



THE TEXAS ECONOMY: How Would Climate Change Legislation Impact Economic Growth and Jobs?

A Fact Sheet Prepared by the Texas Public Policy Foundation

The federal government is now debating far-reaching energy policies that could impose a “cap-and-trade” system on greenhouse gas emissions (GHG) and mandate high levels of energy efficiency and renewable energy. The Waxman-Markey bill (HR 2454) passed by the U.S. House of Representatives in June 2009, contains the full range of these energy policy dictates.

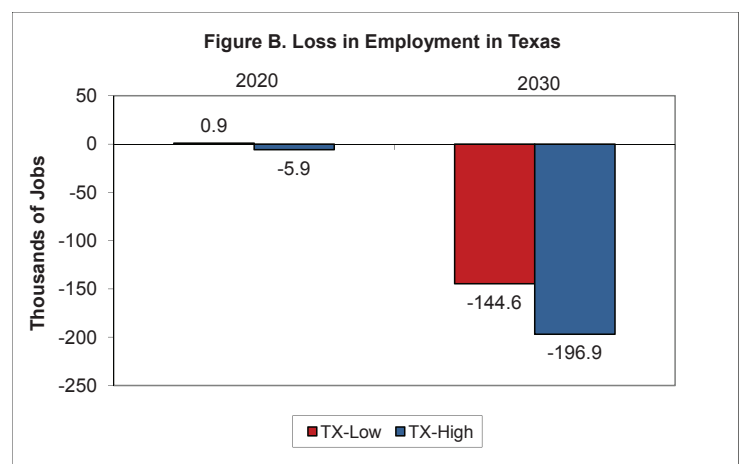
Texas, having an economy tied to energy development and manufacturing, is particularly vulnerable to adverse impacts from federal mandates to reduce GHG. If pending legislation such as the Waxman-Markey bill is enacted, the Texas economy will significantly decline and thousands of valuable jobs will be lost. Energy intensive industries with foreign competition may close operations in Texas and relocate in countries without similar GHG mandates.

Job Losses

Texas would stand to lose between 144,597 and 196,928 jobs in 2030 (see Figure B). Employment in economically key manufacturing sectors, such as chemical products, fabricated metals, and refining would be hard hit. Lower industrial output due to higher energy prices, the high compliance cost of carbon caps, and heightened competition from overseas manufacturers would cause job loss. Employment projections include the creation of “green” jobs.

Energy Prices Rise

Energy prices would rise under carbon caps. By 2030, gasoline prices could rise by 26 percent, natural gas



prices could rise as much as 73 percent, and residential electricity rates could rise by 50 percent. In recent years, each 1 percent increase in economic growth has been accompanied by a 0.2 increase in energy use. Carbon caps would force a shift from proven, energy-dense, cost-efficient energy sources to more expensive and unproven energy sources and technologies to capture and store carbon. More expensive energy retards economic growth.

Disposable Income Falls

Low income families and the elderly, who spend a disproportionate amount of their income on energy, will be especially hurt. Disposable income in Texas could fall by up to \$1,103 in 2030.

State Services Suffer

Because of a sharp decrease in industrial output (particularly in manufacturing and mining sectors—including

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oil and gas), the Texas gross state product (GSP) could decline by \$30-41 billion in 2030. This decline in GSP would reduce state revenues by \$2-3 billion, forcing Texas policymakers to make tough choices about how to fund basic services, such as law enforcement, hospitals, and schools.

Economic Growth Reversed

Texas' economy has become a model for other states. Over the last decade, Texas' real economic growth rate of 38.8 percent substantially outperformed the U.S. rate of 25 percent. Similarly, total employment in Texas grew by 25 percent compared to the U.S. rate of 14 percent. Driven by job growth in the oil and gas sector, employment in the Texas mining sector increased 52 percent over the same 10 years. Although the current recession has impacted this state, Texas has fared far better than the U.S. as a whole. In 2008, the Texas economy grew at a rate of 2 percent; the U.S. economy grew at a rate of 0.7 percent in 2008. If pending federal legislation like Waxman-Markey were enacted, those trends would be reversed and continued economic growth would become impossible.

About the Study

The American Council for Capital Formation (ACCF) recently conducted a macroeconomic study that examined the impacts of the Waxman-Markey bill on the U.S.

economy. This study on Texas is a deeper examination of those initial findings specific to Texas. The original macroeconomic analysis was undertaken using a version of the National Energy Modeling System (NEMS), the same tool used by the United States Energy Information Administration for its energy forecasting and policy analysis.

The study authors also explored both high- and low-cost scenarios to account for a wide range of assumptions regarding the likely cost and availability of new technologies, green jobs, energy efficiency standards, renewable electricity standards, and domestic and international offsets.

This research examines the impact of the Waxman-Markey bill on Texas' economy. Because the Senate climate change bill (S. 1733), known as Kerry-Boxer, requires further emissions reductions, the economic impacts addressed in this research would be higher if that legislation were enacted. Because the Waxman-Markey bill would issue the majority of the initial GHG emission allowances by grant instead of forced purchase through a federal auction, the major economic impacts are delayed until 2027-2030, when the carbon caps tighten. EPA regulation of CO2 and other GHG under the Clean Air Act could cause comparable economic impacts as a legislated cap-and-trade system. ★

The full report can be downloaded at: www.texaspolicy.com.

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The Texas Public Policy Foundation is a non-profit, non-partisan, free market research institute based in Austin. Our mission is to promote and defend liberty, personal responsibility, and free enterprise by educating policymakers and the public with academically sound research.

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