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CONGRESSIONAL TESTIMONY

**Green Jobs and Red Tape: Assessing
Federal Efforts to Encourage
Employment**

**Testimony before
The Committee on Science, Space, and
Technology; Subcommittee on Investigations and
Oversight
United States House of Representatives**

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My name is David Kreutzer. I am Research Fellow in Energy Economics and Climate Change at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Chairman Broun, Ranking Member Edwards, and distinguished members of the subcommittee, thank you for giving me this opportunity to discuss the employment impacts of federal energy and climate policies.

When the savings of new, more energy efficient technologies exceed the costs of adopting those technologies, markets have the incentive to adopt them. Indeed the difference between the savings and the costs is the measure of the increased value the economy generates. But it is the voluntary participants in these market transactions that best know the full spectrum of the costs and benefits that matter most to them. While engineers, accountants, technicians, and others might help to inform consumers and producers, no number of green eyeshades, calculators, and lab equipment can substitute for a consumer's or firm owner's own determination of value.

In other words, policies mandating energy technologies that markets resist will reduce national income and slow the economic growth that generates good new jobs.

In addition, it does not matter how an economy's scarce resources are diverted from their most valued uses. Whether by a cap-and-trade law, or regulatory policy, or by subsidies, when consumers or producers are forced to use or pay for expensive or less suitable energy sources or technologies, the value of their production and consumption drops.

Cap-and-Trade Non-Stimulus

A popular misconception encouraged by many in the debate over the cap-and-trade bills, such as Waxman–Markey, was that restricting access to affordable fossil fuels leads to even greater economic activity as markets adapt to the new, artificial constraints. Such a conclusion implies that the new substitutes, whether they be products or processes, are so superior and/or so much cheaper in comparison to the old technology that consumers and producers find the benefits exceed the costs. However, it is exactly this sort of better substitute that markets are constantly striving to find.

The notion that cap-and-trade will have costs in terms of lost national income is not one peculiar to analysts at conservative think tanks. In September of 2009 a panel of economists from the Brookings Institution, the Environmental Protection Agency, the Congressional Budget Office, the Energy Information Administration, and The Heritage Foundation presented their different findings on the economic impact of cap-and-trade policies. None of the economists argued that cap-and-trade would stimulate the economy. Instead, the debate was over how much the economy would be harmed.¹

¹“Cap and Trade: Comparing Cost Estimates,” Heritage Foundation event, September 21, 2009, at <http://www.heritage.org/Events/2009/09/Cap-and-Trade-Comparing-Cost-Estimates>.

The Heritage Foundation estimated that the Waxman–Markey bill would have cost the economy hundreds of billions of dollars per year and led to an aggregate loss of near \$10 billion by 2035. The disruption would have cut employment by nearly 2.5 million jobs by 2035.²

Regulation Non-Stimulus

A recent paper by Ceres claimed that the EPA’s costly regulations of the electric power sector would create jobs.³ Indeed, their analysis shows that the more costly it is for the electric power industry to comply with the regulations, the more jobs are created. This nonsensical conclusion is the unavoidable result of fundamentally flawed analysis.

The Ceres report borrows estimates of the cost of meeting the new pollution standards imposed by the EPA. Plugging this amount, \$196 billion, into an input-output table they generate 1.5 million job-years (erroneously referred to as “jobs” in the executive summary and in their press release). The fatal, and glaring, error in the calculation is they ignore the opportunity cost of the \$196 billion in the first place. This is a pure example of the broken-windows fallacy—the fallacy that asserts breaking windows is good for the economy because somebody has to repair them.

Because the \$196 billion is not free money, it represents the diversion of resources (including jobs) away from other production.

Stimulus Non-Stimulus

Last October the director of the Department of Energy’s Loan Program Office, David Frantz, gave an update of the department’s loan-guarantee programs funded by the American Recovery and Reinvestment Act (ARRA or Stimulus).⁴ The criteria he outlined highlight the problems with allocating capital via the political process. Two of the criteria presented were mutually exclusive. The first was funded projects should be commercially viable. The second was those seeking funding must demonstrate the projects cannot get private financing. For many economists, the inability to get private financing would be the definition of not being commercially viable.

Government loans and loan guarantees alter the paths of capital allocation towards loans with greater political rates of return relative to actual financial rates of return. In the slides presented last October, Mr. Frantz listed four projects for which the loan processes had been finalized.⁵ It is illuminating to review the paths those projects have taken since receiving loans.

