



The Nevada Policy Research Institute

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WCI cap-and-trade plan imposes drastic costs

A proposed pact to control carbon emissions in Western states would destroy regional jobs and erode residents' income, says a report released by an economics institute. And if Nevada were to join the pact, state residents would share in the negative consequences.

In a comprehensive review of claims made by the Western Climate Initiative — a joint effort of seven Western states and four Canadian provinces — the Beacon Hill Institute at Suffolk University in Massachusetts identified several methodological errors made by WCI analysts. The errors call into serious question so-called cost savings of \$11.4 billion to \$23.5 billion projected by the consortium and render WCI projections useless.

The authors of the report write, “Using the Western Climate Initiative’s own projections of increases in fuel costs, BHI finds that the policies will decrease employment, investment, personal income and disposable income. While WCI claims the ‘design is also intended to mitigate economic impacts, including impacts on consumers, income, and employment,’ they fail to quantify the impacts.”

Seven states are full participants in WCI: Arizona, California, Montana, New Mexico, Oregon, Utah and Washington. The Beacon Hill Institute found that WCI’s policy recommendations “would have substantial negative effects” on the economies of its member states. Nevada is currently listed as an observer to the initiative.

Were Nevada to become a full participant in WCI, it would face dire economic consequences. Under a scenario in which 100 percent of greenhouse gas emission permits would be auctioned off to emitters in a cap-and-trade scheme, estimates provided by BHI determined that Nevada:

- would lose from 4,344 to 10,568 private-sector jobs, while the permit revenue would allow the state to hire 3,007 to 5,118 state employees; and
- would diminish total personal income, which would fall by \$152 million to \$526 million per year.

The proposal's negative economic effects stem from the price and tax increases the states would impose on the energy and transportation sectors. Because a cap on carbon emissions is effectively a tax on energy production that is passed on to industry, businesses and consumers, the effect is likely to drive commerce and jobs to other states or countries.

“The cap-and-trade program would increase input costs for producers located within WCI states, placing them at a competitive disadvantage to those outside the areas,” BHI noted. “The pressure would be especially acute for producers that utilize large amounts of energy in the production process, such as manufacturers.”

Beacon Hill found that none of the seven WCI states would escape economic harm should cap-and-trade be imposed. If Nevada were to become a WCI member, it could lose as many as 4,164 net jobs and \$136 in per-capita disposable income.

“Cap-and-trade schemes such as the Western Climate Initiative are simply a new form of taxation,” said Geoffrey Lawrence, a fiscal policy analyst at the Nevada Policy Research Institute. “If implemented in Nevada, the WCI would impose more than a half-billion dollars annually in new taxes, destroy jobs, expand the role of government and penalize the most energy-intensive industries, such as gaming. It would amount to an intentional, self-induced recession.”

The complete study is available from Beacon Hill. The Institute's website is at www.beaconhill.org.

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