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before the

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Good afternoon. Madam Chairman and Members of the Committee: as you may know, after leaving my post as Majority Leader of the U.S. House of Representatives, I became Chairman of FreedomWorks, an 850,000-member grassroots organization that promotes market-based solutions to public policy problems. Thank you for inviting me here today to discuss "Green Jobs Created by Global Warming Initiatives." On behalf of the members and supporters of FreedomWorks, I urge the Committee to conduct a careful assessment of the economic impacts of climate change polices as it evaluates policy options. While it is true that subsidies and regulatory incentives can increase employment in particular greener industries, this can only be done by reallocating resources away from existing uses. A new regulatory regime to reduce greenhouse gas emissions is a costly undertaking that will have a significant impact on the economy; Congress should not ignore the economic aspects of this issue.

While a significant new regulatory program and subsidies for green businesses undoubtedly would expand the resources devoted to greenhouse gas reductions, these gains come at the expense of everyday activities elsewhere in the economy, especially activities in more carbon-intensive industries. In effect, limitations on the use of carbon-based fuels constitute a supply shock in the energy market. Throughout the economy, consumers will face increased energy costs as well as higher prices associated with new product efficiency standards. These higher prices will reduce economic activity and have an adverse impact on employment. Academic analysis demonstrates the cost of previous oil supply shocks.[1]

[1] See, for example, James Hamilton and Anna Maria Herrera, "Oil Shocks and Aggregate Macroeconomic Behavior: The Role of

Any action to reduce greenhouse gas emissions entails a significant reduction in the use of carbon-intensive forms of energy, which will affect all consumers and businesses. Assessing and understanding these costs must be an integral part of the current debate on climate change. Uncertainty may frame the scientific debate over global warming, but from an economic perspective, most studies analyzing the economic effects of climate change policies note that the transition is not costless.

For example, a recent study by Michael Canes identifies four main categories of costs associated with a cap and trade program, a prominent policy option for addressing climate change: the restriction on the use of fossil fuels, which could cost tens of billions annually; the price volatility associated with the cap on energy use, which could have "periodic GDP growth impacts of a few tenths of 1 percent"; rent seeking costs, which could be as high as $60 billion per year; and the monitoring and information costs, which could be as much as $1 billion per year in the United States alone.[2] A paper by Arthur Laffer and Wayne Winegarden notes that under a cap and trade program, the economy could shrink by 5.2 percent by the year 2020.[3]

New regulations and federal spending to mitigate greenhouse gas emissions create new opportunities for some sectors of the economy. However, these jobs come at the expense of activity elsewhere in the economy. At best, the shift in economic activity will create no new jobs or wealth; it simply reallocates employment among sectors of the economy. At worst, it means that other economic actors will have to forgo investment decisions that would have expanded the economic pie rather than simply reapportion the existing slices.

A regulatory program shifting production to new "green" sectors of the economy will require significant expenditures throughout the economy. With the current role of more carbon-intensive energy in our economy, these costs could be substantial. Such mandates would increase the supply of greener energy and production, which, given current technologies, would increase energy costs throughout the economy. It is true that particular sectors of the economy may gain, but this cannot be said for the economy as a whole. With resources diverted from other uses, we may actually be poorer than we otherwise would be. We must realize that this is a costly venture that can decrease economic growth. These programs take resources from one group to be spent by others. Real economic growth, on the other hand, requires policy changes that create incentives to produce.

Major regulatory efforts to reduce greenhouse gases are broad in their impact and run the gamut from a carbon tax (an idea recently floated by Rep. Dingell) to discourage the use of fossil fuels, to a cap and trade system for allocating permits to emit greenhouse gases. To varying

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Monetary Policy," *Journal of Money, Credit, and Banking*, vol. 36, pp. 265-286, April 2004, which examines the impact of oil supply shocks and argues the Fed policy could not offset their consequences.

[2] Michael E. Canes, "The Adverse Economic Impacts of Cap-and-Trade Regulations," September 2007.

[3] Arthur Laffer and Wayne Winegarden, "The Adverse Economic Impacts of Cap-and-Trade Regulations," Arduin, Laffer, & Moore Econometrics, September 2007.

degrees, economic research on programs to reduce emissions of greenhouse gases concludes that there will be a reduction in output, particularly in the short-run. This drop in output suggests a lower degree of economic activity associated with the higher costs of factor inputs. With economic output decreasing, it becomes difficult to demonstrate that mandates for greener energy can increase employment opportunities for the overall economy.

Examining the response to previous environmental regulations may provide insights into the impact of climate change policies. A recent paper by Michael Greenstone examines some of the potential economic effects of clean air regulations.[4] The author notes that, according to the U.S. Bureau of the Census, American manufacturers spend roughly $30 billion per year on pollution abatement. To determine the economic impact of these costs, Greenstone examines the Clean Act Amendments of 1970 and 1977. The Clean Air act establishes regulatory standards for the four criteria pollutants; more importantly, it also establishes requirements for attainment across the country. Industries that emit criteria pollutants in counties that are in non-attainment are subjected to more rigorous regulation. This provides a useful way to compare economic activity in regulated (non-attainment) and unregulated (attainment) counties in order to determine the impact of environmental regulations.

