Floor Statement of U.S. Senator Chuck Grassley of Iowa
on S.3036, the Lieberman-Warner Climate Security Bill
Tuesday, June 3, 2008

Mr. President. On April 24th of this year, the Senate Finance Committee held a hearing on tax aspects of a cap and trade program. The Director of the Congressional Budget Office, Peter Orszag, testified about the economic impact of a cap and trade system. Robert Greenstein of the Center on Budget and Policy Priorities testified on the impact of a cap and trade system on low-income families.

I would like to share some relevant information with my colleagues who may not have had an opportunity to review the testimony from the hearing. Mr. Greenstein, who is often pointed to by members on the other side regarding economic issues, expressed support for policies to address climate change, but pointed out that, "Significant increases in the prices of energy and energy-related products will necessarily occur as a result of the enactment of effective policies to reduce greenhouse gas emissions."

I think sometimes this issue is presented as though there will be no cost or that big corporate polluters will pay the all the costs. On the contrary, CBO Director Orszag testified that, "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." He explained that price increases stem from the restriction on emissions itself and that price increases are in fact an integral part of a cap-and-trade system. This is because price increases would be the key mechanism through which businesses and households would be encouraged to change behavior leading to reductions in CO2.

Regarding the impact of higher energy prices, Mr. Greenstein, who I know many on the other side listen to very closely about issues that affect the poor, observed in his testimony that "Households with limited incomes will be affected the most by these higher prices, because they spend a larger fraction of their budgets on energy and energy-related products and because they are less able to afford investments that could reduce their energy consumption (such as a new, more fuel-efficient heating system or car)."

It is important to emphasize that we are not just talking about heating bills.

Mr. Greenstein testified that, "The impact of climate-change policies on low-income consumers goes well beyond the direct effect of higher energy prices on their utility bills; more than half of the increased costs that low-income households would face would be for goods and services other than utilities."

Any item that requires energy to produce will become more expensive. Items he mentioned that would be more costly for low-income families include gasoline, food, and rent.

We've heard a lot of rhetoric from the majority party expressing concerns about the current high gas prices, and now they have brought before us a bill that would raise gas prices.

The new substitute amendment does contain a token provision for tax relief for consumers, but it only allocates the revenue from 3.5 percent of the allowances in the first year for this relief.

Robert Greenstein, to whom many of the supporters of this bill usually defer, testified that 14 percent of the allowance revenue would be needed to shield low-income households from further poverty and hardship. The current bill still falls short even in 2030 when 12 percent of allowances will be available to fund tax relief for consumers and emissions will be 45 percent below 2012 levels.

Mr. Greenstein estimates that the average increase in energy-related costs for the poorest fifth of the population would be $750 to $950 per year for a modest 15 percent reduction in emissions.

Can you imagine the outcry if Congress passed a bill to raise taxes on the poorest fifth of the population by $750 to $950 per year? But that's exactly what this bill will do, and I guess the Democratic Leadership is hoping no one will notice.

If Congress is going to impose significant new costs on working families, we must take sufficient action to maintain their standard of living. However, that means more than providing benefits to offset direct costs imposed by the legislation.

All Americans rely on healthy economic growth to provide jobs and opportunity.

CBO Director Orszag testified regarding a CO2 cap that, "The higher prices caused by the cap would lower real wages and real returns on capital, which would be equivalent to raising marginal tax rates on those sources of income." In other words, a cap and trade system has the same economic effect as the most anti-growth type of tax increase.

We're talking about a loss of jobs and a loss of economic opportunity for Americans.

The EPA estimates that this bill could reduce U.S. Manufacturing output by almost 10 percent in 2030 and could cut U.S. Gross Domestic Product by as much as seven percent, over $2.8 trillion, in 2050. To help mitigate the adverse effect of a CO2 cap, Director Orszag suggested that one option would be to use revenue from auctioning allowances to reduce existing taxes that tend to dampen economic activity.

Instead, the bill before us creates a raft of new government spending programs.

In fact, this bill is 491 pages long, and my staff counted about 212 pages of new spending programs. Much of the rest of the bill is devoted to creating new bureaucracy to manage the new programs and mandates. We're talking about $6.7 trillion in spending over the life of the bill. That's an astounding amount of money, even by Washington standards.

Of course the authors of the bill will say that these new spending programs would invest in new technology or help the environment in some way. One problem with that argument is that almost all of this spending would occur AFTER the caps have taken effect, because that's when the revenue from the allowance auctions will start coming in.

That's too late.

It's too late to START investing in alternative energy technology after we already have a cap in place that effectively limits the amount of energy that can be produced from fossil fuels. We need develop alternatives NOW. If we wait, the pinch we will feel from the cap will be much harder. We must have alternatives in place before any cap.

I should add that, even though this bill showers money on many industries and special interests in an attempt to attract political support, it does little or nothing to promote further use of wind energy. As the father of the wind energy tax credit, I can tell you that this zero-carbon, zero-pollution technology has tremendous potential to help meet any future carbon emissions goal.

Mr. President, Congress could take a very positive, concrete step towards reducing greenhouse gases right now. That step would be to send President Bush a package of extensions of expiring renewable energy production tax incentives. In order to become law, that package would need to be in a form acceptable to the President. The Senate acted on this issue when the Cantwell-Ensign amendment passed the Senate in the housing bill debate. The full Congress needs to follow-through and send this package to the President. With those production incentives and investments in effect, ahead of time, the projects will be built and more green energy will be supplied to America's homes, motor vehicles, and businesses.

I look forward to seeing these vital incentives extended, but we need to do more, much more, if we are going to have in place the alternatives to meet any future emissions targets. Instead, this bill, for the most part, waits until the cap has already taken effect and we will need to start switching to alternative sources of energy. Only then does it begin spending money to develop the alternatives that we will already desperately need by that point.

In addition, it creates a whole new federal bureaucracy called the Climate Change Technology Board to spend that money. It will be independent of any government agency and will consist of five directors appointed by the President. This new, unelected bureaucracy will have broad discretion to spend funds that are allocated directly to it without going through Congress and with minimal congressional oversight. Congress will only be allowed to block funding after the fact and only if it passes legislation within thirty days.

Anyone who is familiar with the legislative process around here knows that this is essentially a carte blanche to spend money. I'm sure we'll hear justifications of how each of these new spending programs will do a lot of good. When we hear that, I would urge my colleagues to keep one thing in mind. According to the EPA, a typical American household will lose nearly $1,400 in purchasing power and $4,400 in 2050 due to this bill. What we need to ask is whether these new spending programs justify a tax of $1,400, increasing to $4,400, on the typical American family.

Now, the authors of this bill will say that this is not a tax. I have already quoted the CBO director saying that this bill will have the same economic effect as a tax increase. We know that this bill will raise trillions of dollars in federal revenue, and CBO says that it will consider auction proceeds to be federal revenues and the spending in the bill to be federal outlays.

American families will feel the pinch in their pocket books. As the saying goes, if it walks like a duck and talks like a duck, it's a duck. Well, this looks like a tax and talks like a tax.

The question is what to do with the revenues. We are faced with a tough decision. With this much new spending, there is something in there for everyone. But, does it justify a tax of $1,400 to $4,400 on hard working families?

Rather than spend this money on new government programs, the right thing to do is to return it to the American people to offset the increased costs they will bear, prevent increased poverty, and preserve jobs and economic opportunity for all Americans.