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The Cap and Tax Fiction

Democrats off-loading economics to pass climate change bill.

House Speaker Nancy Pelosi has put cap-and-trade legislation on a forced march through the House, and the bill may get a full vote as early as Friday. It looks as if the Democrats will have to destroy the discipline of economics to get it done.

Despite House Energy and Commerce Chairman Henry Waxman's many payoffs to Members, rural and Blue Dog Democrats remain wary of voting for a bill that will impose crushing costs on their home-district businesses and consumers. The leadership's solution to this problem is to simply claim the bill defies the laws of economics.

Their gambit got a boost this week, when the Congressional Budget Office did an analysis of what has come to be known as the Waxman-Markey bill. According to the CBO, the climate legislation would cost the average household only \$175 a year by 2020. Edward Markey, Mr. Waxman's co-author, instantly set to crowing that the cost of upending the entire energy economy would be no more than a postage stamp a day for the average household. Amazing. A closer look at the CBO analysis finds that it contains so many caveats as to render it useless.

For starters, the CBO estimate is a one-year snapshot of taxes that will extend to infinity. Under a cap-and-trade system, government sets a cap on the total amount of carbon that can be emitted nationally; companies then buy or sell permits to emit CO2. The cap gets cranked down over time to reduce total carbon emissions.

To get support for his bill, Mr. Waxman was forced to water down the cap in early years to please rural Democrats, and then severely ratchet it up in later years to please liberal Democrats. The CBO's analysis looks solely at the year 2020, before most of the tough restrictions kick in. As the cap is tightened and companies are stripped of initial opportunities to "offset" their emissions, the price of permits will skyrocket beyond the CBO estimate of \$28 per ton of carbon. The corporate costs of buying these expensive permits will be passed to consumers.

The biggest doozy in the CBO analysis was its extraordinary decision to look only at the day-to-day costs of operating a trading program, rather than the wider consequences energy restriction would have on the economy. The CBO acknowledges this in a footnote: "The resource cost does not indicate the potential decrease in gross domestic product (GDP) that could result from the cap."

The hit to GDP is the real threat in this bill. The whole point of cap and trade is to hike the price of electricity and gas so that Americans will use less. These higher prices will show up not just in electricity bills or at the gas station but in every manufactured good, from food to cars. Consumers will cut back on spending, which in turn will cut back on production, which results in fewer jobs created or higher unemployment. Some companies will instead move their operations overseas, with the same result.

When the Heritage Foundation did its analysis of Waxman-Markey, it broadly compared the economy with and without the carbon tax. Under this more comprehensive scenario, it found Waxman-Markey would cost the

economy \$161 billion in 2020, which is \$1,870 for a family of four. As the bill's restrictions kick in, that number rises to \$6,800 for a family of four by 2035.

Note also that the CBO analysis is an average for the country as a whole. It doesn't take into account the fact that certain regions and populations will be more severely hit than others -- manufacturing states more than service states; coal producing states more than states that rely on hydro or natural gas. Low-income Americans, who devote more of their disposable income to energy, have more to lose than high-income families.

Even as Democrats have promised that this cap-and-trade legislation won't pinch wallets, behind the scenes they've acknowledged the energy price tsunami that is coming. During the brief few days in which the bill was debated in the House Energy Committee, Republicans offered three amendments: one to suspend the program if gas hit \$5 a gallon; one to suspend the program if electricity prices rose 10% over 2009; and one to suspend the program if unemployment rates hit 15%. Democrats defeated all of them.

The reality is that cost estimates for climate legislation are as unreliable as the models predicting climate change. What comes out of the computer is a function of what politicians type in. A better indicator might be what other countries are already experiencing. Britain's Taxpayer Alliance estimates the average family there is paying nearly \$1,300 a year in green taxes for carbon-cutting programs in effect only a few years.

Americans should know that those Members who vote for this climate bill are voting for what is likely to be the biggest tax in American history. Even Democrats can't repeal that reality.

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