

[Congressional Budget Office](#)
Director's Blog

« [The Effects of Health Reform on the Federal Budget](#)
[Losing a Job During a Recession](#) »

Annual Estimates of the Loss in Households' Purchasing Power Under H.R. 2454

This morning CBO released a [letter](#) responding to a request from Representative Christopher Smith for additional information on the costs that H.R. 2454, the American Clean Energy and Security Act of 2009 (as passed by the House of Representatives), would impose on households as a result of the legislation's primary cap-and-trade program, which would regulate greenhouse gas emissions. The legislation would set annual limits, or caps, on total emissions between 2012 and 2050 and would require regulated entities—including producers and importers of petroleum-based liquids, natural gas distributors, and large electricity generators—to hold rights, or allowances, to emit greenhouse gases. After allowances were initially distributed, entities would be free to buy and sell them (the trade part of the program). Regulated entities could comply with the policy by reducing their emissions, holding allowances for greenhouse gases that they emitted, and/or acquiring "[offset credits](#)" (referred to here as offsets) for greenhouse gases that they emitted.

This letter supplements CBO's [previous work](#) by providing estimates of the loss in purchasing power that households would experience in each year between 2012 and 2050. Previously, CBO [estimated](#) the average loss in purchasing power that households would experience between 2012 and 2050; CBO also examined how that loss would vary across households with different levels of income in 2020 and 2050.

A rough indication of the direct effect on households of the primary cap-and-trade program is the resulting loss in their purchasing power. That loss equals the costs of complying with the policy minus the compensation that would be received as a result of the policy. Households would bear compliance costs and receive compensation in their various roles as consumers, workers, shareholders, taxpayers, and recipients of government services, so accounting for the net effect of the act on purchasing power is not straightforward.

Compliance costs include the cost of purchasing allowances and offsets and the cost of reducing emissions. Although those costs would initially be borne by businesses, they would generally pass them along to households in the form of higher prices for goods and services. Compensation comprises the receipt of allowances at no cost, the receipt of proceeds from the sale of allowances (including the benefits received from government programs funded by the sale of allowances), and the profits earned from producing offsets. Much of that compensation would initially be received by businesses or governments but would be passed along to households.

The loss in a household's purchasing power would be modest as a share of gross domestic product (GDP) in all years between 2012 and 2050, but it would rise over that period as the cap became more stringent and more resources were dedicated to cutting emissions. The loss would equal about 0.1 percent of GDP in 2012, about 0.5 percent in 2030, and about 0.8 percent in 2050, CBO estimates; the average loss per year over the entire 2012–2050 period would be about 0.4 percent. Measured in terms of 2010 income, the average loss per household would be \$90 in 2012, \$550 in 2030, and \$930 in 2050;

it would average about \$460 per year over the 2012–2050 period.

This entry was posted on Tuesday, April 20th, 2010 at 1:57 pm and is filed under [Climate Change](#).
