

Passing a Climate Policy in Today's Downturn: The Time is Now

Remarks as prepared for Delivery

Moving the Midwest Forward: The Benefits of Building a Low-Carbon Economy IIT Chicago-Kent College of Law

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Thank you, Hamid, for that kind introduction, and thank you, Dean Krent, for hosting this conference at such an important time. It's a very special honor to be here today, so I hope you'll forgive me if I say a little more than the usual acknowledgements that begin every speech.

This is a very special city for me. My mother, here today, went to Roosevelt and Wright and worked down the street in a settlement house as her first job. My father worked over in City Hall for Mayor Daley Senior. I spent seven great years in Urbana and three on the Midway 50 blocks south of here, and nearly all of my oldest friends and family live here, some of them proud alumni of Chicago Kent.

My first job out of college was working for the people of Illinois under Governor Thompson. I also want to say that I still consider Exelon and Commonwealth Edison as my family's power company, and in addition to being one of my firm's clients, they have truly been leaders and champions in climate policy under the leadership of John Rowe and Betsy Moler. All of us owe them a debt of gratitude for this leadership and I want to thank them.

But best of all, I'm here today because Joan Wing and her husband Jack made me an honorary member of their family forty years ago. Ever since then they have been two of my dearest friends and wisest mentors. Joan was a law student here when I was in high school in Evanston, and I knew then I was in the presence of a superwoman. Now I'm sure chairing the board of a world-class law school is a major management challenge, but Joan was also the de-facto chairman of an utterly chaotic hormone-crazed group of high school sixties radical wannabees

publishing an underground newspaper. I leave it to your imagination to determine which of the two management tasks is the more difficult.

In any case, it really is a special privilege to be here.

The Cost of Failing to Act

Today I want to talk to you all about the importance of acting now to stop climate change, and why it's a good idea to do it now, in this admittedly horrible economy. When I was an engineering student at the University of Illinois, the concepts of energy policy and climate change were both still brand new. Back then the University of Illinois had a series of five supercomputers, called ILLIAC, which the Air Force used to forecast the weather. But it took two days of computing time to forecast the weather one day ahead -- obviously, it wasn't of too much practical use!

Today, our technology and our scientific understanding have advanced dramatically. With these advances, the scientific community has reached a strong consensus that greenhouse gas emissions are changing our climate. Now the economists who've studied these scientific conclusions have realized something that changes the whole way you think about climate change. They've looked at the science and realized that if we don't do anything to halt climate change, we and our children will bear enormous economic losses and a lower quality of life. So *not* taking action isn't free – it will cost us dearly.

Some of these costs of doing nothing are so large they are hard to comprehend. The most prominent estimates come from Professor Nicholas Stern from the London School of Economics. In 2006 Professor Stern reviewed dozens of studies with a huge team of experts and concluded that the costs of doing nothing were about three percent of GDP by 2100. A more recent review by the Australian government, using updated scientific studies, estimated eight percent of GDP by 2100. For those of you who can't do the math in your head, eight percent is a loss of \$1 trillion \$120 billion in today's dollars. That's how much we stand to lose, through property damage, drought, diseases, and other causes, if we fail to act.

I don't know about you, but a trillion dollars is a number so large it's hard to comprehend. Thanks to a study by the University of Maryland, we can translate some of these costs directly to the Midwest. This study found: a ten-fold increase in heat waves like the one that killed 753 people here in 1995; increased evaporation that could make shipping over the St. Lawrence seaway impossible without expensive dredging; more storm damage to roads and buildings; much higher property insurance premiums; and perhaps saddest of all, a loss of \$7 to \$40 billion a year from soil erosion for our farmers.

These changes will be part of large, rapid ecosystem changes that are deeply troubling to those of us who feel an obligation to be good stewards of nature. But even keeping this strictly on the level of dollars and cents, the expected costs of failing to stem climate change are obviously very large.

