



## Who Benefits, Who Pays, For Cap-and-Trade In Waxman Markey?

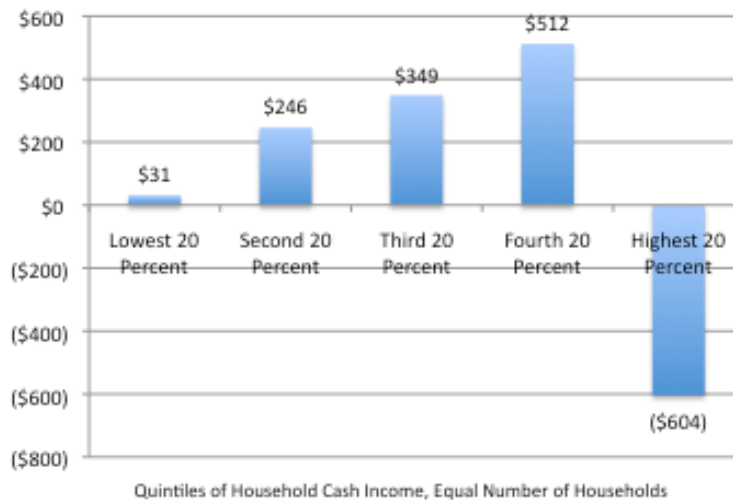
*“Under a cap-and-trade program, firms would not ultimately bear most of the costs of the allowances but instead would pass them along to their customers in the form of higher prices. Such price increases would stem from the restriction on emissions and would occur regardless of whether the government sold emission allowances or gave them away. Indeed, the price increases would be essential to the success of a cap-and-trade program because they would be the most important mechanism through which businesses and households would be encouraged to make investments and behavioral changes that reduced CO<sub>2</sub> emissions.”*

Former CBO and current OMB Director, Peter Orszag  
Senate Finance Committee, [April 24, 2008](#)

### Who Benefits from Waxman-Markey?

According to a [newly released analysis](#) of the cap-and-trade portion of HR 2454, *The American Clean Energy and Security Act* (also known as the “Waxman-Markey bill”) **households in the nation’s highest-earning quintile would profit by \$604 per year on a net basis** from the legislation. In contrast, the lowest-earning 80 percent of households would bear net burdens of between \$31 and \$512 per year, with the **heaviest burdens borne by the three middle quintiles that broadly constitute the nation’s “middle class.”** This effectively amounts to the **redistribution of approximately \$14 billion per year from the lowest-earning 80 percent of households to the highest-earning 20 percent of families in the nation.**

### Net Household Burden from Waxman-Markey Under Baseline Assumption of Shareholder Profits from Free Allowances (Positive Amounts Indicate Net Costs; Negative Amounts Indicate Net Benefits)



Source: Chamberlain Economics, L.L.C.

## Who Pays?

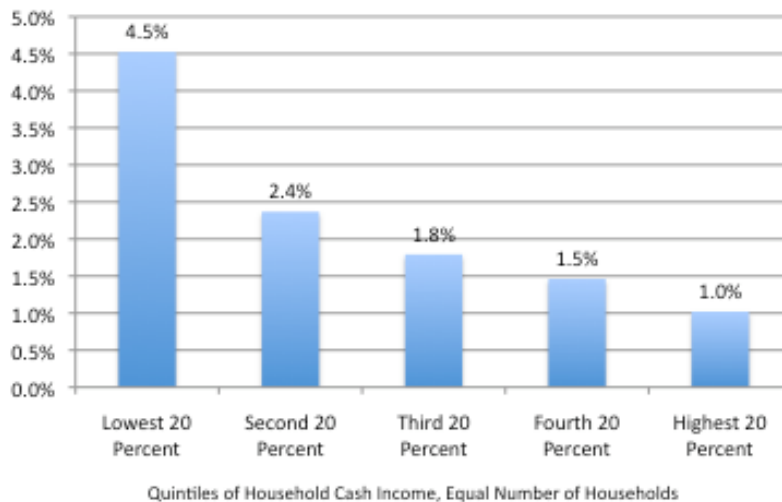
Households in the lowest-earning quintile—those earning less than \$18,370 per year—would pay \$451 per year or a substantial **4.5 percent of their income**. This additional tax upon these households would be **larger than every other tax they currently pay**, except the federal payroll tax, which costs an average of \$656 per year, and would be roughly equivalent to a:

- 69 percent increase in the federal payroll tax on these households;
- 60 percent increase in state-local sales taxes;
- 52 percent increase in property taxes; or
- a three-fold increase in the combined federal and state-local gas taxes paid by the nation’s lowest-income households each year.

For America’s “middle class” households—those residing in the middle 20 percent of the income spectrum—the \$805 annual Waxman-Markey energy tax is the equivalent to **1.5 percent of their income** or roughly equivalent to an:

- **80 percent increase in the state and local income taxes;**
- 34 percent increase in state local property taxes;
- 29 percent increase in federal income taxes; or
- roughly double the combined federal, state and local gas taxes.

### Gross Burden from Waxman-Markey as a Percentage of Household Income



Source: Chamberlain Economics, L.L.C.

## How Does Industry Profit?

The Waxman-Markey bill distributes roughly \$778 billion in free emission allowances to various politically favored industries and others between 2012 and 2020, at the direct expense of non-favored industries and U.S. consumers. The ultimate impact of this giveaway of emission allowances is to transform the already regressive gross burden of a cap-and-trade system into a highly regressive federal climate policy that effectively redistributes tens of billions of dollars per year from low- and middle-income households to high-income shareholders.

The largest single recipient of free allowances is the electricity industry. The bill would distribute between 35 percent and 43.8 percent of total allowances to local electricity distribution companies and other generators between 2012 and 2020. Local electricity distribution companies would receive the balance of allowances set aside for the electricity industry, with instructions to utilize them "for the benefit of" local electricity ratepayers.

Under Waxman-Markey, the electricity industry would enjoy between \$32 billion and \$48.6 billion *per year* in free allowances, for a grand total of \$357.2 billion over the same period. Such a policy is the equivalent of transferring roughly double the projected 2010 collections from the federal corporate income tax (\$179 billion) to a single industry group.

## Conclusion

Contrary to recent CBO estimates that rely on a theoretically unsupported assumption about the economic impact of free allowances on U.S. households, we find that the lowest-earning 80 percent of families would bear the entire net burden of the Waxman-Markey bill, with the nation's highest-earning 20 percent enjoying a substantial annual profit on a net basis. This regressive impact is due almost entirely to the large fraction of emission allowances lawmakers chose to grant freely to various politically favored U.S. industries when drafting H.R. 2454.

In other words, the study agrees with Mr. Orszag that the costs of these allowances will benefit the companies, even though they will be borne by consumers.

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