



THE EMPTY PROMISE OF GREEN JOBS

THE COSTLY CONSEQUENCES OF CRONY CAPITALISM

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In the fall of 2008, then-candidate Barack Obama made a campaign promise to jumpstart the economy with an influx of green jobs. "We'll invest \$150 billion over the next decade and harness private efforts to build a clean-energy economy," he said. This expenditure of taxpayer dollars, averaging \$15 billion a year, would then "create 5 million new jobs that pay well, and can never be outsourced."¹

The President has kept his promise to spend billions of borrowed dollars on green energy, but his promises that such spending would create a new, self-sufficient industry capable of providing millions of jobs for Americans have proven empty. The President's stimulus law alone included tens of billions in new government subsidies for politically favored renewable-energy interests: \$6 billion in loan guarantees for renewable energy investments; \$17 billion for the Department of Energy's energy efficiency and renewable energy programs; \$2 billion for energy-efficient battery manufacturing; and billions more on other "clean-energy" programs for a total of \$80 billion.

Two years later, the President's promise of millions of jobs stands in stark contrast with reality. As a recent report from a Bay-Area news organization made clear, green jobs predictions are "proving a pipe dream."²

REALITY VERSUS FANTASY

Why haven't the President's promises translated into real economic gains? The answer lies in the federal government's unsuitability for the role the President wants it to play. Since his inauguration, the President has spoken often of the federal government as an "investor" in alternative sources of energy. But the federal government's job is to make and enforce the rules of the road, so that markets are fair, transparent and competitive – in other words, to foster an environment that is conducive to private-sector job creation.

When the government takes on the role of "investor," it usually does so because, according to the party in power, the "wrong" companies are winning in the free market, and the "right" companies are losing. By seeking to pick winners and losers in a dynamic and diverse economy, the government-as-investor model distorts markets, weakens the rule of law, wastes taxpayer dollars, and fails to spur sustainable job creation.

The President's energy policies have exemplified this failed model. His approach has been characterized by punitive regulations on commercially competitive sources of energy, coupled with reckless spending on uncompetitive alternatives. Instead of promoting the innovative and entrepreneurial genius of American business, the President's agenda has consolidated decision-making in Washington through a toxic mix of increased spending and more regulations.

¹ Rhee, Foon, "Obama promotes alternative energy plan", *The Boston Globe*, October 14, 2008.

² Glantz, Aaron, "Green Jobs Predictions Proving a Pipe Dream." *The Bay Citizen*, August 18, 2011.

Those who support this agenda argue that government can direct labor and capital markets more equitably than individuals and businesses, without sacrificing efficiency. In fact, forcing firms that do not enjoy government support to compete against firms that do – instead of letting all firms compete on a level playing field – is neither equitable nor efficient. The government-as-investor model has a poor track record in general, and its track record of investing in energy alternatives is positively abysmal.

In the late 1970s, in response to oil embargoes, the Carter Administration championed the development of synthetic fuels and ethanol. One memorable failure pushed by the Carter White House was the Synthetic Fuels Corporation, intended to finance the development of commercial synthetic fuel plants through massive subsidies. After exposing taxpayers to more than \$400 billion in subsidies, this government-created corporation shut its doors in 1986.³ Commercial “synfuels,” which were unable to compete commercially, stand today as just one example of the government’s inability to choose wise or productive investments in energy sector. There is a long history of failed efforts by federal agencies to develop commercially viable energy projects.

In 1979, the Carter Administration also initiated subsidies for corn ethanol, continued today in the form of tariffs on imported ethanol and the federal renewable fuel standard (RFS), which requires a percentage of ethanol to be used in gasoline. A favorite of both parties, these “temporary” benefits have calcified into decades-old corporate welfare, and American families are still living with the resulting higher tax burdens and energy costs over 30 years later.