Now in spite of the range of high price we will pay if we do not act, there are still some out there who argue that we should delay enacting a national law until the economy rebounds. They point to the enormity and pain of the economic downturn we are in: since December 2007, 7.2 million people have lost their jobs, and in June unemployment reached 10.3 percent in Illinois, 10.7 percent Indiana and a gut-wrenching 15.2 percent in Michigan; 45 banks have failed so far this year, or roughly two per week, and we're spending hundreds of billions saving other banks; foreclosures, homelessness and the loss of health care coverage are at epidemic levels and straining public services; and state governments across the country are facing multi-billion dollar budget deficits. Here in Illinois Governor Quinn is facing a deficit he calls the state's "greatest crisis of modern times."

I respectfully suggest to all of you today that we should pass a climate bill right away *not in spite of the current economy, but because of it*. I say this for three reasons. First, the costs of national greenhouse gas limits are very small for everyone and *positive* for low-income families. Yes you heard me right – carbon trading in the Waxman-Markey bill is *progressive* for low-income Americans. Second, a climate policy passed this year will actually *promote* a lot of energy investment that is stalled due to the uncertainty around climate policy. Finally, an

economic trough is actually a very good time to put our energy infrastructure on a new development path.

The Costs are Small and Progressive

Let's talk about the costs of the Waxman-Markey legislation that recently passed the House. The bipartisan Congressional Budget Office, has looked at this legislation's impact on electric bills. The CBO examined only parts of the bill that impose carbon limits on businesses. Now the bill has many other provisions in it, such as agricultural offset programs that will benefit Midwestern farmers, renewable energy provisions that will boost Midwestern wind and solar projects, and energy efficiency provisions that will benefit everyone.

But when CBO looked just at the most prominent part of the bill, the cap and trade system, they found that wealthy American families would pay about \$245 more a year in 2020, about five years into the new system. However, the lowest fifth of all American families will actually GAIN \$40 a year from this legislation – according to the non-partisan CBO.

Why? Because the bill wisely gives every electric and gas distributor in the U.S. about 70 percent of all of the emissions allowances they will need to comply with the bill, with instructions to rebate the value of these allowances to their customers. That's \$14 billion in 2020. But that's not all. The bill further rebates 15 percent of the value of allowances, or \$28 billion, to low-income households.

What about businesses? We know that businesses have been hit hard by this recession. Fifty percent of the value of the allowances, or \$47 billion, is rebated back to businesses directly, and another \$27 billion is rebated back by way of electric and gas distributors. There are many other provisions in the bill to retrain displaced workers. And finally, for governments whose budgets are in crisis, as here in Illinois, ten percent of the allowances value is rebated to government.

Now remember, these numbers don't include the positive parts of the bill that boost energy efficiency and renewable energy. This bill has the strongest energy efficiency provisions of any bill in American history – building codes, and \$90 billion to invest in building efficiency. When

the American Council for an Energy Efficient Economy looked at the efficiency provisions of the bill, they estimated that these provisions will save consumers \$69 billion in 2030 and create over 300,000 jobs. That's \$4,400 per American family in lifetime savings.

There are other important provisions in the bill to retrain displaced workers. And by the way, when CBO looked at the job losses they concluded that employment changes would be *“small compared to the normal rate of job turnover in the economy.”*

Stalled Energy Investment

Now let's talk about how energy investment that we could use to create jobs here in the Midwest right now is being delayed. One of the things I do for a living is help utilities do their long-term investment planning. Energy is one of those industries where it takes a long time to get approvals and build new plants, so you have to plan far in advance. One of the impacts of NOT passing a national climate bill is that energy companies are stuck in planning limbo. They know a national climate policy is likely, but they don't know how stringent it will be or how it will apply to them. So they hold off on as many investments as possible until they know more about the policy.

