



Greenhouse Gas Accord Will Further Damage Michigan's Economy

By Russ Harding

Summary

A carbon dioxide cap-and-trade regime contained in the Midwestern Greenhouse Gas Accord would drive up state government spending, increase energy prices and result in the loss of Michigan jobs, without producing much in the way of environmental benefits.

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On Nov. 15, 2007, the governors of nine Midwestern states — Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Ohio, South Dakota and Wisconsin — signed the Midwestern Greenhouse Gas Accord. The agreement states, “the effects of climate change present growing economic, social and environmental risks.... We know enough to act on climate change, and there is sufficient scientific certainty that we must begin to take action now....” In order to achieve greenhouse gas emission reduction targets, the accord relies primarily on a cap-and-trade mechanism.

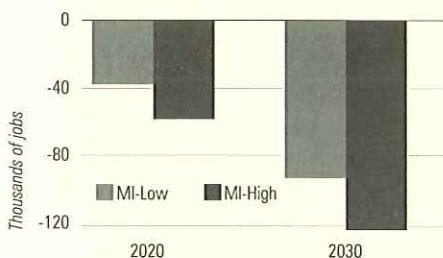
Under a cap-and-trade policy, companies or utilities that have air emissions below the legal limits are able to sell credits to emitters that have not complied with the more stringent emission standards. Participants in the accord, for example, agree to reduce the current amount of carbon dioxide emissions in the region by an established, albeit arbitrary, amount. Michigan would be required to reduce its carbon dioxide emissions by a portion of that allotment.

Proponents of cap-and-trade systems for limiting air emissions tout them as market-based and flexible. The trading of emission allowances does allow some flexibility for companies as they make investment decisions. However, proponents seldom talk about the cap. A cap on carbon dioxide emissions is a de facto energy cap.

Supporters of cap-and-trade claim that requiring the reduction of CO₂ emissions does not mean that energy use must be limited, but rather that it can be replaced by less carbon-intensive alternative energies. Although solar- and wind-generated electricity can play a supporting role in supplying Michigan's electricity needs, neither are 100 percent reliable since the sun doesn't always shine and the wind doesn't always blow. Nuclear energy is the only commercially feasible non-CO₂-emitting alternative to coal-fired power plants. If a commitment to build new nuclear power plants in Michigan were made today, it would take a decade or more to actually license and construct the plants.

Administering a cap-and-trade policy would also necessitate increased costs to taxpayers. If initiated, a set of complicated rules would need to be established to inventory, monitor and enforce carbon dioxide allotments from various energy users. An agency would then

Loss in Michigan Employment Relative to Baseline



Source: American Council for Capital Formation/National Association of Manufacturers Study of the Economic Impact of the Lieberman-Warner Climate Security Act

be assigned or created to ensure that no one cheats the system. The transaction costs to operate a regional CO2 cap-and-trade system are very likely to be high as there is a strong likelihood that some emitters will seek special treatment, exemptions or loopholes.

Additionally, you do not need to be an economist to recognize that when supply does not meet demand, prices will increase and create a greater risk of shortages. The U.S. Congress is considering legislation (the Lieberman-Warner Climate Security Act) that would establish a national cap-and-trade system for greenhouse gases similar to the approach stipulated in the Midwestern Greenhouse Gas Accord.

The American Council for Capital Formation and the National Association of Manufacturers recently completed a study that employs the National Energy Modeling System to estimate costs to the U.S. economy if the Lieberman-Warner bill is enacted. Breaking out costs by state, the study concludes that the low-cost projection assumes that 300 new nuclear power plants would be built in the United States by 2030 and the high-cost projection assumes 100 new nuclear power plants will be built — both optimistic assumptions. According to the study, Michigan can expect by 2030 to lose 91,000 jobs under the low-cost projection and 122,000 jobs under the high-cost projection. During the same time period, the average income of Michigan households would decrease \$3,867 under the low-cost projection and \$7,051 under the high-cost projection.

The study also says a greenhouse gas cap would greatly increase energy costs in Michigan: Gasoline prices would rise between \$2.17 and \$5.15 a gallon; residential electric costs would increase between 6.61 and 10.33 cents per kilowatt-hour and natural gas prices would rise by similar levels.

Michigan's future energy policy is far too important to leave to the behind-closed-doors manipulation of government officials. A cap-and-trade system to reduce greenhouse gases could be devastating to Michigan's economy and have no discernible impact on global climate change. The Michigan Legislature needs to intervene to ensure that transparency and the interests of Michigan residents are paramount in the further workings of the Midwestern Greenhouse Gas Accord states.

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