Inflating one sector of the economy through complicated tax deductions, government handouts and new mandates carry hidden costs as well. Subsidizing a favored industry drives down productivity, while driving up costs to the broader economy. Targeted gains often prove fleeting, with losses in job creation and growth, not only in the favored industry, but throughout the wider economy.⁴

This effect is clearly seen in the employment picture for “green” jobs, not just here in the U.S., but also in Europe, where government subsidies statistically had the counterproductive effect of either double-counting jobs that were shifted from one sector to another or, worse, of actually destroying jobs. In Spain, which spent \$600,000 for every green job, recent research found the country’s interventions into the energy market destroyed 2.2 jobs for every green position it created. Similarly, the United Kingdom found that 3.7 jobs were lost for every job identified in renewable energy.⁵ Job-creation and job-shifting are not the same.

In Europe, policymakers made the same flawed assumption that President Obama made when he promised that government spending on green energy would create 5 million new jobs: that the “labor-intensity” of green energy was a virtue unto itself. Labor intensity – the labor required per unit of energy produced – is much higher in the green-jobs sector. Advocates point to this higher labor requirement as a benefit because, they say, it will tend to increase employment.⁶

However, as Dr. William Bogart, a professor of economics at York College, explained in testimony before the House Committee on Education and Labor in 2009, if the cost of energy increases as a result of inefficient production, then the net benefits available decrease. In the past, the efficiency and comparatively low cost of energy use in the U.S. led to higher productivity and higher standards of living. With costlier energy systems, many goods will become more costly, requiring consumers to pay more and making American producers less competitive in world markets.⁷

³ Edwards, Chris. “Downsizing the Federal Government: Department of Energy.” Cato Institute. <http://www.downsizinggovernment.org/energy>. Accessed: September 14, 2011.

⁴ Green, Kenneth, “Environmental Consequences of Energy Choices: Horton Hears a Who’s Who”, Speech for the 23rd Annual Texas Environmental Superconference, August 4, 2011.

⁵ Green, Kenneth, “The Myth of Green Jobs: The European Experience”, AEI Energy Outlook Series, February 2011.

⁶ Morriss, Andrew P., et al. *The False Promise of Green Energy*. Cato Institute, 2011.

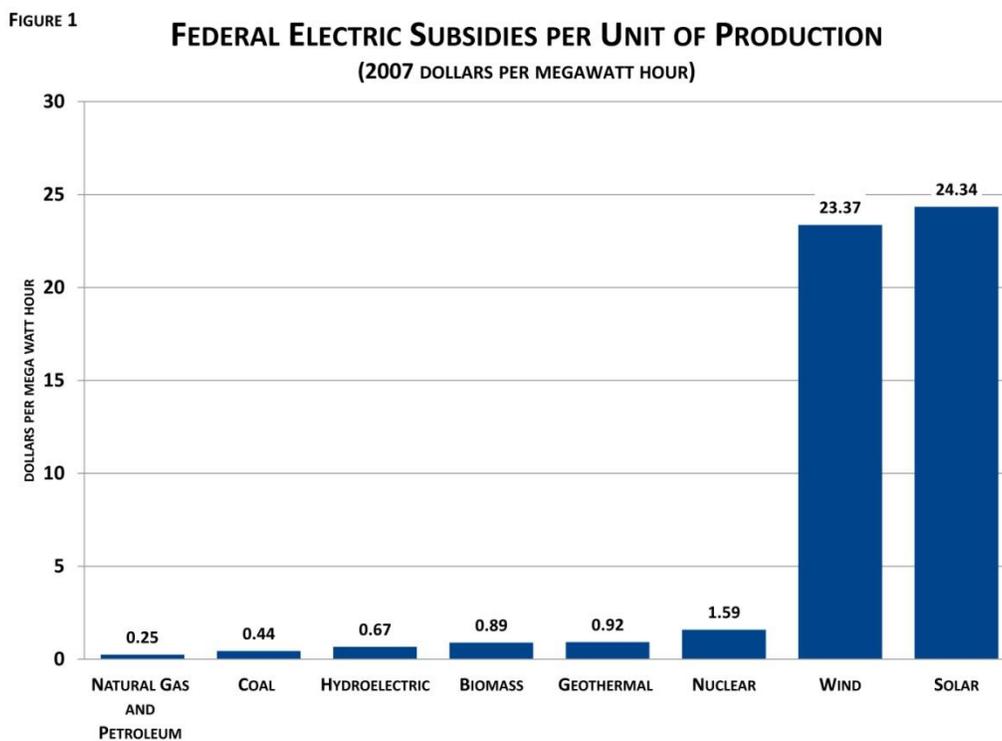
⁷ Bogart, William, “Five Questions about Green Jobs”, Testimony to House Committee on Education and Labor, March 31, 2009.

