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U.S. Chamber of Commerce

Broken Windows: The Flawed Economic Logic of EPA's Carbon Regulations

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EPA's Gina McCarthy gave a speech to Resources for the Future defending EPA's proposed carbon regulations on economic grounds. However, the crux of her argument is based on a logical fallacy that will be costly to jobs and the economy.

Here are two passages from her speech:

Climate action is not just a defensive play, it advances the ball. We can turn our challenge into an opportunity to modernize our power sector, and build a low-carbon economy that'll fuel growth for decades to come.

...

Not only is global climate action affordable, but it could actually speed up economic growth.

In her mind, new mandates and regulations that end coal (and eventually natural gas) use in electricity generation will result in jobs and economic growth. McCarthy mentions that smart economists helped develop EPA's carbon plan. However like her, they succumb to the "broken window" fallacy. This is the logical misconception that generating jobs and economic activity by breaking things is good for society.

In his essay, "That Which is Seen, and That Which is Not Seen," the French economist Frédéric Bastiat tells the parable of the broken window:

Have you ever witnessed the anger of the good shopkeeper, James B., when his careless son happened to break a square of glass? If you have been present at such a scene, you will most assuredly bear witness to the fact, that every one of the spectators, were there even thirty of them, by common consent apparently, offered the unfortunate owner this invariable consolation - "It is an ill wind that blows nobody good. Everybody must live, and what would become of the glaziers if panes of glass were never broken?"

Now, this form of condolence contains an entire theory, which it will be well to show up in this simple case, seeing that it is precisely the same as that which, unhappily, regulates the greater part of our economical institutions.

Suppose it cost six francs to repair the damage, and you say that the accident brings six francs to the glazier's trade - that it encourages that trade to the amount of six francs - I grant it; I have not a word to say against it; you reason justly. The glazier comes, performs his task, receives his six francs, rubs his hands, and, in his heart, blesses the careless child. All this is that which is seen.

But if, on the other hand, you come to the conclusion, as is too often the case, that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry in general will be the result of it, you will oblige me to call out, "Stop there! Your theory is confined to that which is seen; it takes no account of that which is not seen."

One unseen cost of EPA's attempt to restructure the power grid, will be the shutdown of reliable coal-fired power plants. For instance, Duane Highley, CEO of Arkansas Electric Cooperative Corp. and Arkansas Electric Cooperatives Inc., told *Arkansas Business* he "would prefer to invest in scrubbers" for the 1,480-megawatt plant near Redfield, "and let it run for another 20 or 30 years" rather than shut it down.

What's more, enormous investments that have already been made to many of these plants to make them meet other EPA standards. Take the Ferry Power Station in Hatfield, PA. The plant's owner installed \$650 million of scrubber technology in 2009, but closed it four years later because of more EPA regulations.

During a July 23 hearing of the Environment and Public Works Committee, Senator Deb Fischer (R-NE) summed it up when she said that EPA's regulations will

force the premature retirement of efficient, low-cost coal-fueled generation; lead to the potential loss of billions of dollars in investments made over the last decade to make coal plants cleaner; require construction of higher-cost replacement generation; and increase natural gas prices.

Let's not forget some of the significant costs that we will see. EPA estimates that its regulations will mean electricity price increases of six to seven percent nationally in 2020, and as much as 12% in certain places. There are also the job losses. The United Mine Workers expects over 152,000 jobs lost in the coal sector by 2035.

(We could have a clearer understanding of the proposed carbon rule's job effects but EPA has failed to do the analysis.)

All these seen and unseen costs, and for what? Minimal global impact, as the Institute for 21st Century Energy's Matt Letourneau notes:

The reduction in emissions from EPA's rule would actually only decrease global emissions by 1.3%. Based on projections from the U.S. Department of Energy, the amount of carbon dioxide emissions that will be reduced from EPA's power plant rule is equivalent to just 13.5 days of Chinese emissions in 2030!

McCarthy can puff up the economic benefits of EPA's carbon regulations all she wants. By using a little bit of logic and looking at the facts, we can see her agency's plan will be a millstone on the economy. Just as a concerted effort to break windows doesn't benefit the economy, forcing the restructuring of the power grid is not a path to sustained economic growth.

About the Author



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Sean writes about public policies affecting businesses including energy, health care, and regulations. When not battling those making it harder for free enterprise to succeed, he raves about all things Wisconsin (his home state) and religiously follows the Green Bay Packers.

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