

THE CASE AGAINST PROPOSED ENERGY LEGISLATION

by Joseph Schmitz

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The long-awaited Kerry-Lieberman climate and energy bill was unveiled recently. Among its provisions are the following:

- establishing a carbon cap, reducing economy-wide emissions to 58% of 2005 levels by 2030 and 17% of 2005 levels by 2050;
- establishing a Clean Energy Technology Fund, whose source of funding is not disclosed;
- supporting electric vehicle infrastructure;
- implementing new taxes to force the carbon reductions, of which two-thirds of revenues will be rebated to consumers, though not directly.

The Congressional Budget Office has concluded that, over 10 years, this bill would reduce the deficit by \$19.1 billion. It will not. Instead it will increase the deficit by hundreds of billions of dollars. Why should anyone dispute the CBO? The CBO uses static analysis when evaluating Congressional proposals. The agency should be using dynamic analysis, which takes into consideration people's behavior along with other factors that can vary. The information used to analyze Congressional proposals is provided by the lawmakers themselves, who could benefit by providing data that tend to make the proposals appear cost effective. "Garbage in" is going to produce "garbage out." Consequently, the CBO's track record is poor when actual results are compared to its projections.

Since the CBO uses static analysis, the actual effect on the overall economy is not considered. With few exceptions, the government should not interfere in the activity of markets. The allocation of labor, resources, and capital is best done in the private economy, where markets are free to operate without government interference. One of the best examples of the detrimental effects of government interference is the labor market. Involuntary unemployment is basically due to defects in the pricing system. Imagine what the present unemployment rate would be if we had a truly free labor market. The Kerry-Lieberman climate and energy bill will place caps on carbon that are almost impossible to meet, and it redirects capital to numerous projects that, in a free market, would not receive funding, taking capital away from more worthy endeavors. All this reduces economic growth, individual wealth, and federal revenue, contributing to a larger budget deficit.

What should be done to combat global warming? You first have to ask several questions. Is it happening? If not, we do nothing. If so, we must determine the cause. If it is determined to be due to natural causes, we do nothing. If it is man-

made, we have to ask what humans are doing to cause warming. If we cannot pinpoint the cause, we conduct further research to find the cause. If we can determine the cause, such as emitting excessive greenhouse gases, we must ask whether warming is good, bad, or a combination that can more or less cancel each other out. If it turns out to be bad, the question is what to do about it.

The Kerry-Lieberman Energy Bill takes the wrong approach. It fails to consider that, in order to make even a small reduction in greenhouse gases, the rest of the world will have to take similar measures. Fast-growing economies like India and China, which have approximately one-third of the world's population, are unlikely to go along. Neither are other developing countries, which are likely to have little interest in measures that would slow their economic growth. Kerry-Lieberman will result in slower growth in the U.S. compared to the rest of the world. If warming is determined to be detrimental, we must determine whether the proposed solution may be even more detrimental.

If we determine that warming is man-made and harmful, what should we do? Foremost, we need to implement a pro-growth expansionary fiscal policy in the U.S. and encourage the same in other countries. The wealthier a country becomes, the more resources it can devote to solving problems. We must realize that many predicted calamities never came to pass because developing technologies addressed the issues. An example a few decades ago was the predicted mass starvation: what was not seen at the time was an increase in the world's wealth, which tended to slow population growth and produce major advances in agriculture. It was said in the mid-19th century that, within a hundred years, London would be covered in three feet of horse manure. What was not foreseen was the invention of the automobile. In a free market, if there is a need, people will produce the product, service, or technology to provide for that need.

Why do leaders so often propose solutions to problems or nonexistent problems that do not resolve the problem or that make things worse? Most people are driven by desires. I suspect most politicians are driven by the desire for power and control. Rather than implement policy that advances freedom and prosperity and makes people independent, they would rather keep people dependent and limit their freedom. They are doing what many rulers have done since the beginning of time, just using more sophisticated methods.