ENOUGH IS ENOUGH

With green-energy stimulus funding driven by political calculus at the expense of economic return, the question becomes: How much is enough?

In 2007, the U.S. Energy Information Administration (EIA) conducted an analysis of subsidies received by both alternative and conventional energy sources. On a dollar-per-unit-of-production basis, the level of subsidies received by the wind and solar industries were almost 100 times greater than those for conventional energy.⁸

Subsidies for renewable energy production have surged since the Obama Administration and the 111th Congress dramatically increased taxpayer support for these sources of energy with the stimulus law and other appropriations. In 2010, \$11.9 billion was recorded in total federal subsidies for electricity production, according to a report from the EIA. Of this nearly \$12 billion in subsidies, renewable-energy sources received \$6.6 billion, or 55.3%, even though they accounted for just 10.3% of the electricity generation. Wind plants alone accounted for 4.2% of total electricity-related subsidies.⁹



Total subsidies for renewable energy, including biofuels, rose from \$5.1 billion in 2007 to \$14.7 billion in 2010. Much of that increase was due to stimulus spending, the report noted, a 188% increase.¹⁰

THE RETURNS ON GOVERNMENT INVESTMENT

Since its introduction in the 2009 stimulus bill, the Department of Energy (DOE) has issued \$40 billion in new loan guarantees for private-sector loans for renewable energy projects that might not otherwise have been market-viable. Already, multi-million dollar projects, initially labeled as successes, have failed:

⁸ Federal Financial Interventions and Subsidies in Energy Markets 2007, Energy Information Administration, April 2008.

⁹ Direct Federal Interventions and Subsidies in Energy in FY 2010, Energy Information Administration, July 2011.

¹⁰ Ibid

- The first renewable energy loan guarantee recipient, solar start-up Solyndra, received a loan guarantee for \$535 million in the fall of 2009, even after repeated warnings from federal financial analysts. In the spring of 2010, it failed to complete its initial public offering after an independent audit questioned the ongoing viability of the firm. Then, in the fall of 2010, the firm closed one of its manufacturing facilities and laid off 180 workers. Finally, the firm declared bankruptcy and laid off 1,100 employees only 15 months after Obama visited a company factory.
- Beacon Power, received a \$43 million loan guarantee in July of 2009. Since then, its stock price has dropped by 90 percent – a period during which the NASDAQ exchange on which it is listed has increased by 40 percent. The company has not been in compliance with NASDAQ listing requirements, leading to a delisting determination from the exchange.
- First Wind Holdings, received a \$117 million loan guarantee in March of 2010. First Wind withdrew its initial public offering in October of 2010, due to a lack of investor demand.¹¹ According to the *Boston Globe*, investors shied away from the company because “First Wind owes more than \$500 million, loses money on a steady basis, and reports a negative cash flow.”¹²

Even in the midst of these failures, DOE has been advertising additional loan guarantee recipients, announcing a \$1.2 billion loan guarantee to another solar company just one day after the FBI raided Solyndra’s offices. Congressional investigators are initiating a review to examine how many future Solyndras have been already financed by this loan-guarantee program or approved through shoddy review, and how can we prevent future examples of this kind of wasteful federal spending.

Western states, which have invested billions in state subsidies for the green economy, have had to deal more than most with the consequences of mismanaged expectations and lost investments. For all the pie-in-the sky campaign claims touting millions of new permanent, high-paying jobs, there has not been a full accounting of positions created. Monthly Labor Department employment reports are silent on a “green-collar” workforce. However, in July, the Brookings Institution released a study which found green jobs only accounted for 2 percent of employment nationwide and 2.2 percent in the Silicon Valley.

