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Another California Dream

A La La Land climate law ignores economic reality.

California originates many ideas that roll across the country, for better or, lately, for worse. Now it has a global-warming law with no real name, just this: AB32. Last month, the California Air Resource Board (CARB) proclaimed in a report that AB32 would grow 10,000 jobs. This was widely cheered as good news. That's true only if you also repeal basic market economics and the state's current business indicators.

AB32 creates a statewide cap-and-trade program and imposes numerous command-and-control mandates that CARB calls "complementary measures" on businesses, such as low-carbon fuel standards and a goal of achieving 33% energy from renewable sources by 2020. Companies say compliance costs will force them to cut jobs and raise prices.

To meet renewable energy goals, the Southern California Public Power Authority has warned of a 30% rate hike. L.A.'s Department of Water and Power has told businesses to expect a 21% hike this year, though the city council recently nixed a three-month 5.7% rate increase. Mayor Antonio Villaraigosa inveighed to the L.A. Times that the city council must raise rates because "the state is breathing down our necks . . . where we could be looking at fines of \$300 million [in 2012] and \$600 million on top of that." CARB's report pays lip service to these early red flags and claims the law will neither hurt taxpayers nor the economy. Of course not.

Their reasoning? Forcing businesses to comply with the complementary measures will make businesses more energy efficient, and this in turn will save businesses money on emissions allowances under cap and trade. CARB is essentially saying that forcing businesses to comply with one set of regulations will reduce the costs of having to comply with other, more onerous regulations. The good news is, you're not dead.

CARB's report concludes that if the "complementary measures" aren't carried out, household income per capita will fall by 0.6% (with residential electric and gas prices increasing by 13% and 49%, respectively). But successful implementation would increase income by 0.1%.

A study by the Charles River Associates, performed at CARB's invitation, reached the opposite conclusion. The Charles River analysts say the complementary measures would reduce income by 0.9% or \$414 per year. Using a variety of scenarios, Charles River calculated the program would cost between \$28 billion and \$97 billion over the next decade.

Though the two studies relied largely on the same assumptions and data, they differed in one major respect. The CARB report says market failures "have prevented the penetration of energy-efficient devices among some customers," though remarkably they "assume that this efficiency potential exists without being specific as to what market failures are being corrected by the policy intervention." That is, CARB assumes market failures exist, but it won't specify them or how its policies will correct them.

This assumption that businesses are behaving irrationally when they fail to invest in energy-efficient technologies undergirds their conclusion that forcing businesses to adopt green technologies will reduce costs.

But if these technologies were really going to save businesses money, why would they be so reluctant to adopt them? The Economic Impacts Subcommittee of the Economic and Allocation Advisory Committee that was appointed by CARB Chairman Mary Nichols and charged with reviewing the report concludes that "many of the technologies that would be adopted under AB32 are either yet to be developed or currently prohibitively expensive." So how does CARB manage to make cost predictions about technologies that don't even exist? With a lot of uncertainty.

The Economics Impact Subcommittee notes that the report is full of "uncertainties relating to the supply costs of alternative fuels and the costs of energy-efficient improvements" and "behavioral responses to energy price changes" as well as "assumptions about 'technology cost curves.'" Is there anything in the CARB report that isn't uncertain?

Perhaps most uncertain of all is the projected 10,000 new green jobs, which presumably will be spurred by increased demand for renewable energy and green technology. But while CARB indicates the state will lose jobs in mining, utilities, construction, manufacturing, trade and transportation due to cost increases, it underestimates these job losses by failing to take into account businesses leaving for other states or countries.

The Economics Impact Subcommittee notes "there is reason to believe [the economic impacts of leakage] might be quite substantial" since "many of the measures and sectors from which large [greenhouse gas] reductions are drawn in the study are also the ones most vulnerable to leakage and/or reshuffling." These job losses are more than likely to eclipse the paltry 10,000 new green jobs the report forecasts.

While almost all of AB32's benefits are speculative and uncertain, its costs are hitting businesses and residents now. This is one more blow to jobs and growth that California doesn't need.