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NEW EPA AND CBO ESTIMATES REFUTE CLAIMS THAT HOUSE CLIMATE BILL WOULD IMPOSE LARGE COSTS ON HOUSEHOLDS AND THE ECONOMY

By Chad Stone

The costs of fighting greenhouse gas pollution are modest and manageable, according to analyses of climate change legislation coming to the House floor that both the Environmental Protection Agency and the Congressional Budget Office have issued in recent days. These analyses decisively refute opponents' claims that fighting greenhouse gas pollution would cost the average American household several thousand dollars a year.

EPA estimates that the annual costs of achieving the climate benefits that would result from the American Clean Energy and Security Act (H.R. 2454), which is the basis of the bill coming to the House floor, would average $80 to $111 per household.[1] CBO estimates that if the policies that will be in effect in 2020 under the legislation were already in place, the net annual economy-wide cost would be about $175 per household in 2010. These are the costs that remain after netting out the financial benefits that households would receive from provisions in the legislation.

The CBO analysis also finds that the legislation fully complies with "pay-as-you-go" budgeting rules and does not increase the federal deficit. Under CBO scoring, in

KEY FINDINGS

- New EPA and CBO analyses demonstrate that the costs of fighting greenhouse gas pollution are modest and manageable, decisively refuting opponents' claims that reducing emissions would cost the average household several thousand dollars a year.
- EPA estimates that the average cost per household of the House climate bill would be $80 to $111 per year. CBO estimates that if the policies the bill calls for in 2020 were already in place, the net annual economy-wide cost would average $175 per household in 2010.
- CBO estimates that, on average, low-income households would not suffer any financial loss.
- The new CBO analysis also finds that the House bill fully complies with "pay-as-you-go" budgeting rules and does not increase the federal deficit. Under CBO scoring, in fact, the legislation produces a small amount of deficit reduction.
- Moreover, the EPA and CBO analyses examine only the costs of reducing emissions. They do not reflect the benefits of avoiding the adverse consequences of climate change.
- The vastly higher cost estimates that opponents are citing ignore the bill's substantial consumer relief to help offset higher energy costs. Those figures also rely on outdated estimates that are based on earlier climate proposals that do not reflect the provisions of the current legislation.

[1] Differences in household costs between H.R. 2454, the bill reported out of the Energy and Commerce Committee, and the bill that will be considered on the House floor are likely to be minor.

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Cost Analyses Do Not Include the Benefits of Slowing Climate Change

To avoid the serious and potentially catastrophic environmental and economic consequences of unabated global climate change, the United States and the rest of the world must change the way that energy is produced and consumed. The EPA and CBO analyses estimate the costs, under the legislation, of restructuring the U.S. economy to meet a steadily tightening cap on allowable emissions from the burning of fossil fuels and other activities that produce greenhouse gas pollution. This is only the *cost* side of the full cost-benefit calculus; it does not reflect the critically important *benefits* of avoiding the adverse consequences of climate change, which are inherently more difficult to quantify.

Analyses Include Both Consumer Costs and Consumer Relief

The legislation uses a cap-and-trade mechanism to achieve emissions reductions. Electricity generators and other sources of greenhouse gas emissions would be required to have permits or "allowances" in order to continue emitting, and the number of allowances would be reduced over time to enforce the steadily tightening cap on emissions. The requirement to hold allowances is a business cost that, for the most part, would be passed on to consumers, leading to higher prices for energy and energy-related goods and services. Those higher prices would provide an important incentive for businesses and households to conserve energy and make cost-effective investments in energy efficiency and alternative clean energy technologies. Those actions would help keep the economy-wide costs of meeting the emissions cap as low as possible.

Higher prices for energy and energy-related products would also take a bite out of consumers' budgets. Other provisions in the bill, however, would provide relief to consumers and businesses that mitigate those costs.

- EPA's $80 to $111 per household cost figure is the *net* cost (although its analysis assumes that revenues from the program are returned to consumers on a lump-sum basis, which is not exactly how the legislation actually works).

- CBO estimates that the "gross" cost of complying with the emissions cap would be $890 per household (if 2020 policies were in place in 2010), but that the specific provisions in the legislation that provide offsetting relief to consumers and businesses lower the net cost to $175 per household.

Distributional Effects

CBO also estimated how the costs and financial benefits of the legislation would be distributed among households in each fifth (or quintile) of the income distribution. (Because CBO was unable to apportion some of the costs and benefits among income quintiles, in this part of the analysis its

estimate of the average gross cost is $770 per household — rather than the $890 figure referred to above — and its estimate of the average net cost is $165 per household rather than $175.)

CBO finds that people in the bottom quintile would incur an average *gross* cost of $425 per household but would incur no *net* loss, on average, because they would receive back an average of $465 per household in relief. The provision in the legislation that uses 15 percent of the allowance value for low-income assistance is critical to achieving this outcome.

There would be a net cost in all other income quintiles, but it would be small. It ranges from an average of $40 per household in the second (i.e., the next-to-the-bottom) quintile to an average of $340 in the fourth (the next-to-the-top) quintile.

Exaggerated Claims About Costs

Opponents of climate change legislation continue to cite vastly higher costs than those that CBO and EPA are reporting. These claims that costs will be very high are deeply flawed in two respects. First, they fail to distinguish between gross and net costs — that is, *they simply ignore the substantial relief the legislation provides to consumers to help offset the higher energy costs they otherwise would face*. Second, the analyses rely on outdated estimates of *other* cap-and-trade proposals that *do not accurately reflect the provisions of the current legislation*.

For example, an analysis that House Minority Leader John Boehner's office issued calculated an average household cost of over $3,000, using data from a 2007 analysis by a team of MIT researchers. Yet EPA says the net cost for an average household would be only one-sixth as large, and one of the MIT researchers wrote to the Minority Leader's office to protest the misrepresentation of their analysis. EPA describes the MIT analysis as "an older analysis that is not well calibrated to either current legislative proposals or US economic conditions."

In sum, the new EPA and CBO analyses show that it is possible to fight global warming, and protect the households most vulnerable to higher energy costs, at a very modest and manageable overall cost.[2]

[2] For the complete analyses, see "EPA Analysis of the American Clean Energy and Security Act of 2009 H.R. 2454 in the 111th Congress," June 23, 2009, http://www.epa.gov/climatechange/economics/pdfs/HR2454_Analysis.pdf, and "The Estimated Costs to Households From the Cap-and-Trade Provisions of H.R. 2454," June 19, 2009, http://www.cbo.gov/ftpdocs/103xx/doc10327/06-19-CapAndTradeCosts.pdf.