GREEN JOBS AND THE BROKEN WINDOW FALLACY

Testimony of
Nathan Benefield, *Director of Policy Research, Commonwealth Foundation*
&
Katrina Currie, *Research Associate, Commonwealth Foundation*
PENNSYLVANIA HOUSE REPUBLICAN POLICY COMMITTEE
June 11, 2010

On behalf of the Commonwealth Foundation, an independent, nonpartisan public policy research and educational institute based in Harrisburg, we would like to thank Chairman Saylor and the members of the Committee for the opportunity to provide our testimony on wind energy and "green jobs."

The 19th century French economist Frederic Bastiat came up with a famous paradigm known as the "Broken Window Fallacy." In this story, a young hoodlum throws a brick through a shopkeeper's window. A crowd gathers, and someone begins to explain why the broken window is a good thing—the shopkeeper will have to buy a new glass window, creating work for a glassmaker, and pay someone to install the new window. Of course, this is only the seen effect. The unseen impact is the opportunity cost lost, because the shopkeeper has to use money he would have spent elsewhere (to hire a new employee, to expand his business, etc.) to pay for the now-broken window.

This concept applies to the "green jobs" craze gripping lawmakers. Green jobs, i.e., jobs in wind, solar, and other alternative energies, are in and of themselves a good thing. But when government attempts to pick winners and losers—by identifying which industries are "green" or "good" and subsidizing them at taxpayers' expense, mandating their use, and even punishing their competitors with costly regulations—it hinders our overall economy. Jobs created in industries that depend on government assistance are not sustainable, will not stimulate the economy, and will not result in net job growth.

Pennsylvania has authorized over ***$2 billion in alternative energy subsidies*** since 1999. In addition to subsidies, Pennsylvania's Alternative Energy Portfolio Standards (AEPS) mandates that electric utilities provide an increasing proportion of their energy from legislatively-defined alternative sources. This effectively creates a market for these same energy producers that taxpayers are forced to subsidize.

Gov. Rendell likes to cite a Pew Study showing Pennsylvania ranks third in the number of "green jobs." However, Pew's green jobs study also shows the Commonwealth ranks third in clean energy jobs **lost** and **sixth in total jobs lost**.

This comes on the heels of *CEO Magazine* ranking Pennsylvania as the 32nd best state for business, with category rankings equally or more discouraging. This ranking is actually higher than many other independent rankings of Pennsylvania's business climate, including measures of interstate migration and the ALEC-Laffer ranking of state economic competitiveness.

Pennsylvania's experiment with alternative energy demonstrates the broken window fallacy at work: policies to create "green jobs" harm the overall economy.

Pennsylvania's failure is mirrored by European countries often cited as a model for creating a green job economy:

- A Spanish study concluded heavily subsidizing renewable energy in Spain lead to a **loss of 2.2 jobs for every one green job created.** Spain's unemployment is 19%, indicating green job growth is not an effective way to stimulate an economy. The study also found Spain needs **to increase the cost of electricity** by 31% to pay for its deficit, largely caused by renewable energy subsidies.
- A study in Italy found **each green job displaced 4.8 jobs** in the overall economy.
- A German study found the current level of subsidies **increased average household electricity prices by 7.5%.**
- Similarly, in Denmark, a report found that of the 28,400 people employed in the wind industry, very few were "new jobs"— **90 percent of the positions had shifted** from other industries to the newly mandated Danish Wind energy.

The problem with government efforts to create "green jobs" is threefold. First, subsidies and mandate create perverse incentives for alternative energy providers. Second, the cost of subsidizing green jobs takes money out of the private sector and allocates it according to politicians' whims, essentially shifting money from one sector of the economy to another. Finally, mandates and regulations make traditional energy, and electricity overall, more expensive, burdening businesses and residents with higher costs.

Perverse Incentives

Rather than develop more reliable and affordable ways of producing energy, alternative energy incentives reward companies for lobbying. Companies will look to regulators who define "green jobs," rules regarding what types of electricity they must produce, and specific things they must produce to qualify for subsidies.

Wind turbines are only possible because taxpayers subsidize their production. Navigant Consulting estimated that if federal tax credits for solar power and wind energy were discontinued, these industries would **lose 77%** of their employees.

Further, wind energy technology is both unreliable and unable to produce electricity economically on a large scale. Wind turbines are not suited for all geographic locations, and only produce energy when the wind blows. In order to ensure reliable electricity, utility providers can't reduce conventional electricity sources, as wind must be backed up at all times.

Indeed, one consultant for alternative energy companies recently acknowledged that without improvement, wind and solar will be permanently reliant on subsidies:

> On the renewable side, what I don't see are these tax/rate payer provider funds truly making renewable energy projects more affordable over the long haul. Unless we see dramatic improvements in solar and wind technologies, they will continue to need an artificial boost through government mandates and incentives.

Alternative energy mandates arbitrarily decide which energy sources are "green." Clean energy such as nuclear power and natural gas do not make the list, while expensive sources like wind and solar do. Such bills replace sustainable energy jobs with jobs that are entirely dependent on taxpayer-funded subsidies. In other words, those with the best lobbyists win.

