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Research & Commentary: President Barack Obama's Cap-and-Trade Plan

The Obama administration, with overwhelming support from the majority party in Congress, is promoting a carbon emissions cap-and-trade plan that could spell disaster for the nation-- especially given the United States's current economic crisis.

The costs of such legislation would be staggering. Jason Furman, deputy director of the White House National Economic Council, recently told Senate Energy Committee staff the plan would raise "two to three times" the budget's original \$646 billion revenue estimate, or roughly between \$1.3 trillion and \$1.9 trillion between fiscal years 2012 and 2019.

Cap-and-trade assigns a specific carbon emissions allowance to utility companies and manufacturing facilities. Companies/facilities that produced more emissions than allowed would be required to purchase allowances from companies/facilities that didn't use all of theirs. The cost of such purchases would be passed on to American consumers.

The European Union has tried a cap-and-trade program similar to the one proposed by the Obama administration. Since the program's inception, emissions have risen more rapidly, as a share of GDP, in Europe than in the United States. Moreover,

- High carbon allowance costs have caused manufacturing plants to shut down for portions of the day. Shutting down and starting up these plants is not energy-efficient.
- Countries with lenient environmental regulations, such as China, are profiting as firms move production and purchasing to places where it's less expensive to do business.
- Energy prices for European citizens have increased dramatically.

Europe's cap-and-trade program has been plagued with fraud and corruption. *The Guardian* reports, "Britain's biggest polluting companies are abusing a European emissions trading scheme (ETS) designed to tackle global warming by cashing in their carbon credits in order to bolster

ailing balance sheets." Politically connected companies in Europe have been found to be selling "unused" credits without actually reducing emissions.

In the United States, a carbon dioxide cap-and-trade system would hurt the nation's economy and citizens' financial well-being. Studies have found that a modest cap-and-trade system to limit carbon emissions to levels established by the Kyoto Protocol (7 percent below 1990 levels) would reduce domestic economic growth by almost 2 percent per year, increase gasoline prices by 53 percent, and raise other energy prices by 86 percent.

The following articles shed light on the environmental and economic consequences of cap-and-trade policies.

Cap-and-Trade Would Stifle Economy, Delay Transition to Cleaner Fuels

<http://www.heartland.org/Article/22944/>

The George C. Marshall Institute outlines the practical difficulties in implementing a cap-and-trade system, as well as its negative effects.

Beware of Cap-and-Trade Climate Bills

<http://www.heritage.org/Research/Economy/wm1723.cfm>

The Heritage Foundation looks at several government studies, summarizes serious problems a cap-and-trade system would cause, and questions the basis for such legislation.

Cap and Trade's Economic Impact

http://www.cfr.org/publication/18738/cap_and_trades_economic_impact.html?breadcrumb=%2F

Five individuals who work in climate science and economics describe how a cap-and-trade policy would affect the United States economy.

Europe's Problems Color U.S. Plans to Curb Carbon Gases

http://www.washingtonpost.com/wp-dyn/content/article/2007/04/08/AR2007040800758_pf.html

This article highlights some of the major problems Europe is facing due to cap-and-trade, and how a U.S. cap-and-trade system might face similar problems.

Britain's Big Polluters Accused of Abusing EU's Carbon Trading Scheme

<http://www.guardian.co.uk/business/2009/jan/27/industry-abusing-ets-carbon-trading>

The London-based *Guardian* takes a look at corruption that has plagued the European Union's cap-and-trade system.

Cap-and-Trade: A Bad Tradeoff for the Economy and Company Earnings

<http://www.freeenterpriser.com/documents/Capital%20Comment%201.pdf>

The Free Enterprise Education Institute summarizes the costs and problems inherent in a cap-

and-trade system, especially the harm it would do to economic growth.

Oil and Gas Industry Livid Over New Estimate of Cap-and-Trade Revenue

<http://www.energytribune.com/articles.cfm?aid=1454>

This article explains how the "White House expects its cap-and-trade climate program to raise 'two-to-three times' more revenue than originally envisioned in its February budget proposal."

Why Cap-and-Trade Could Backfire

<http://www.csmonitor.com/2008/0716/p09s02-coop.html>

Environmentalists claim that capping greenhouse gas emissions and creating a market for emissions trading would reduce carbon dioxide output. But it could achieve the opposite.

Potential Costs to America From Cap-and-Trade

<http://www.humanevents.com/article.php?id=26621>

If you think energy is expensive now, warns *Human Events*, just wait until President Obama, working with a Democratic-majority Congress, implements cap-and-trade rules tailored for the greatest possible gain for special interests and the highest possible costs to consumers and taxpayers.

Cap & Trade: Why it's Tax & Spend

http://www.nypost.com/seven/06022008/postopinion/opedcolumnists/cap_trade_why_its_tax_spend_113509.htm

According to the *New York Post*, a cap-and-trade bill would impose an average of more than \$80 billion in new energy taxes every year. It would turn carbon dioxide into the new tobacco--a "vice" Uncle Sam profits from in the name of combating.

Nothing in this *Research & Commentary* is intended to influence the passage of legislation, and it does not necessarily represent the views of The Heartland Institute. For further information on this and other environment topics, visit The [Heartland Institute's](http://www.heartland.org) Web site at <http://www.heartland.org> and PolicyBot, Heartland's free online research database.

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