



The Montana Economy: How Will Climate Change Legislation Impact Economic and Job Growth? MPI Policy Note 01-10

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BOTTOM LINE UP FRONT:

Montana has fared relatively better in the current recession compared to other states. If climate policy bills like Waxman/Markey (H.R. 2454) or Kerry/Boxer (S. 1733) are enacted, economic recovery from the current recession will be impeded as business and households face rising energy prices. In the longer term, Montana's real GDP, employment, industrial output, state budget revenues and household income will fall relative to the baseline forecast. As state policymakers consider legislation to reduce U. S. GHG emissions, they need to consider that the cost of reducing emissions is likely to exert significant drag on the state's economy.

Congress is now debating far-reaching energy legislation that would impose an aggressive “cap-and-trade” system on greenhouse gas emissions (GHG) and mandate high levels of energy efficiency and renewable energy.

- Cap-and-trade is a regulatory system for mandating increasingly lower emissions of GHG. Regulated entities must purchase emission allowances from the government for each ton of GHG emitted. Unused emission allowances can be bought or sold (“traded”) by any person.
- The U.S. House of Representatives’ bill, known as Waxman-Markey, and the Senate version, known as Kerry-Boxer, would cap GHGs beginning in 2012 and become increasingly aggressive, requiring as much as a 20 percent reduction of 2005 levels in 2020 and, finally, an 83 percent reduction in 2050.
- Energy efficiency provisions would impose “energy saving mandates” across all sectors of the economy.
- Renewable Portfolio Standards (RPS) proposed in the legislation would dictate that states generate 20 percent of their electricity from renewable sources by 2030.

Despite the current recession, Montana has seen employment gains that have fared the state better than the U.S. as a whole. However, if pending federal energy legislation is enacted, Montana will face a declining economy and increasing unemployment.

- Montana's employment, gross state product, industrial output, state budget revenues and household income will fall.
- **Employment:** By 2030, as emission reduction targets tighten and the free allocation of permits and generous carbon offsets phase out, Montana would stand to lose between 4,964 and 6,761 jobs. The primary cause is lower industrial output due to higher energy prices, the high cost of complying with required emissions cuts and greater competition from overseas manufacturers with less stringent emissions requirements.
- **Gross State Product:** Higher energy prices, fewer jobs and loss of industrial output are estimated to reduce Montana's GSP by as much as \$900 million to \$1.2 billion in 2030.

- **Industrial Output:** Montana is likely to experience a decrease in manufacturing output. Overall manufacturing output declines by 5.1 percent in the low-cost case and by 5.8 percent in the high-cost case. Two important energy-intensive sectors, nonmetallic mineral product manufacturing and primary metal manufacturing, would fall considerably, declining by up to 24 percent in 2030. Coal production would fall by 94 to 96 percent.
- **State Budget Revenues:** Since Montana typically receives about 10 cents of every dollar of income generated in the state, projected declines in GSP would result in a \$49 to \$65 million reduction in state tax revenues. Paired with higher energy prices, this will reduce state budget receipts and force Montana policymakers to make hard choices about how to fund basic services, such as law enforcement and schools.
- **Household Income:** Disposable income would fall by an average of \$414 to \$764 in 2030. Low-income families and the elderly, who spend a disproportionate amount of their income on energy, will be especially hurt.

Montana’s economy has benefited from growth in mining and related industries, enabling the state to fare better in the current economic climate. Mining, however, is particularly vulnerable to adverse impacts from federal climate change bills.

- The Montana economy actually grew in 2008—at a rate of 1.8 percent — compared to the U.S. economy, which only grew at a rate of 0.7 percent in 2008. Employment also grew in Montana at a rate of 1.7 percent in 2008.
- Montana’s real per capita GSP grew 25 percent in the last decade, five percent more than the national growth in that period.
- In the past 10 years, employment in Montana’s mining industry grew by 68.4 percent – that is nearly double the growth of the mining industry in the United States over the same time period.
- According to a study by commissioned by the National Mining Association, the mining industry contributed 16,220 jobs and \$3 billion to the state’s economy in 2007.
- Montana is a substantial oil producing state and is responsible for nearly two percent of U.S. production. According to a 2009 study by PricewaterhouseCoopers, the oil and natural gas industry supported 34,210 jobs and contributed \$3.3 billion to the Montana economy in 2007.

Multiple economic analyses show that these federal energy bills would increase the price of electricity, gasoline and natural gas. Consequently, economic productivity, employment and household income would decline.

- To meet the stringent emissions targets of Waxman-Markey, electric companies would have to substitute high-cost technologies for conventional generation, increasing prices for Montana families and businesses.
- Energy prices in Montana, a state which now depends on coal (the energy source most at risk under mandatory greenhouse gas emission caps) for 63 percent of electricity generation, would rise higher than many other states.

- By 2030 the price of gasoline would increase by as much as 27 percent, electricity up to 61 percent and natural gas up to 78 percent.
- Faced with skyrocketing energy costs, decreasing production and greater competition from overseas manufacturers without these pressures, Montana businesses will have no choice but to cut thousands of jobs.
- Montana's 967 schools and universities and 65 hospitals will likely experience a 18.1 percent to 27.9 percent increase in energy expenditures by 2030. For government entities, costs for services, including public transportation and vehicle fleets, such as school buses, would also rise.
- Montana's current relatively favorable electricity prices are an important factor in the state's ability to keep business costs low and thus, attract new sources of employment.

At a time when margins are running thin on family budgets, the average Montana family will experience higher energy costs, leaving less income to be spent on other necessities.

- The average Montana family would see their home energy costs go up 61 percent by 2030.
- The ripple effect of higher energy prices would impose a financial hardship on Montana households with disposable income being reduced by \$414 to \$764 in 2030.
- Because they spend a greater share of their income on energy costs, low-income families, including elderly residents on fixed incomes, will suffer disproportionately from the effects of this legislation.

We all want a clean environment. Most of us live in Montana because we love our Big Sky and the beautiful land beneath it. But those shrill voices demanding that we trade our economic well being for a clean environment are trying to drive us into a false choice. Exporting our jobs to cheap overseas labor and our energy production to dirty overseas power plants will not help the environment or reduce greenhouse gases. There are alternatives to cap-and-trade, and a politician's willingness to look at them can be a litmus test indicating whose interests he or she is really serving.

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