Statement to House Committee on Energy and Commerce, Subcommittee on Energy and Environment

Hearing on "Green Jobs" and Energy Investment
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Chairman Waxman, ranking member Barton and members of the Committee:

No one relishes the role of naysayer, but many of the extravagant claims on behalf of "green jobs" and vastly increased federal investment in existing renewable energy technologies should be subjected to more rigorous scrutiny.

At the outset, it is obviously the case that any substantial new resources the federal government spends directly, or indirectly through tax breaks, subsidies, and mandates, will generate employment where little or none existed previously, just as our historically large spending for defense procurement over the years has generated substantial employment. In fact, it is precisely the example of defense spending that should give us pause—the reason we do not suppose defense spending to be the sure route to prosperity and full employment is that it does not add productive, self-sustaining capacity to the private economy.

Three chief questions should be considered. First, will a green jobs policy result in net employment gains or net economic growth in the absence of such a policy? Second, will green jobs be filled chiefly by currently unemployed workers or by workers displaced from fossil fuel-related industries? Third, will a green jobs program contribute to substantial reductions in greenhouse gas emissions in a cost-effective way? The answer to all three questions is likely to be No.

None of the major studies making the boldest case for green jobs include any consideration of several basic economic principles that are ordinarily brought to bear in analyzing such proposals.[1] There is no thought given to opportunity cost,

[1] The most frequently cited current studies are: *Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy,* by the Center for American Progress and the Political Economy Research Institute; *Current and Potential Green Jobs in the U.S. Economy*, prepared by Global Insight for the U.S. Conference of Mayors; and *Renewable Energy and*

that is, the lost economic productivity or employment that would result if an equal amount of capital is spent in another sector or for another purpose. To the extent that green jobs are in energy systems that are vastly more expensive than conventional energy sources it will mean less capital and purchasing power for other consumer wants and needs.

If green jobs and green energy projects are as intrinsically appealing, innovative, and productive as its advocates suggest, it should not need large subsidies or taxpayer support to gain traction. It is telling that wind power installations fall by three-quarters every time its special subsidies are allowed to expire.

It is likely that many green jobs would merely shift employment from one activity to another, rather than employing the currently jobless or workers displaced from coal-mining and auto manufacturing. A recent study by four economists at Spain's University Rey Juan Carlos concluded that Spain's aggressive ten-year-old policy to promote renewable energy and green jobs achieved negative results, and in fact the socialist government of Spain is now cutting back on the program. The authors estimated that each green job cost Spanish taxpayers about $600,000—more than $1 million for each job in wind energy—and costing more jobs in other sectors than it generated in the renewable sector.[2] Using European Commission data and two different economic models, the authors concluded that the U.S. would lose a net of two jobs for every job created by a green jobs program.

Another study by four American economists for the University of Illinois law and economics research program observes that there is little support in the academic literature for the thesis that spending for green jobs will generate a net increase in employment or economic activity: "In general, targeting subsidies to a particular area or industry, as the green jobs literature advocates, has not been supported by peer reviewed analysis. A survey of the evidence concluded 'targeting is based on poor data, unsound social science methods, and faulty economic reasoning and is largely a political activity.'"[3]

More:

> As political literature, the green jobs reports are masterpieces. They provide what on the surface appears to be scientific statistical backing for their recommendations, add an impressive array of tables and

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Energy Efficiency: Economic Drivers for the 21st Century, by the American Solar Energy Society; and *Green Jobs: Toward Decent Work in a Sustainable, Low-Carbon World*, by the United Nations Environment Programme.

[2] Gabriel Calzada Alvarez, et al, *Study of the Effects on Employment of Public Aid to Renewable Energy Sources*, Universidad Rey Juan Carlos, March 2009, http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf.

[3] Andrew Morriss, et al., *Green Jobs Myths*, University of Illinois Law and Economics Research Paper Series No. LE09-001, http://ssrn.com/abstract=1358423.

> charts, and throw out remarkably precise numbers in their forecasts. The most egregious in this regard is the Conference of Mayors report, which provides detailed breakdowns of potential green employment for every town in the United States. The problems with the numbers underlying this seeming precision are immense. Taken as a whole, they make the forecasts in the green jobs literature an unreliable basis for policy making. . . .
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> The preferred technologies in the green jobs literature face significant problems in scaling up to the levels proposed. These problems are documented in readily available technical literatures, but resolutely ignored in the green jobs reports. At the same time, existing technologies that fail to meet the green jobs proponents political criteria are simply rejected out of hand.

The sentimental enthusiasm for "green jobs" is merely one aspect of the contradictory theory behind the American Clean Energy and Security Act of 2009. On the one hand, we want to make carbon energy substantially more expensive—but not to have anyone pay higher costs because of it. The greater the rebates to industries and individual consumers, the less effective the program will be in reducing emissions. It is not clear what the point of the program is if it does not raise carbon prices across the entire economy. The idea of keeping consumers whole makes a much sense as raising the cigarette tax to reduce smoking, but rebating the tax to smokers.

We want to spend money on renewable sources of energy that are more expensive than conventional energy by orders of magnitude, but wish to deny that the higher cost will exact any drag on economic efficiency. To the contrary, we talk as though we have discovered how to stand in a bucket and pull ourselves up by the handle. The American people deserve more serious policy debate than this.

In one sentence, the only way in which a transition to a low-carbon energy system can be accomplished without significant economic cost and dislocation is to find breakthroughs that make low-carbon energy cheaper (which is a massive research and development challenge), not by making carbon energy artificially more expensive. In the fullness of time (that is 20 or 30 years from now), we are going to look back upon the Kyoto-style approach of costly carbon constraint as the climate policy equivalent of wage and price controls to fight inflation in the 1970s, or the Gramm-Rudman approach to deficit reduction in the late 1980s.