines and potentially putting workers on the chopping block. In either case, the rising costs of energy under a cap and trade system, as mentioned earlier, only add to the problem. [An analysis](#) conducted by Charles River Associates in 2007 estimated anywhere from 1.2 million to 2.3 million jobs would be lost under a cap and trade scheme.

5. It is in effect a hidden regressive tax: We've talked about how cap and trade causes energy prices to go up. That doesn't just hit American industry, but American consumers as well. [The Congressional Budget Office \(CBO\)](#) correctly notes that as these prices go up in the form of higher gasoline, heating oil, and electricity, the poor are hit hardest with what is in effect a hidden regressive tax. President Obama promises to return revenues to vulnerable communities, families and businesses, but that leaves taxpayers at the whim of government to redistribute income rather than letting taxpayer keep their hard earned dollars.

6. It sets a dangerous precedent: While extremist environmentalists and their liberal allies have been whining about climate change for years, most stop short of declaring cap and trade the silver-bullet solution. Environmental groups like the Sierra Club and the National Resources Defense Council are generally supportive of the concept of cap and trade. However, as [The Heritage Foundation](#) has pointed out, these groups have found fault with actual proposals such as America's Climate Security Act of 2007, criticizing them for not going far enough and willing only to endorse them as "a good first step." As much damage as a cap and trade scheme would cause in its own right, this posture by extreme environmental groups foreshadows even more draconian regulations in our future.



7. It prevents market forces from working for the environment: The market distortions imposed by a cap and trade system would be significant. Recently, major energy companies such as [ExxonMobil](#) and [Shell](#) have invested hundreds of millions of dollars in technologies that capture and store carbon as well as lower carbon alternative energy sources. A cap and trade system however, sets up perverse incentives that will distract these and other companies from market-based solutions to curb carbon output. Resources instead will be funneled to the artificial market for carbon allowances that cap and trade sets up.

8. It threatens to put the U.S. at a competitive disadvantage with other countries: Though the E.U. and the United States may be buying into cap and trade, industrial giants like [China and India](#) are not. Remember the lost jobs we talked about in point #4? In addition to China and India, nearby Mexico (another country where cap and trade is not even a remote possibility) are more than willing to pick up the U.S. slack and bolster their already robust manufacturing sectors.

9. It opens the door to massive fraud and corruption: As energy companies look to game the system, cap and trade would open the door wide for fraud and corruption that could devastate U.S. investors and the economy as a whole. This has been seen already in the UK, a country currently participating in cap and trade. In a recent article by the British-based [Guardian](#) newspaper they report: “Britain’s biggest polluting companies are abusing a European emission trading scheme (ETS) designed to tackle global warming by cashing in their carbon credits in order to bolster ailing balance sheets.” In the United States we have seen what happens when companies engage in creative accounting measures to hide losses and the staggering domino effect it can have on Wall Street investors and the larger economy. If you need more proof of this threat, look no further than this report by [The Competitive Enterprise Institute](#) that discusses Enron’s support for a cap and trade scheme that would allow them to dominate this new, made-up market for carbon.

10. It threatens to bust the federal budget at a time when the United States can scarcely afford it: Federal spending continues at a breakneck pace. The recent passage of the trillion-dollar stimulus bill along with even more taxpayer funded bailouts looming on the horizon add to U.S. budget woes and sink us deeper into recession. And as if times weren’t tough enough, [the CBO](#) reports that cap and trade would heap additional undue pressure on our fragile budget. According to their report, government would face the same challenges with higher energy costs that consumers do. Additionally, the fall in production for U.S. industry would lead to a loss of federal government tax revenues. Further increasing spending while decreasing revenues makes cap and trade a tough sell in the current economic climate.