Rather than its intended effect of boosting new employment, Brookings found the clean-energy sector actually lost almost 500 jobs from 2003 to 2010 in California’s South Bay, where the unemployment rate in June was 10.5 percent. A \$20 million federal grant in Seattle, Washington to invest in weatherization programs has resulted in only three completed projects and just 14 new jobs, many of them low-wage administrative positions.

As a Heritage Foundation report recently noted, taxpayers are hit by a “double wallop” – first by paying for ineffective, wasteful subsidies, then by paying higher energy prices caused by energy taxes and regulations.¹³ This kind of wasteful government spending is not sustainable. U.S. taxpayers cannot afford billions of dollars in mismanaged resources, with poor oversight and no accountability for results.

REWARDING FAILURE, PUNISHING SUCCESS

Advocates of green energy have long argued that it’s not just enough for the government to subsidize alternatives – it also needs to promote policies that make commercially competitive sources of energy more expensive.

¹¹ Kreutzer, David. “Green Jobs and Red Tape.” House Committee on Science, Space and Technology. April 13, 2011.

¹² Syre, Steven. “First Wind IPO sputters suddenly.” *The Boston Globe*. October 29, 2010.

¹³ Brownfield, Mike, “Obama’s Green Jobs Pipe Dream”, *The Foundry*, August 23, 2011.

This is the idea behind the controversial “cap and trade” bill that President Obama tried to pass through Congress in 2009, which would have established an elaborate and bureaucratic structure for allocating conventional energy sources. This bill passed the House, but it was unable to overcome bipartisan concerns in the Senate. Cap-and-trade legislation was deemed costly, economically harmful, and ineffective in its means and goals. But instead of accepting this verdict on its preferred policy, the administration decided to let the Environmental Protection Agency (EPA) carry out a unilateral plan to impose emissions restrictions on American businesses.

EPA Administrator Lisa Jackson is pushing for greenhouse gas emission standards for power plants, and although the President has temporarily delayed this move, he has not ruled out letting the EPA move forward with it in the future. If eventually enacted, the resulting rule would cost the country \$1 trillion or more over a decade and millions of jobs. Similar severe costs to the economy influenced the President’s decision to pull back EPA’s proposal to prematurely readjust current ozone standards. In addition, the EPA’s move to implement the final Clean Air Transport Rule and the Utility Maximum Achievable Control Technology on power plants in November could increase electricity costs amidst a struggling economy.

This reflects a larger push by the Obama administration to pursue energy and environmental policy through heavy-handed regulations, circumventing accountability to taxpayers and leaving decisions in the hands of the bureaucracy infrastructure. Unnecessary regulations tie the hands of small businesses and create an uncertain business environment, discouraging job growth.

A BETTER PATH FORWARD

Instead of Washington-knows-best government policy, the House-passed budget, *The Path to Prosperity*, advances fundamental tax reform to promote economic growth and job creation. Comprehensive tax reform would broaden the tax base; simplify the tax code by cleaning out many of the special exemptions and deductions in the tax code; and lower tax rates for both individuals and corporations. Cutting the marginal tax rates on labor and capital to increase incentives to work and invest would be the most effective and sustainable way to revive economic growth – in our energy sector and *all* sectors of the private economy.

The Path to Prosperity scales back the EPA’s large budget increases to prevent it from imposing a job-destroying maze of regulations that would act as a national energy tax. It also assumes increased revenues from bonus bids, rents, royalties, and fees as a result of lifting moratoriums and bans on safe, environmentally responsible exploration for domestic energy supplies. As part of this effort, the House has already passed three major pieces of legislation on a bipartisan basis as part of its American Energy Initiative to expand domestic energy production and create new jobs. These bills are still waiting on action in the Senate.

The Path to Prosperity would continue to fund essential government missions, including energy security and basic research and development, while paring back spending for projects best left to the private sector. Ultimately, the best energy policy is one that encourages robust competition and innovation to ensure the American people an affordable and stable supply of energy. The House-passed budget would roll back federal intervention and expensive corporate welfare directed to the President’s allied industries. Instead, it would promote policies aimed at reliable energy, lower energy prices, greater revenue generation through prosperity, and market-based solutions that advance the nation toward the goal of sustainable energy.