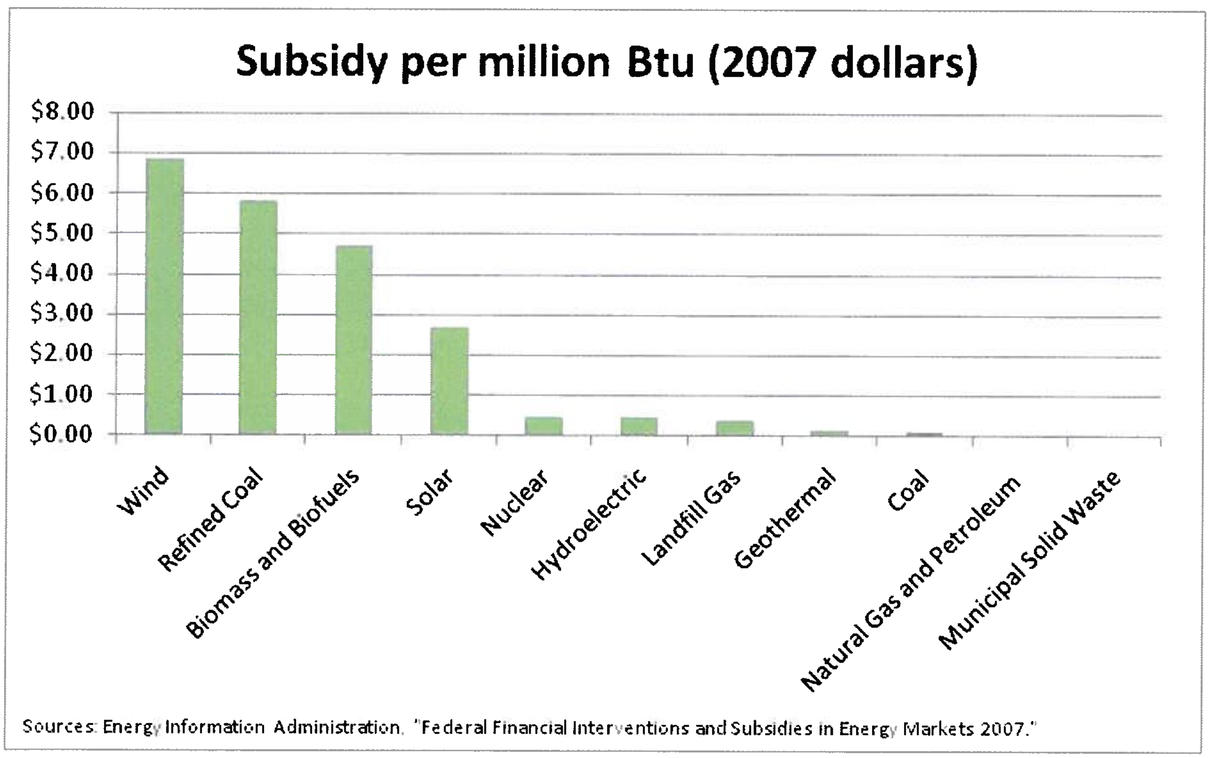
If tomorrow, someone invented a process that could use garbage to fuel our entire nation, without polluting or emitting greenhouse gasses, it would neither qualify for subsidies nor be considered an alternative source under the state's Alternative Energy Portfolio Standards. Indeed, government-directed green jobs programs basically rely on politicians discovering energy sources before scientists do.

Wind, solar, and other existing technologies, may indeed become the primary energy sources of the future, but only if become economically viable on a level playing field and without subsidy. As of now, they fall far short of these standards.

Cost of subsidies

Under Governor Rendell, Pennsylvania has enacted a number of programs to subsidize alternative energy providers. According to DSIRE (Database of State Incentives for Renewable Energy), Pennsylvania's 11 grant programs for renewable energy represent one-sixth of the total nationally. These programs were appropriated about ***$1.3 billion*** in grants, loans, and tax breaks ($2 billion approved since 1999) to politically selected programs. Pennsylvania has already "invested" nearly $1 billion from these programs, yet according to the Rendell Administration's own claims, this has put only 8,300 people to work—costing taxpayers over $120,000 per green job.

This state funding is in addition to federal funding, which provides ***hundreds of times*** more in tax incentives for wind and solar per BTU than for natural gas, oil, and coal.



Mandates & Regulations

Mandates and regulations—both on utilities to use alternative sources, and on traditional sources that make this less competitive--drive wind energy development,

Alternative energy mandates kill jobs by raising electricity prices. States with binding renewable portfolio standards, like Pennsylvania, have electricity rates that are **nearly 40 percent higher** than states with no mandates. While state electricity costs are affected by other factors, alternative energy mandates necessitate higher energy prices. Legislation in Pennsylvania, such as House Bill 80 and House Bill 2405, would exacerbate the costs of electricity by mandating that utility companies purchase even more electricity from alternative sources than they are already required. Pennsylvania's utility companies predict that HB 80 will add between $9 billion and $12 billion to electricity costs to meet proposed mandates by 2024

Proponents for such alternative energy mandates cite a study by Black and Veatch which claims HB 80 will boost the economy and create thousands of jobs. However, this study is based on faulty assumptions and fails to look at the other side of the ledger. Indeed, they presume passage of federal Cap & Trade legislation, which would drive up the cost of fossil fuel energy, to make alternative sources more competitive.

The effect of Cap & Trade, according to President Obama, would be that “the price of electricity will necessarily skyrocket,” largely by imposing huge costs on utilities, like coal-powered plants, which would be passed onto consumers. The Heritage Foundation estimated Pennsylvania, a state that gets nearly 50 percent of its energy from coal, **will lose 46,762 jobs** between 2012 and 2035 if Cap and Trade is passed.

Conclusion

The motivation for creating green jobs is well intentioned, but not based in sound economics. Rather than *create* jobs, policies to encourage alternative energies merely shift jobs from one industry to another. A focus on green jobs discourages overall economic growth by redistributing private sector wealth to uncompetitive and unsustainable energy providers. Higher electricity prices hurt small businesses, resulting in fewer jobs. Heavily subsidizing "green" energy sources while simultaneously mandating their use is a prescription for economic decline rather than prosperity.

We thank you for the opportunity to testify, and would be happy to follow up with any questions or additional information you may find useful.