How I See It

Pennsylvania's Climate Action Plan Could Shrink Industry and Job Growth

By **Dr. Margo Thorning**

A lot of people will tell you, "You get what you pay for." In the case of some climate change proposals, though, it's clear that you end up paying dearly but getting little in terms of environmental benefits.

Of course, we all want a clean environment and we all have little time to read the fine print on complex legislation that works its way through local, state, and federal government. So it can be easy to be talked into policy that sounds good on the surface, especially if the costs aren't considered.

Unfortunately, that seems to be the case in Pennsylvania, where a recent report by the Department of Environmental Protection, "Pennsylvania Climate Change Action Plan" provides policymakers with an unrealistically positive assessment of the likely economic effects of mandating near-term greenhouse gas emission reductions on the state's economy and job growth. Something has to give: jobs are a top priority for Pennsylvanians but the state's unemployment rate has risen from 5.4 percent in 2008 to 8.9 percent in December, 2009 and the CCAP report could lead to job-reducing policies.

The CCAP emission reduction targets are significantly tighter than those in the Waxman-Markey "American Clean Energy and Security Act" (H.R. 2454), which passed

in the U.S. House of Representatives in June 2009. Waxman-Markey targets called for a 17 percent reduction below 2005 levels of emissions, which the CCAP would still top. Achieving CCAP's 30 percent reduction by 2020 means cutting emissions by 27 percent over current projections, requiring unprecedented decreases in carbon intensity per dollar of Gross State Product . That would be very challenging, especially given the short, 10-year time frame to achieve them.

The most significant shortcoming of the CCAP report is its failure to employ a macroeconomic model to estimate how higher energy prices from CCAP would impact industrial competitiveness, employment and household income. Macroeconomic models are dynamic and capture interactive effects between energy and other sectors of the economy.

This glaring omission calls into question the report's conclusion that implementation of its 52 work plans will promote a net increase in jobs in Pennsylvania and increase GSP. It fails to consider numerous other analyses, which have concluded that mandatory polices to reduce near term emissions, have just the opposite impact. CCAP relies on the results of a regional input-output model that is not capable of measuring the dynamic impacts as higher energy prices impact all sectors of the state's economy. The result: understated costs and overstated benefits to the state's economy and to job growth.

By failing to present alternative model results about the possible economic impact of mandatory requirements to curb energy use, substituting renewable energy for fossil fuels, slowing the development of nuclear power for electricity generation and changes in agricultural practices the CCAP fails to provide policymakers with a balanced perspective on the possible consequences of mandatory, sharp reductions in GHG emissions.

There are more shortcomings, as well. The draft pays brief lip service that the immediate impact of placing a price on greenhouse gas emissions from power plants will mean an increase in the cost of power generation, but there is no discussion of the possible impact those higher energy prices will have on economic activity and overall employment of Pennsylvanians.

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Yet that is precisely the point that needs to be stressed most strongly. The true underlying threat posed by many of the mandates considered for capping greenhouse gases is that they raise energy prices and slow economic and job growth. An analysis of the Waxman-Markey bill by the American Council on Capital Formation and the National Association of Manufacturers, using a macroeconomic model, found that the bill would have reduced Pennsylvania's GDP by as much as $21 billion, the state would lose as many as 97,500 jobs in 2030, and residential electricity prices would be as much as 40 percent higher. Household income would be reduced by up to $1,507 in inflation-adjusted dollars in 2030.

While there's less money at home, the bills coming in the mail actually grow in real terms. By 2030, Pennsylvania's natural gas prices could increase by 68 percent and gasoline prices could rise by 28 percent if the committee's recommendations are enacted.

There are other concerns with the CCAP paper, including its views on renewable sources of energy. In advocating for a switch from coal fired electricity generation to renewables, the report overlooks the fact that wind and solar energy have to be backed up with conventional fuels such as coal, natural gas and nuclear because neither renewable is available 24 hours a day.

Moreover, the technology for storing the power is not currently widely deployed and would significantly add to the cost of electricity if installed in sufficient capacity to provide reliable energy from renewable technologies.

The reality is that integrating significantly more renewable electricity into the grid will be an expensive and time-consuming project, according to a study by the North American Electric Reliability Corporation.

For all that pain, what's the eco-gain? The state's draft report does not address the fact that reducing the state's emissions will have almost no impact on global greenhouse gas concentrations in the atmosphere. (Other states, meanwhile, are reconsidering their efforts and Arizona just dropped out of its regional greenhouse-reduction pact.)

Had the report sought more opinions it would document the concern that Pennsylvania's economy-stunting laws cannot impact the rate of change in global concentrations of greenhouse gas because the state's share is only 1 percent of global emissions—and its share is declining as developing countries increase their emissions.

That's a tremendous economic burden for Pennsylvanians to shoulder. The same is true at the national level; if America pursues a go-it-alone approach without the inclusion of developing countries, particularly China and India, then all the cost is for naught.

Only international efforts, such as the Asia-Pacific Partnership—an agreement with developing countries to promote economic development and the spread of clean, lower-emitting energy technology—will spread costs and responsibilities fairly.

There are other sensible ways to address environmental concerns. Leaders in the state can be good stewards of both Pennsylvania's economy and its environment. That includes improving the tax treatment of new investment through faster depreciation and investment tax credits, which could reduce growth of greenhouse gas emissions, as well as enhance productivity growth.

Whatever a legislator's decision, it should be based on good information and a thorough dialogue. It appears to some outside observers that the draft failed to seek a broad array of informed voices and neglected important evidence that would be useful to legislators carefully considering policy options.

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