



Opening Statement of Sen. Chuck Grassley  
Finance Committee Hearing  
“Climate Change Legislation: Allowance and Revenue Distribution”  
August 4, 2009

Today’s hearing deals with the allocation of emissions allowances under a proposed cap and trade tax system intended to address global warming. The Senate Finance Committee has primary jurisdiction over all matters dealing with federal revenues, and the Congressional Budget Office has made clear that these allowances hold value and therefore represent federal revenues. This is true regardless of whether allowances are auctioned or simply given away, which the CBO would treat the same as if they had been auctioned and the revenue given away.

Today we are going to hear thoughts from a wide range of perspectives from across the political spectrum about how emissions allowances, or revenue from those allowances, should be allocated. We know where the Obama administration stands when it comes to free allowances. The President supports 100 percent auction of allowances. Testifying before the House Budget Committee earlier this year, Treasury Secretary Geithner said, “This program should include a 100 percent auction of emissions allowances – ensuring that the biggest polluters don’t profit on the basis of past pollution...”

Testifying before that same committee at another time, the President’s Director of the Office of Management and Budget, Dr. Peter Orszag, said, “...if you didn’t auction the permit, it would represent the largest corporate welfare program that has ever been enacted in the history of the United States.” The Administration clearly has strong feelings about the topic, and this Committee will soon have to draw its own conclusions on this same topic. To do so, it is important that this Committee understand all the implications for the American taxpayer of the various options for distributing allowance revenue.

It is also important to provide some context for this discussion based on what we’ve learned at other hearings about the economics of a cap and trade tax system. We sometimes hear such a system described as though there will be no net cost to the American people, because the federal government is creating a commodity that holds value and can be sold to recoup the costs or even make money. This makes it sound as though we’ve stumbled upon the economic equivalent of

the mythical philosopher's stone that can turn lead into gold. Of course, there is no such thing as a free lunch and the government cannot create wealth through regulation.

At a hearing before this committee earlier this year, CBO Director Doug Elmendorf referred to a "consensus of economic analysis" that a cap and trade system results in a net cost to the economy because of a "diversion of economic resources." For instance, America currently uses coal as a cheap, domestically plentiful source of energy, but it produces a lot of carbon dioxide. So, this bill would force a switch to more costly forms of energy that produce less CO<sub>2</sub>. In short, as Director Elmendorf wrote to this committee in response to my written question, "The allowances that are created under a cap and trade program do not add wealth to the economy. Rather, they are simultaneously a cost and a source of income."

It is in this light that I approach the question of what to do with the allowance value. It is not free money. Rather, it is in effect a national energy tax on all Americans -- one that will exacerbate the negative impact of other taxes on economic growth and jobs. This means that above all, we have a responsibility to mitigate, as much as possible, those painful effects on the American people.