The findings provide a cautionary note on the ability to create green jobs through regulation. In particular, Greenstone concludes, "The paper provides new evidence that environmental regulations retard industrial activity. I find that in the first 15 years after the CAAAs [Clean Air Act Amendments] became law (1972-1987), non-attainment counties (relative to attainment ones) lost approximately 590,000 jobs, $37 billion in capital stock, and $75 billion (1987$) of output in polluting industries."[5]

New mandates and subsidies to reduce greenhouse gas emissions would obviously spark employment in less carbon-intensive sectors of the economy, but this may not offset the employment dislocations created by regulations. As Greenstone notes in his evaluation of past regulations, "recent research indicates that these frictions [dislocations due to environmental regulations] may be quite substantial and can persist as long as a decade (Blanchard and Katz 1992). Jacobson, LaLonde, and Sullivan (1993) document that displaced workers endure substantial wage losses. Consequently, people who lost their jobs due to environmental regulations may have suffered long-run wage declines."[6] The impact of reducing greenhouse gas emissions is even more sweeping in nature than previous regulations, especially when considering the state-of-the-art for alternative energy sources, which are currently more costly and a limited substitute to existing energy supplies.

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[4] Michael Greenstone, "The Impacts of Environmental Regulations on Industrial Activity: Evidence from the 1970 & 1977 Clean Air Act Amendments and the Census of Manufactures," *National Bureau of Economic Research Working Paper 8484*, September 2001.
[5] *Ibid*. p. 28.
[6] *Ibid*., p. 28.

In another study, similar results are found with respect to decisions to build new manufacturing plants. Examining data on location decisions for plants in New York, the results suggest that, in fact, environmental regulations can have a real and significant impact on economic activity. The authors conclude: "Our major results are consonant with the received literature, namely that "dirty" firms respond to environmental regulations. But, the matching method, by controlling for differences in lagged plant formations, indicates that the effect of environmental regulation on new plant formation may be drastically higher—as much as 3.5 times—than previously reported."[7]

Randy A. Becker and J. Vernon Henderson examine a similar issue in a paper assessing the costs of clean air regulation.[8] Also using the impacts of the Clean Air Act, the authors study the issue of environmental compliance from the cost side, focusing on plant operating costs if moved from an attainment to non-attainment area. Using this methodology, they are able to identify a lower bound on regulatory costs.

Becker and Henderson conclude, "In terms of quantifying the costs of air quality regulation, our basic results show that heavily-regulated plants indeed face higher production costs than their less-regulated counterparts. This is particularly true for younger plants, which is consistent with the notion that regulation is most burdensome for new (rather than existing) plants. "Unregulated" plants, however, also appear to be affected by regulation (or at least the threat of regulation), as we found that they produce at levels far short of the levels that minimize average total costs."[9]

That these results suggest that mandates or environmental regulations could have adverse affects on economic growth are not surprising. In a competitive economy, firms seek to maximize profit, and they organize themselves accordingly. Firms are already structured in ways that achieve the greatest efficiency and minimize costs. New mandates that increase the price of factor inputs will affect the ability of firms to achieve the same levels of output for the same levels of cost. As far back as Adam Smith economists have noted that in a free and competitive market firms will seek out profit opportunities. In fact, the market is a discovery process that seeks to use resources more efficiently; for example, energy efficiency has improved dramatically in the United States as businesses have been able to reduce the amount of energy required to produce a dollar's worth of output. Government policies that impede the market process will impose costs on the economy by limiting the ability for firms to adapt to new circumstances.

Indeed, government policies can also generate unintended consequences as firms respond

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[7] John A. List, Daniel Millmet, Per G. Fredriksson, and W. Warren McHone, "Effects of Environmental Regulations on Manufacturing Plant Births: Evidence from a Propensity Score Matching Estimator," *Review of Economics and Statistics*, November 2003, Vol. 85, No. 4, Pages 944-952.

[8] Becker, Randy A. and Henderson, J. Vernon, "Costs of Air Quality Regulation," *National Bureau of Economic Research Working Paper No. W7308*, August 1999.

[9] *Ibid*. p. 23.

to political incentive and engage in rent-seeking behavior. For example, as Bruce Ackerman and William Hassler detailed in their 1981 book, *Clean Coal/Dirty Air: How the Clean Air Act Became a Multibillion-Dollar Bail-Out for High-Sulfur Coal Producers*, earlier attempts to regulate environmental problems such as sulfur dioxide pollution from coal plants produced counterproductive results.[10] Eastern coal producers, saddled with dirtier coal than other parts of the nation, and environmentalists infatuated with a specific technology— in this case, smokestack scrubbers—formed an alliance to mandate the technology on all coal plants in America. This was despite evidence that coal scrubbers were often ineffective, and that combining lower-height smokestacks with the use of low-sulfur coal could produce cleaner outcomes. Instead of focusing on results, such as clean air, too often the political dynamics in Congress lead to rent-seeking, protectionism, and mandates, with results that run contrary to the stated purpose of the initial effort. With respect to coal, this counterproductive dynamic continued into the 1990s, when the Clinton Administration blocked the development of the largest deposit of low-sulfur coal in America by declaring Utah's Kaiparowits Plateau a "National Monument." New, green technology programs can generate similar incentives to use the political process rather than the market process for allocating scarce resources, and the potential costs of rent-seeking should be included in an evaluation of such policies.

Madam Chairman and Members of the Committee, FreedomWorks urges caution and a thorough economic analysis of the costs and benefits associated with policies for greenhouse gas reduction. Sound energy policies are critical to a strong economy. Energy is an input to all the goods and services we consume. It heats and cools our homes, and fuels our transportation system. Affordable and reliable energy is an important component to continued economic growth, and the potential for new global warming mandates poses real costs for the economy and for consumers.

Thank you.

[10] Bruce Ackerman and William Hassler detailed in their 1981 book, *Clean Coal/Dirty Air: How the Clean Air Act Became a Multibillion-Dollar Bail-Out for High-Sulfur Coal Producers* Yale University Press (1981)