

CBO's National Energy Tax Estimate: Inadequate, Incomplete, and Now Outdated

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BACKGROUND

On June 19, 2009, the Congressional Budget Office (CBO) released its [analysis](#) of the Waxman-Markey "cap and tax" legislation (H.R. 2454). CBO concludes that the legislation would cost U.S. households *a net* average of \$175 in the year 2020—far less than other independent estimates that put the cost as high as thousands of dollars per household annually.

However, while admitting it fails to account for the loss of jobs resulting from higher energy costs, CBO confirms that *every* household will suffer from a national energy tax. CBO also estimates a gross tax of up to \$1,400 per household, using generous assumptions and ignoring regional disparities affecting Midwestern and Southern states. To drive the net cost per household down so low, CBO then assumes the benefit of a massive redistribution of wealth in the form of liberal spending programs. The American people are unlikely to ever see a dime of that money—in fact, some of these provisions have already been removed from the version of the bill being readied for floor consideration, causing CBO's analysis to be outdated. Further explanation of CBO's estimate for H.R. 2454 is below. For these reasons and others, CBO's household figure should be viewed with skepticism, while noting that even CBO concludes that the tax hit on households, notwithstanding the government handouts, is in the thousands.

PROBLEMS WITH CBO'S ESTIMATE

Ignores the Economic Damage from Cap-and-Tax: CBO flatly ignores the economic damage resulting from higher energy costs. In a footnote, it states that:

The resource cost does not indicate the potential decrease in gross domestic product (GDP) that could result from the cap. The reduction in GDP would also include indirect general equilibrium effects, such *as changes in the labor supply resulting from reductions in real wages and potential reductions in the productivity of capital and labor*.

In other words, CBO's household figure ignores the loss of income from smaller paychecks from less work or lost jobs. Independent studies of the bill suggest that in 2020 GDP would shrink by \$161 billion—which comes out to \$1,870 per family of four. There is also little debate that the tax would cause millions of manufacturing jobs to relocate to countries such as China and India. According to the independent Charles River Associates International, H.R. 2454 would result in a "net reduction in U.S. employment of **2.3 million to 2.7 million job each year** of the policy through 2030."

Ignores Regional Disparities: CBO also glosses over the well-established fact that under a cap-and-tax system costs for certain regions would be higher, particularly in manufacturing and coal-dependent states in the Midwest and South. CBO admits as much stating, "estimates of the average net cost to households...do not reveal the wide range of effects that the...program would have on households in different income brackets, different sectors of the economy, and **different regions of the country**." Regional differences would be especially pronounced in the electricity sector—primarily due to the fuels used in different regions (coal-fired power plants versus hydropower or nuclear) and the formula used for the distributing the allowances. Therefore, while a few populous states that do not rely on coal for electricity may not face skyrocketing electricity rates, other states which do rely on coal power (such as Ohio, Indiana and Kentucky) would see exceedingly higher rates.

Employs a "Tax and Spend" Methodology: CBO assumes that the federal government's distribution of allowance revenue in some form of benefits—such as low-income energy rebates or "energy stamps"—amounts to "a source of income" for energy consumers. But even with these new federal welfare benefits, CBO expects that households with incomes as low as \$20,000 would pay higher costs. Furthermore, CBO relies heavily on low-income refundable tax credits (i.e. spending via the tax code), which have since been removed from the version of the bill posted for floor consideration—meaning CBO's entire analysis is now outdated.

Ignores the Transition Costs: CBO notes that their 2020 snapshot, "reflects the costs that would occur once the economy *had adjusted* to the change in the relative prices of goods and services," and thus ignores the cost to households for the first eight years of the national energy tax.

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