

San Jose Mercury News

April 14, 2010

Opinion: California's AB 32 is a losing climate bet

By Margo Thorning

To say times are tough is an understatement. California families feel under siege, with an unemployment rate of 12.5 percent and an economy that stays down, while housing prices do the same.

So it's entirely reasonable that California's leaders, including those vying for the state's top executive job in November, are reconsidering the economically unsound AB 32 — a toxic mix of command-and-control efforts to forcibly limit carbon emissions, require a higher percentage of electricity from expensive renewable sources and impose a costly cap-and-trade scheme.

While a recent poll of 500 of California's 38 million residents by Next 10 finds that a majority of those polled support AB 32 and imposing a fee on companies that emit these gases, other polls reflect concern for the higher costs likely to follow from AB 32.

A July 2009 poll by the nonpartisan Public Policy Institute found declining support for state laws to curb greenhouse gas emissions: 46 percent thought that the state should delay mandatory reductions, up from 36 percent in their 2008 poll.

So what are the costs?

A federal cap-and-trade proposal from California's own Rep. Henry Waxman

would have been harmful for the nation and especially for the Golden State. An analysis by the American Council for Capital Formation found that the Waxman-Markey bill would reduce the gross state product by as much as \$70 billion per year and result in 300,000 fewer jobs being created in 2030. Consumers could see a 27 percent spike in electricity prices and a fall in household income of \$800 to \$1,400.

Major costs, but here's the truly shocking piece to keep in mind: The current California plan would actually be worse for the state's residents than the Waxman-Markey bill. That's because a federal plan would have to a large extent spread the pain over multiple states, while a go-it-alone law by California would mean that all that misery would have no company.

California power companies are already feeling the pinch over green energy mandates in the state. Los Angeles' power companies are in a heated battle over requests to raise electricity rates in order to finance the requirements to provide more renewable energy, including wind and solar energy.

Add on California's projected population increase to 44 million in 2020 and that means more energy use for home heating and cooling, job growth and transportation conflicting with a reduction of greenhouse gases of 41

percent at the same time.

AB 32's costs are sinking in and driving action in California. A petition drive is now under way to implement a ballot measure that would bar the state from implementing the law until its economy rebounds and unemployment drops below 5.5 percent for a year from its current staggering 12.5 percent.

Improving the tax treatment of new investment through faster depreciation and investment tax credits could reduce growth of greenhouse gas emissions as well as enhance productivity growth — steps California could take without endangering its economy.

Climate change is a global issue: Lawmakers should continue to support measures such as the Asia-Pacific Partnership — an agreement with developing countries to promote economic development and the spread of clean, lower-emitting energy technology.

Our policies ought to reflect that, and a good start is to rationally rethink a costly law that will do little for the environment and much for California's competitors.

MARGO THORNING is chief economist at the American Council of Capital Formation. She wrote this article for this newspaper.