The first, Solyndra, received a loan guarantee for \$535 million in the fall of 2009. In the spring of 2010 it failed to complete its initial public offering after an independent audit questioned the

²William Beach *et al.*, “The Economic Impact of Waxman–Markey,” Heritage Foundation *WebMemo* No. 2438, May 13, 2009, at <http://www.heritage.org/Research/Reports/2009/05/The-Economic-Impact-of-Waxman-Markey>.

³James Heintz, Heidi Garrett-Peltier, and Ben Zipperer, “New Jobs—Cleaner Air Employment Effects Under Planned Changes to the EPA’s Air Pollution Rules,” a Ceres Report authored by the Political Economy Research Institute, February 2011, at <http://www.ceres.org/Page.aspx?pid=1334> (April 9, 2011).

⁴U.S. Chamber of Commerce Emerging Technologies Committee Meeting, October 29, 2010, at <http://www.uschamber.com/issues/energy/emerging-technologies-committee-fall-meeting-2010-spotlight-technology-finance-and-lia> (April 10, 2010).

⁵U.S. Department of Energy, “Loan Guarantee Program Status Update,” October 29, 2010, at http://www.uschamber.com/sites/default/files/issues/environment/files/LGP%20Update%20Chamber_102910_Fin_al.pdf (April 10, 2011)

ongoing viability of the firm.⁶ Then, in the fall of 2010, the firm closed one of its manufacturing facilities and laid off 180 workers.⁷

The second, Beacon Power, received a \$43 million loan guarantee in July of 2009. Since then its stock price has dropped by half—a period during which the Dow-Jones Industrial Average has increased over 40 percent.⁸

The third, First Wind Holdings, received a \$117 million loan guarantee in March of 2010, but withdrew its initial public offering in October of 2010.⁹

The fourth, Nevada Geothermal Power's Blue Mountain geothermal project, appears on track. Nevada Geothermal has entered into a 20-year power purchase agreement with the Nevada utility, NV Power.

Three of the four recipients give evidence that their inability to secure private financing was not due to market failures.

But what is the overall impact of the Stimulus package on the economy and employment? A recent report by the Blue Green Alliance and the Economic Policy Institute offers both an excellent analogy for why the Stimulus bill's green subsidies cannot improve the economy, and a chart showing that it does not. Though, that does not appear to be the authors' intent.

The study notes that after the enactment of the Stimulus bill, the unemployment rate not only increased further, but exceeded even the Obama Administration's own forecast for the no-policy case. That is, the implication is that the policy made the economic situation worse. In trying to explain why the Stimulus package was effective never-the-less, the authors write,

“A good metaphor for this controversy is the temperature in a log cabin on a cold winter's night. Say that the weather forecast is for the temperature to reach 30 degrees. To stay warm, you decide to burn three logs in the fireplace. You do the math (and chemistry) and calculate that burning these three logs will generate enough heat to bring the inside of the cabin to 50 degrees – or 20 degrees warmer than the ambient temperature. But the forecast is wrong – and instead temperatures plummet to 10 degrees and burning the logs only results in a cabin temperature of 30 degrees. Has log-burning failed as a strategy to generate heat? Of course not.”¹⁰

⁶David Freddoso, “Obama's Big Green Gamble: Solyndra,” *The Washington Examiner*, July 14, 2010, at <http://washingtonexaminer.com/node/65146#> (April 10, 2011)

⁷Ronnie Greene and Matthew Mosk, “Green Bundler With The Golden Touch,” *The Huffington Post*, March 30, 2011, at http://www.huffingtonpost.com/2011/03/30/green-bundler-with-the-golden-touch_n_842863.html (April 10, 2011).

⁸Morningstar.com, Historical Prices, BCON, at http://performance.morningstar.com/stock/performance-return.action?ops=p&p=price_history_page&t=BCON®ion=USA&culture=en-US (April 10, 2011).

⁹Steven Syre, “First Wind IPO Sputters Suddenly,” *The Boston Globe*, October 29, 2010, at http://articles.boston.com/2010-10-29/business/29332105_1_ipo-market-ipo-expectations-stock (April 10, 2010).

¹⁰Jason Walsh, Josh Bivens, and Ethan Pollack, “Rebuilding Green: The American Recovery and Reinvestment Act and the Green Economy,” Blue Green Alliance and the Economic Policy Institute, February 2011, p. 16, at <http://www.bluegreenalliance.org/admin/publications/files/BGA-EPI-Report-vFINAL-MEDIA.pdf> (April 10, 2011).

This metaphor is a perfect example of a logical flaw that typifies green-jobs studies in general. The flaw is there is no woodshed. The only logs available are the ones from the walls of the cabin. So, it would be no surprise to find it gets colder as the walls are torn down to be burned. Burning six logs instead of three will only double the size of the hole in the wall.