I have spoken with the CEOs of many utilities, including John Rowe, about this. They confirm that they are slowing down or cancelling their investments not because they don't expect to make them eventually, but rather because of the uncertainty. Two days ago I spoke with the head of a Midwestern cooperative that cancelled a coal plant last year. He was very clear about the uncertainty being the biggest factor. Consol Energy, a coal mining company, is also delaying its investments due to uncertainty.

Here's another example. When wind developers want to build a new plant they sign up in a queue to get connected to the power grid. They can't get financing or start building until they have a grid connection set. Believe it or not, there are now more than 89,000 MW of new wind plants in the queue here in the Midwest. That's enough wind energy to power about three million homes and displace 210 million tons of carbon a year. One of the provisions of the

climate bill will help speed up expansion of the grid to new energy plants. If we had more transmission, we would have many more renewable jobs in the region – right now, right here.

I couldn't summarize this point any better than by quoting the Chicago Council on Foreign Affairs' recent Task Force on Energy Policy and Midwestern Regional Competitiveness. This task force took a hard look at the impacts of climate legislation on this region and acknowledged that it posed real challenges to the region. Nevertheless, the task force couldn't have reached a clearer conclusion: “**Prompt** enactment of national climate legislation is essential to the Midwest's future prosperity and competitiveness.”

Start the Economy on a Clean New Path

The third and final reason to enact a climate bill now is that an economic trough is the right time to change investment paths. As a nation we've been importing too much oil and using energy inefficiently for over a century. We've halted much of our energy investment now, but we will restart it as soon as the recession is over. This is the perfect time to set energy industry investment on a path towards a cleaner and more efficient economy.

In the big picture, the transformation of our energy infrastructure triggered by a climate policy is one of the smartest fiscal strategies we can adopt to get ourselves out of our awful economic distress. Sir Nicholas Stern explained it very clearly when he said the following:

“How did we reflate the economy after the bust of the dot-com? We lowered interest rates, had a big asset price bubble, and demand increased on the back of inflated house prices. That's not sustainable. We need to have a reflationary package, which lays the foundation for future growth. And if we look into the future, it's actually quite exciting. Because what we see is the biggest technological opportunity that we've had for a very long time: as big as the railways, as big as electricity, as big as the motorcar, and, most recently, information technology. It's the opportunity to go for low-carbon growth...”

Paul Volcker, another wise economic sage, said it a little more succinctly: “If we don't take action on climate change, you can be sure that our economies will go down the drain in the next 30 years.”

Professor Stern might have also compared today to the 1930's. We got out of our last depression by retooling our economy to produce tanks and airplanes, eventually converting those factories to produce washing machines and cars. It is unfortunate that it took a war, but the war was a vehicle that forced us to invest in a way that restarted our economy.

We can get out of the current recession by retooling our energy infrastructure to be cleaner, safer, and more efficient. I like to think of it as avoiding a war, but if you prefer, think of it as investing to win a very different sort of war against a very different – but no less lethal – foe.

Conclusion

So, in closing, let me sum all this up. Delay in adopting a U.S. climate policy might make sense if there was not such a long time required to build our capabilities and implement a response. It might make sense if the profound damages were reversible. But none of these things are true.

Waiting is simply gambling with the health and economic well-being of future generations. There is no upside to waiting. The costs are manageable, modest, and progressive. The costs of inaction are enormous, uncontrollable, and profoundly regressive. Acting now will jump-start new opportunities for clean energy companies, farmers and technologists and set our energy system on a new course.

U.S. climate legislation will mark an inflection point in world energy history – the moment America chose clean energy investment as a key part of its strategy for escaping from recession, not deepening it. The time for this policy, this legislation, and this new path to our future is now.

Thanks for your attention and best wishes for a very good conference.

Biographical Information

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The views expressed in this speech are solely those of the author, not necessarily those of *The Brattle Group* or its clients. He thanks Dean Murphy, Metin Celebi, Heidi Bishop and outside reviewers for their assistance. Peter.Fox-Penner@brattle.com 202.955.5050.

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