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## **ECONOMIC AND LIFESTYLE IMPACTS FROM PROPOSED GREENHOUSE GAS EMISSION RESTRICTIONS**

### **The Views of the Global Climate Coalition**

*U.S. living standards and lifestyles would be seriously damaged by many of the greenhouse gas abatement proposals currently under consideration, especially those that would stabilize or reduce carbon emissions by taxing fossil fuels.*

Studies have been conducted on the effects of carbon taxation by a number of experts in the field, including Dr. Lawrence Horwitz of DRI/McGraw-Hill, Dr. Alan Manne of Stanford University, and by the Energy Modeling Forum. All agree that energy taxation would appreciably shrink our economy. While carbon taxes might not be the policy chosen to reduce energy use, economists generally view carbon taxes as a "least-cost" estimate of the impact of other policies that might be used to reduce energy use.

Dr. Horwitz's study determined that about 40 percent of the cost increases brought by a carbon tax imposed to reduce carbon emissions to 1990 levels by 2010 would fall directly on households. This action would increase expenditures on energy use -- electricity for heating, cooling, lighting and running appliances. Carbon taxes would also drive up individual transportation costs.

This might seem like a fair price if it would stop a dangerous "global warming" as some special interests have claimed. But when the Intergovernmental Panel on Climate Change (IPCC), an international panel of climate experts assembled by the United Nations, issued a recent peer-reviewed report on what they actually know about future climate change, the results were enlightening.

"Future population and economic growth are uncertain, future greenhouse gas emissions given population and economic activity are uncertain, future greenhouse gas concentrations given emissions are uncertain, future climate given atmospheric concentrations of greenhouse gases are uncertain, future physical impacts of climate change are uncertain, and the future valuation of the physical impacts attributable to

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climate change are uncertain." (WGIII, FSM, chapter 10, section "Elements of an Integrated Assessment Model")

The remainder of the cost increases compelled by carbon taxation would be borne by industry in the form of higher prices for goods and services, which would then be passed along to the general consumer. Real consumer spending would fall about 2 percent, or \$452 per adult. Dr. Horwitz predicts that 89 percent of consumption categories would be negatively affected by the carbon tax.

In response to higher consumer prices and lower demand brought by the tax regime, real business fixed investment would plummet \$56 billion annually by 2010, according to Horwitz. With a general slowdown in business, the employment rate would fall precipitously. Between 1995 and 2010, some 520,000 jobs would be lost annually.

Additionally, real disposable income levels would decline. By 2010 that decline would be in the range of \$75 billion in 1992 dollars, or almost \$400 less income for every American aged 16 to 65. The residual effects of carbon-based taxation would be significant, including a general trend toward smaller homes and a sharp decline in home buyers as the cost of owning and operating a home rises while real disposable income falls.

The damage done to the nation's Gross Domestic Product would be significant. The Energy Modeling Forum found a decline of about 2 percent in GDP assuming a 20 percent emissions reduction by 2010. The results of Horwitz's study were even more alarming, projecting a reduction of 2.3 percent or \$203 billion dollars by 2010. This is about \$862 for every adult in the U.S.

The IPCC, quoted above, offers additional insight into claims that U.S. taxpayers must be immediately forced into a new regime of energy taxation.

"As a policy question, global climate is sometimes posed as a choice between doing nothing at all, and committing to an all out effort. Given the large current uncertainties about costs and benefits of greenhouse mitigation, this is the wrong way to frame the issue. A more useful formulation is: 'Given current knowledge and concerns, what actions should we take over the next one or two decades to position ourselves to act on new information that will become available.' " (WGIII, FSM, section 1.3.2)

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***Studies of the costs and benefits of emissions reduction policies demonstrate that a more gradual, long-term approach is advisable. In the place of carbon taxation, for example, energy saving is still possible within our economy. This and other alternatives should be explored thoroughly before instituting policies that would bring drastic and possibly unwarranted change to our living standards and lifestyles.***

The Global Climate Coalition is an organization of business trade associations and private companies established in 1989 to coordinate business participation in the scientific and policy debate on global climate change.

WGI, WGII, WGIII = IPCC Working Groups One, Two and Three.

FSM = Full Supporting Material, the peer reviewed portion of IPCC's work.

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