

Testimony of
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Hearing on “Green Jobs Created by Global Warming Initiatives.”

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Good afternoon, Senator Boxer, Senator Inhofe, Members of the Committee – thank you for inviting me to speak today on a very interesting question: whether or not governmental activities – in this case, global warming initiatives, create jobs. The question of government job creation has been debated since at least the 1850s, when Frédéric Bastiat, a French journalist and politician wrote “What is Seen, and What is Not Seen,” an essay that is, or certainly should be required reading for anyone interested in economics and government.

But before I get to today’s topic, I would like to say a few words about my background and core beliefs regarding global warming policy so my comments can be understood in proper context.

As an environmental scientist by training, my reading of the scientific literature (including the synthesis reports of the United Nations Intergovernmental Panel on Climate Change) has persuaded me that we have observed a real warming of the climate since measurements started in the 1850s. Further, I believe that the basic physics and chemistry of our planet and its atmosphere make it highly likely that humanity’s addition of greenhouse gases to the atmosphere has caused, and will cause some degree of warming of the climate. How much is still a matter of active inquiry. And I believe if warming turns out to be extensive, it could well pose significant risks to future generations.

As a classical liberal, I believe that government has an obligation to prevent people from harming each other via environmental contamination, as well as an obligation to protect the health of environmental resources held in common for the public by federal, state, and local governments. So yes, I think it appropriate that the government considers how it might best address the potential harms of global warming.

Finally as an environmental policy analyst by avocation, I have argued that while we should focus mostly on adaptation, the most efficient policy to mitigate the risk of manmade climate change would be a modest, revenue-neutral carbon tax. I’ll be glad to discuss any of that during the question period, and would like to submit to the record a recent article I co-authored on the question of a carbon tax for AEI, entitled “Climate Change: Caps vs. Taxes.”

Now, to the question of the day: do global warming initiatives “create” “new green” jobs? The short answer, I would say, is that they might do so, but only at the expense of other jobs that would otherwise have been produced by the free market. Further, I’d suggest that the end result would be significantly less jobs on net, less overall economic growth on net, and most likely, the loss of existing capital as a by-product.

The fallacious idea that one can make jobs by destroying others is a variation of Bastiat’s Broken Window fallacy. As Bastiat explained, imagine some shopkeepers get their windows broken by a rock-throwing child. At first, people sympathize with the shopkeepers, until someone suggests that the broken windows really aren’t that bad. After all, they “create work” for the glazier, who might buy food, benefiting the grocer, or clothes, benefiting the tailor. If enough windows are broken, the glazier might even hire an assistant, creating a new job.

Did the child then do a public service by breaking the windows? Would it be good public policy to simply break windows at random? No, because what’s not seen in this scenario is what the shopkeepers would have done with the money that they’ve had to use to fix their windows. If they hadn’t needed to fix the windows, the shopkeepers would have put the money to work in their shops, buying more stock from their suppliers, or perhaps adding a coffee-bar, or hiring new stock-people.

Before the child’s action, the shopkeepers had the economic value of their windows and the money to hire a new assistant or buy more goods. After the child’s action, the shopkeepers have their new windows but no new assistant or new goods, and society, as a whole, has lost the value of the old set of windows.

The analogy holds just as well when it is the government that comes, and by regulatory fiat “breaks the window” of a company successfully goods and services into a free market. When the government establishes a regulation favoring product A over product B, what is seen is the new sales of product A, and the jobs associated with such sales. What is not seen is the lost sales of product B, and the lost jobs that go with it. Because the market is superior at efficiently identifying and providing what people want than are planners, it is virtually certain that the lost jobs in any regulatory scenario will outnumber the created jobs in a regulatory scenario.

Let’s put this in a global warming context. Assume that Congress bans the sale of incandescent light bulbs, an approach some regulatory advocates favor for reducing greenhouse gases. Has Congress then “created” new jobs making fluorescent light bulbs?

Certainly, some jobs will be made in the fluorescent bulb industry. That, as Bastiat would say, is what is seen as a result of the action. What is not seen? First, one will have eradicated the jobs making incandescent bulbs. But that is only the beginning: after all, the very reason fluorescent light bulbs are theoretically desirable is that they use less energy, and last longer, using fewer materials. Thus, there will be less of them made, less of them shipped, less of them packaged, and less of them disposed of, and jobs in all of those areas will be reduced, not increased. True, some jobs will remain, but there will be

less of them, and they won't necessarily be the same jobs, or jobs in the same part of the country, or, necessarily, even jobs in the same country.

Or let's consider raising CAFE standards. This is another popular regulatory approach to control greenhouse gas emissions. Would raising CAFE standards make "new green jobs"?

Let's examine what happens under new CAFE standards. In essence, automakers are required to sell more low-profit compact/fuel-efficient cars, and less high-profit luxury cars and SUVs. Thus, the first effect is to terminate jobs in the more-profitable luxury car market, some of which will be replaced by jobs in the lower-profit fuel-efficient vehicle market. But again, that is only the beginning of the losses. To offset the loss of profit, the automakers will have to raise costs on luxury cars somewhat (reducing sales on net, but increasing profit per sale) or terminate lines of little profitability, even if they are popular. This is what the first CAFE standards did to the station wagon, paving the way for SUVs and mini-vans. And again, the purpose of the exercise is to reduce gasoline use, and hence, jobs in the gasoline production and distribution pipeline.

So what is unseen? Fewer vehicles sold over all, with industry wide job losses, additional losses of jobs producing SUVs, loss of jobs producing mid-range vehicles of limited profit potential, loss of jobs in the gasoline sector, and so on. Congress can throw subsidies at hybrids and such to try to stimulate sales and thus offset some of the harm but they must take money away from some other business in order to do it.

Finally, let's consider the poster-child of global warming initiatives, cap-and-trade. Would enacting a cap-and-trade scheme create more green jobs, on net, than the non-green jobs it would extinguish?

The first thing to consider is what the effect of capping carbon emissions will be: higher prices for energy, a fundamental input to production and to the provision of services across the entire economy. This is, actually, the entire point of the enterprise, since the only way to suppress greenhouse gas emissions is to raise energy prices.

What do we know from the law of supply and demand? Higher energy prices will lead to reduced sales of goods and services, on net. Thus, lost jobs in energy-intensive sectors of the economy will be seen first, and job losses on those who use the product of such goods will follow. That's a rather large component of the economy, since energy is a primary input to pretty much all goods and services in the market today.

Will some green jobs be created? Certainly, at least among government credit auditors, market regulators, and among brokers arranging carbon trades. Since technologies to reduce carbon emissions from fossil fuel burning do not actually exist, one can't argue that new jobs will appear in the carbon-dioxide catalytic converter sector, or the carbon dioxide bag-house producers. Carbon emission reductions come only by turning down output, or increasing efficiency, which raises costs. Nor can one argue that sequestration,

whether agricultural or otherwise will produce jobs, because the entire idea is to stick something carbonaceous in the ground and leave it there.

In conclusion, it has been my privilege to speak to you today about whether or not climate change initiatives can create new, green jobs. It seems obvious to me that the answer is no. I hope you'll hold another hearing soon to discuss whether or not a revenue-neutral carbon tax could avoid the pitfalls of other global warming initiatives, so that I can come back with a happy story to tell, rather than one of such negativity.

I will, of course, be glad to take your questions.