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California's 'Green Jobs' Experiment Isn't Going Well

Stephen Moore

Los Angeles - Gov. Arnold Schwarzenegger was all smiles in 2006 when he signed into law the toughest anti-global-warming regulations of any state. Mr. Schwarzenegger and his green supporters boasted that the regulations would steer California into a prosperous era of green jobs, renewable energy, and technological leadership. Instead, since 2007 -- in anticipation of the new mandates -- California has led the nation in job losses.

The regulations created a cap-and-trade system, similar to proposed federal global-warming measures, by limiting the CO2 that utilities, trucking companies and other businesses can emit, and imposed steep new taxes on companies that exceed the caps. Since energy is an input in everything that's produced, this will raise the cost of production inside California's borders.

Now, as the Golden State prepares to implement this regulatory scheme, employers are howling. It's become clear to nearly everyone that the plan's backers have underestimated its negative impact and exaggerated the benefits. "We've been sold a false bill of goods," is how Republican Assemblyman Roger Niello, who has been the GOP's point man on environmental issues in the legislature, put it to me.

The environmental plan was built on the notion that imposing some \$23 billion of new taxes and fees on households (through higher electricity bills) and employers will cost the economy nothing, while also reducing greenhouse gases. Almost no one believes that anymore except for the five members of the California Air Resources Board (CARB). This is the state's air-quality regulator, which voted unanimously in December to stick with the cap-and-trade system despite the recession. CARB justified its go-ahead by issuing what almost all experts agree is a rigged study on the economic impact of the cap-and-trade system. The study concludes that the plan "will not only significantly reduce California's greenhouse gas emissions, but will also have a net positive effect on California's economic growth through 2020."

This finding elicited a chorus of hallelujahs from environmental groups. The state finally discovered a do-good policy that pays for itself. Californians can still scurry around in their cars, heat up their Jacuzzis, and help save the planet. But there was a problem. The CARB had commissioned five economists from around the country to critique this study. They panned it.

Harvard's Robert Stavins, chairman of the federal Environmental Protection Agency's economic advisory committee under Bill Clinton, told me that "None of us knew who the other reviewers were, but we all came up with almost the same conclusion. The report was severely flawed and systematically underestimated costs." Another reviewer, UCLA Prof. Matthew E. Kahn, a supporter of the new regulations, criticized the "free lunch" aspect of the report. "The net dollar costs of each of these regulations is likely to be much larger than is reported," he concluded. Mr. Stavins points out that if these regulations are a net boon for

businesses and the economy, "why would you need to impose regulations like cap and trade?"

The Sacramento Bee, which has editorialized in support of the new regulations, was aghast at CARB's twisted science. We have to "be candid about the real costs of the transition," a cautionary editorial advised. "Energy prices will rise, and major capital investment will be needed in public transit and new transmission lines. Industries that are energy intensive will move elsewhere."

The green lobby has lectured us for years that global warming is all about the sanctity of science. Those who question the "scientific consensus" on catastrophic atmospheric changes are belittled as "deniers." Now, in assessing the costs, the greens readily cook the books and throw good science out the window. "To most of the most strident supporters of this legislation," says Mr. Niello, "the economic costs don't really matter anyway, because we are supposedly facing an environmental apocalypse."

Mr. Schwarzenegger fits into that camp. He recently declared: "I recommend very strongly that we move forward You will always have people saying this will lose jobs."

Meanwhile, the state is losing jobs, a lot of them. California's unemployment rate hit 9.3% in December, up from 4.9% in December 2006. There are now 1.5 million Californians out of work. The state has the fourth-highest housing foreclosure rate in the nation, has lost more businesses than any state in recent years, and is facing a \$40 billion deficit. With cap and trade firmly in place, the economic situation is only likely to get worse.

Other states are plundering the Golden State's industries by convincing businesses to pick up stakes and move out before the cap-and-trade earthquake hits. Governors and Washington politicians who want to reduce their "carbon footprint," but are worried about the more immediate crises of cascading unemployment, unbalanced budgets, and the housing-market collapse, would be wise not to follow California's lead. Green policies have a tendency to push states into the red.

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