Likewise, there is no money shed from which the government can finance all the green subsidies. These resources are extracted from other parts of the economy. They do not, and cannot, come from outside the economy.

Yes, when firms receive government subsidies there may be additional jobs at those firms, just as it may get warmer right by the fireplace when more logs are torn from a wall and burned. But just as the overall cabin temperature will plummet, the overall economy suffers as resources are taken from better uses and put to less valued ones.

Figure 6 from the Blue Green/Economic Policy Institute study is attached. (Arrows added.) It plots the percent changes in gross domestic product (GDP), the percent change in consumption, and the change in payroll jobs from the first quarter of 2008 through the second quarter of 2010. Using the metrics chosen by the study's authors, consumption starts its rebound in the third quarter of 2008; GDP starts its rebound in the fourth quarter of 2008; and employment starts its rebound in the first quarter of 2009; but it is another three months (the second quarter of 2009) before the Stimulus spending even begins. By all three measures the economy had turned the corner before the first dollar of Stimulus money was spent.

Forcing taxpayers to subsidize energy they would not buy at its full price does not save them money, nor does it make production more profitable. Raising costs of production and reducing consumers' real income does not stimulate the economy.

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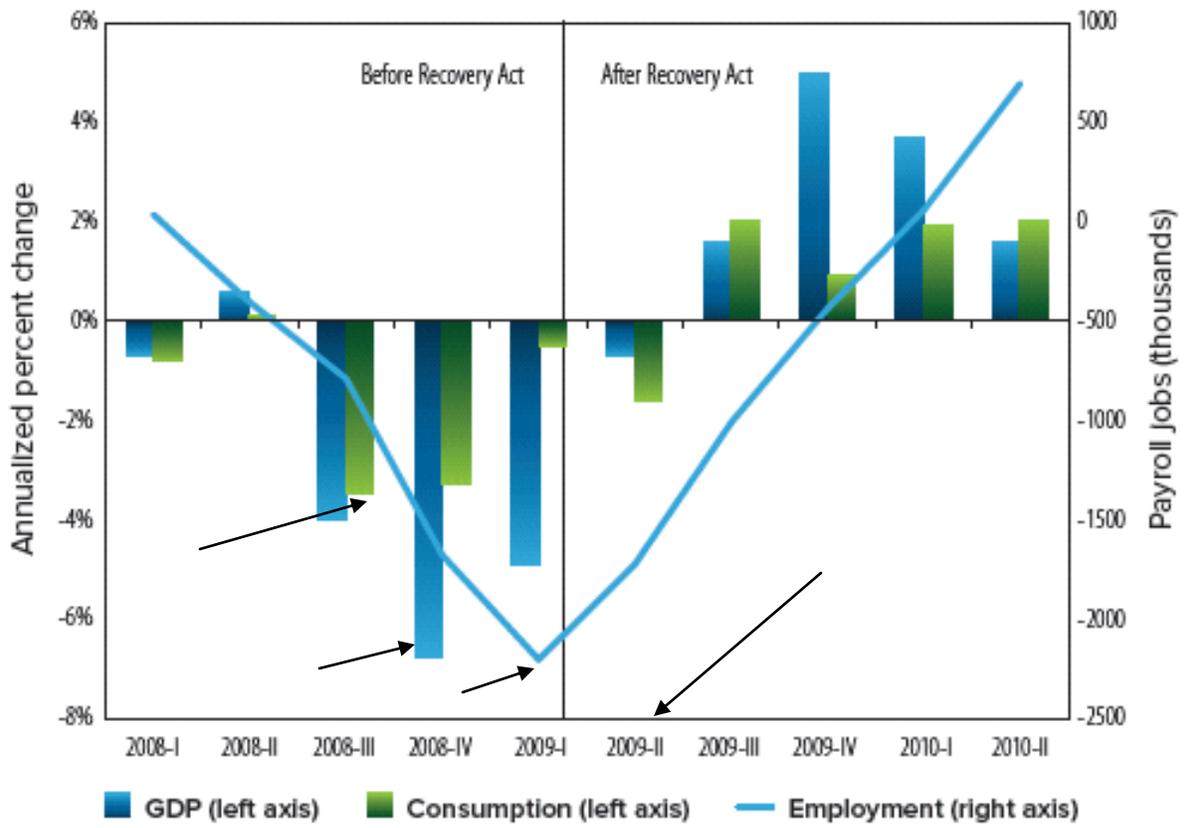
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FIGURE 6. Quarterly change in real GDP, consumption expenditures, and employment



Source: EPI analysis of Bureau of Labor Statistics data and Bureau of Economic Analysis data.

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¹¹*Ibid.*, page 17.