



**BRIEF ANALYSIS**

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## Regulating Greenhouse Gas Emissions

by **H. Sterling Burnett, Ph.D.**

The 1997 Kyoto Protocol is an international treaty designed to reduce greenhouse gas emissions. Proponents hoped that it would help the world avoid catastrophe caused by human induced climate change. However, Kyoto faced long odds of ever coming into effect in the United States. Before it was finalized, the Senate unanimously passed a resolution that said we should not participate in any global warming agreement that would either (1) harm the U.S. economy or (2) fail to require meaningful participation by developing countries. Since the Kyoto Protocol met neither condition, President Clinton refused to submit it to the Senate for ratification. And, shortly after his 2000 election, President Bush announced Kyoto was “fundamentally flawed” and therefore unacceptable.

With little likelihood that the United States will ever adopt the international treaty, environmentalists, some scientists and state and federal politicians have instead proposed national and regional initiatives to reduce domestic greenhouse gas emissions. However, these proposals share two common problems: 1) each would raise energy prices and impose significant national or regional economic costs; and 2) they would not stem the rise of greenhouse gases and thus prevent continued global warming (if that is the cause) from occurring.

**Federal Initiative: The Climate Stewardship Act.** In 2003, Senators John McCain and Joseph Lieberman cosponsored the “Climate Stewardship Act” (S. 139). The bill would require greenhouse gas reductions from the commercial, industrial, utility and

transportation sectors. It would set up a cap and trade system — a cap on total emissions, a government auction of allowances to the affected industries permitting them to emit carbon dioxide, and permission for companies to trade these allowances among themselves. S. 139 would reduce emissions in two phases. In Phase I, ending in 2010, the affected economic sectors would have to reduce emissions to 2000 levels; and in Phase II, by 2016, emissions would have to be reduced to their 1990 levels.

A June 2003 analysis by the U.S. Energy Information Agency of the probable economic effects of the bill found that by 2025:

- Gasoline would cost 40 cents more per gallon than it would otherwise.

- The average household would spend \$444.00 more per year on energy, including a 46 percent increase in electricity prices.

- Gross domestic product would be \$675 billion to \$1.63 trillion lower, in present dollars.

A study by an economic research institute, the American Council for Capital Formation, underscored these findings, estimating that under S. 139:

- By 2020, gasoline prices would increase 30 to 50 cents per gallon.

- Electricity prices would increase 43 percent

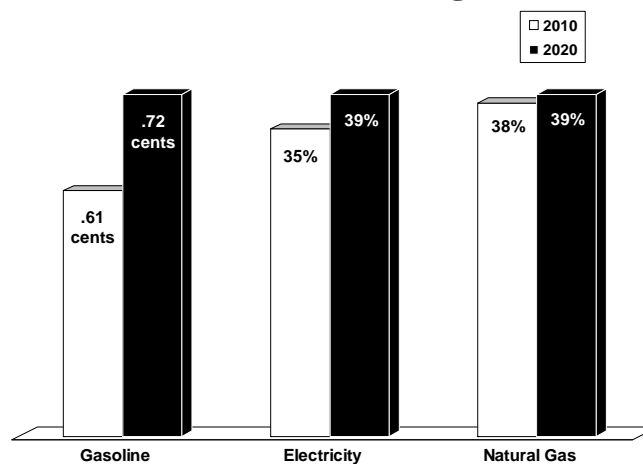
and average household income would fall by as much as \$2,255 per year by 2020.

- By 2025, U.S. GDP would be reduced by \$164 billion to \$525 billion per year.

- More than 600,000 jobs could be lost in the United States.

Both analyses agree that the burden of these costs will be extremely regressive, disproportionately affecting seniors and low income households. This is because the poor and those on fixed incomes spend a greater portion of their disposable income on food and fuel than the average household and are the least able to afford newer, more fuel-efficient technologies.

### Increase in Energy Prices Under Northeastern State Regulations



Source: Paul M. Bernstein, W. David Montgomery and Sugandha Tuladhar, “Unintended Consequences: Northeastern State Proposals to Limit Greenhouse Gas Emissions,” *The State Factor*, July 2004, American Legislative Exchange Council.

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**Regional Initiative: Northeastern Climate Change Action Plan.** In lieu of federal action, a number of Northeastern states — Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and possibly Pennsylvania and Maryland — are considering both individual and coordinated policies to limit greenhouse gas emissions. The “Climate Change Action Plan (CCAP)” was developed as part of a 2001 agreement between New England governors and East Canadian premiers. This proposal would reduce greenhouse gas emissions in three stages: capping emissions at 1990 levels by 2010; reducing emissions to 10 percent below 1990 levels by 2020; and cutting emissions by 75 percent to 85 percent of 2000 levels by 2050.

The 11 Northeastern states would have to reduce emissions by nearly 30 percent below what they otherwise would have been in order to meet the CCAP’s 2010 goal, by over 40 percent to reach the 2020 target, and by more than 90 percent to reach the 2050 goal. Fossil fuel consumption in New England would have to decline dramatically. Every economic sector — transportation, industrial, commercial and residential — would experience drastic energy reductions, imposing substantial costs upon the participating states. To satisfy the mandatory emission reductions,

- Drivers would pay 61 cents per gallon more for gasoline in 2010 — a total of 72 cents more in 2020;
- Electricity prices would rise 35 percent by 2010 (39 percent by 2020); and
- Residential natural gas prices would rise 38 percent by 2010 (39 percent by 2020). [See the figure.]

Because energy is a vital component of economic activity, these price increases would have a profound impact on individual disposable income, economic activity and employment. As energy prices rise in the Northeastern states, for example:

- By 2010 consumption spending would fall by an estimated average of \$2,634 per household and by 2020 it would fall by \$3,019 per household.
- Gross state product (GSP) would decline 1.1 percent by 2010 and 1.9 percent by 2020.
- An estimated 191,589 jobs would be lost by 2010, and 217,815 by 2020.

These changes will not affect everyone equally, however. Like the proposed Climate Stewardship Act, the CCAP’s costs are highly regressive. According to a 2002 Census Bureau report, the poorest households in the Northeastern states spend 7.8 percent of their income on energy, compared to 4.9 percent from the wealthiest households. Under the CCAP, the poorest Northeasterners would see their energy expenditures rise by 3.8 percent to 12 percent of their household budget compared to a 1.9 percent increase for the wealthiest households.

As companies flee high fuel prices in the Northeastern states, employment in the rest of the United States would increase by more than 117,000 in 2010 and by an additional 59,000 in 2020. However, over time the Northeast’s economic decline would have a modest though significant negative impact on the nation as a whole. For instance, by 2020, even those states not party to the CCAP would see their GSP decline by 0.2 percent and their citizens would see their household consumption spending fall \$98.00 annually.

**All Pain, No Gain: Greenhouse Gases Continue to Rise.** Neither S.139 nor the CCAP would have any appreciable effect on human caused global warming. Indeed, according to the National Center for Atmospheric Research, even if all of the signatories to the more stringent Kyoto protocol met their greenhouse gas reduction targets, the earth would be only .07 to 0.19 degrees Celsius cooler than it would be absent Kyoto. Greenhouse gas concentrations would continue to increase because fast growing countries that are exempt from emissions cuts — such as China, India, South Korea, Brazil and Indonesia — will account for as much as 85 percent of the projected increase in the next two decades.

**Conclusion.** The Kyoto Protocol will be costly and do nothing to prevent global warming — even if humans are causing it. Proposed domestic actions to reduce greenhouse gas emissions would cost only slightly less than Kyoto and would do even less to prevent global warming. Therefore, they merit even less consideration.

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