

Comments on the American Clean Energy and Security Act (HR 2454)

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I am Rob Bradley, founder and CEO of the Institute for Energy Research, a nonpartisan 501(c) 3 educational organization with offices in Houston and Washington, D.C.

For several decades, I have studied, lectured, and written about energy and public policy. I am pleased to be with you today to offer my perspective on HR 2454, better known as the Waxman-Markey climate bill, which was recently passed by the U.S. House of Representatives.

- Waxman-Markey is a public-policy abomination—and I do not use that term often or lightly.
- HR 2454 is a recipe for public-policy failure and wealth destruction. It should be opposed by open-minded climate scientists and climate economists of *all* political persuasions.
- HR 2454 is all pain and no gain; it is *punitive regulation for its own sake*. There is no public purpose in this proposal, because it cannot pass a realistic cost/benefit test.
- On the benefit side, it is *climatically inconsequential*. Even the (unrealistic) aspirational goal of an 83% reduction in U.S. greenhouse gas (GHG) emissions by 2050 would avoid only 9/100ths of one degree Fahrenheit warming if you believe the high-climate-sensitivity climate models—and even that estimate may be too high.¹
- On the cost side, Waxman-Markey will be expensive, as the bill’s proponents have acknowledged.² The direct costs of Title III’s cap-and-trade program alone were estimated at about \$1,500 per average family each year by 2035.³

¹ Chip Knappenberger, “Climate Impacts of Waxman-Markey,” at <http://masterresource.org/?p=2355>. This estimate might still be too high because of the “leakage problem,” meaning that emissions in other countries might increase because of industry arriving from an over-regulated United States. (<http://masterresource.org/?p=2897>).

² IER, “Cap-and-Trade: They Said It,” <http://www.instituteforenergyresearch.org/2009/05/18/cap-and-trade-they-said-it/>.

³ Heritage Foundation, “The Economic Impact of Waxman-Markey,” at <http://www.heritage.org/Research/EnergyandEnvironment/wm2438.cfm>.

- *Additional* consumer and taxpayer costs would result from Title I: Clean Energy, Title II: Energy Efficiency, and Title IV: Transitioning to a Clean Energy Economy. For example, the costs of the Clean Energy Bank are undefined and open-ended.⁴

And a federal renewable mandate would force unneeded, uneconomic energies into the grid—sources that are more expensive to produce, still more expensive to transmit, and unreliable (intermittent). Consumers and taxpayers lose, as do those states with less renewable infrastructure and/or potential.⁵

- Simply put, HR 2454 fails a cost/benefit test analysis because the costs are real and now, while the benefits are distant and miniscule.⁶
- Thus, Waxman-Markey fails as “climate insurance policy,” because the insurable event is speculative, the premiums are unaffordable, and the payoff is virtually nil.

A *Qualitative* Failure—and Threat

- Al Gore’s mentor James Hansen rejected the original Waxman-Markey bill as “a 648-page cap-and-trade monstrosity.”⁷
- Compromises and horse trading has produced a very watered down and complicated final version of HR 2454 that runs to 1,428 pages—a more-than-double “monstrosity” than Hansen first identified.
- The real danger of this bill is that it puts in place the machinery of economic and social control that will be very difficult to undo. Milton and Rose Friedman called

⁴ As proposed, the Clean Energy Deployment Administration (CEDA) would use federal tax dollars to provide subsidies (e.g., direct loans, letters of credit, loan guarantees, and other credit instruments) to private business in order to “promote access to affordable financing for accelerated and widespread deployment” of clean energy, energy infrastructure, energy efficiency, and manufacturing technologies. See Jerry Taylor, “Busting the Green Energy Bank,” at <http://masterresource.org/?p=3154>.

⁵ IER, “New Tools to Understand the House and Senate Renewable Electricity Mandate Proposals, at <http://www.instituteforenergyresearch.org/2009/05/16/new-tools-to-understand-the-house-and-senate-renewable-electricity-mandate-rem-proposals/>.

⁶ Robert Murphy, “Another Look at Waxman-Markey: A Dog that Won’t Hunt,” at <http://masterresource.org/?p=3292>.

⁷ Robert Bradley, “Cap-and-Trade: The Temple of Enron,” at <http://masterresource.org/?p=2559#more-2559>.

this “the tyranny of the status quo” where an “iron triangle” of special-interests, regulators, and politicians enslaves the common good.⁸

- New regulatory regimes typically expand, not shrink and disappear. Waxman-Markey is just the opening stanza of something that is likely to grow and worsen once in place.

The Enron Bill

- HR 2454 is a bill that only my old company, Enron, could like.⁹
- The late Enron chairman Ken Lay had a business model predicated on special government favor. Economists call this rent-seeking, a form of political capitalism, as opposed to capitalism proper.¹⁰
- Enron, as one former Greenpeace official observed, was “the company most responsible for sparking off the greenhouse civil war in the hydrocarbon business.”¹¹
- Why? Because Enron had *seven* profit centers based on climate alarmism and pricing carbon dioxide (CO₂).¹²
- Two of the biggest profit centers are front and center of HR 2454:
 - Cap-and-trade, which a former Enron lobbyist predicted “would be good for Enron stock”¹³).
 - A mandated renewable-energy quota, which was what the then-subsiary Enron Wind Corporation needed to become profitable.
- Enron’s “smartest guys in the room” were also masters at gaming complex regulatory systems. They did it with the accounting code, the tax code, and

⁸ Milton and Rose Friedman. *Tyranny of the Status Quo*. San Diego: Harcourt Brace Jovanovich, 1983.

⁹ My history with Enron, and as a critic of the company, is summarized here: <http://www.politicalcapitalism.org/enron/>.

¹⁰ Political capitalism (versus free-market capitalism) is defined at <http://www.politicalcapitalism.org/what/>.

¹¹ Quoted in Robert Bradley, *Capitalism at Work: Business, Government, and Energy* (Salem, MA: M & M Scrivener Press, 2009), p. 5.

¹² Robert Bradley, *Capitalism at Work*, pp. 306–307.

¹³ John Palmisano, “Implications of the Climate Change Agreement in Kyoto and What Transpired,” at <http://www.politicalcapitalism.org/enron/121297.pdf>.

California electricity code a decade ago. They would have a field day with a CO2 code.

Waxman-Markey: Unsalvageable

- Even the watered down Waxman-Markey proposal is an economic loser and job destroyer. HR 2454 is easily worst piece of federal legislation since the passage of the Emergency Petroleum Allocation Act of 1973, which put Americans in the gasoline lines in 1974 and 1979 and replaced domestic production with OPEC imports barrel-for-barrel.
- No matter how watered down the bill gets, it cannot be salvaged because it creates the machinery of command-and-control that opens the door for future mischief. New bureaucracies and new programs are not created to just sit there. They exist to be ramped up. Thus Waxman-Markey is a *qualitative and conceptual failure*, not only a quantitative one as measured by cost/benefit analysis.
- It is ironic that this legislation is being pushed with great haste at the very time global temperature records indicate there has been little-to-no global warming for a decade or more, despite climate models that predicted accelerated warming.¹⁴
- All friends of consumers and the economy should view the proposed legislation harshly. Critics of corporate welfare and political capitalism should be very suspicious as well. It is time to start over with climate policy.

I will be happy to answer any questions.

¹⁴ Chip Knappenberger, "A Warm Year? Or a Cool Decade?" at <http://masterresource.org/?p=1065#more-1065>.