The Most Expensive Federal Bureaucracy of All

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The U.S. Department of Defense budget was $680 billion in the year to September 2012. The Environmental Protection Agency’s budget was only $17 billion. Yet when you compare the cost to the U.S. and global economy of the two departments, the comparison reverses. With modern rules of engagement and care for civilian populations, and politicians’ reluctance to use wholehearted military force, the non-taxpayer economic costs of the Defense Department (mostly imposed on countries with limited material possessions) are no more than $10-20 billion at most. Conversely, the EPA’s economic depredations, imposed mostly on the U.S. economy, run annually easily into the trillions.

Consider first the EPA order released last week, which effectively banned coal fired power plants because of their carbon emissions. It set a limit of 1,000 pounds of carbon dioxide emission per megawatt hour, a limit that is met by gas fired power stations, which at their most efficient emit around 800 pounds per megawatt-hour, but cannot be met by new coal-fired stations, which emit 1600-1900 pounds of carbon dioxide per megawatt-hour. By this ruling, therefore, expansion of the power source that provides around 40% of U.S. electricity has been cut off.

Even if the hotly disputed theory of global warming is accepted (the planet has not warmed at all for more than a decade) there is a much cheaper way to cut down carbon emissions, though a carbon tax. With such a mechanism, coal-fired power stations can bear what society believes (rightly or wrongly) to be the cost of their greater carbon dioxide emissions, and if coal-fired power stations still prove potentially profitable, they will be built. The tax receipts will make at least a modest dent in the federal budget deficit.

In today’s market, the EPA’s effective coal ban does not matter much. The improvement in techniques of horizontal fracturing of oil and gas shale deposits has vastly increased potential natural gas supplies, and caused the gas price to decline sharply even as oil and commodity prices have been inexorably rising. However in the long run this ruling, by closing off an important power source alternative, is likely to condemn American power consumers to periodic brownouts and escalation of prices.

Already in 2011 the cost of electricity has soared to 11.8 cents per kilowatt-hour for domestic use, compared to 9.45 cents in 2005, a 64% faster rate of increase than prices generally at a time when electricity usage has barely grown. Yes oil prices rose faster during this period, but very little of the United States’ power generation capacity relies on oil. Thus even before the new rules come into effect, the excess increase in electricity prices over prices generally can mostly be put down to increasingly stringent EPA regulations. Since U.S. annual electricity usage is $380 billion, you can charge the EPA with $39.1 billion annually from power generation regulations alone, before adding in the much larger future cost of banning coal-fired stations.

President Richard Nixon is a much maligned and to some extent underrated President. Certainly the attempted Bill Clinton impeachment in 1998 has reinforced the view of the fair-minded, that neither the Watergate burglary/wiretapping nor the Monica Lewinsky affair constituted adequate grounds for impeachment. However his creation of the EPA, proposing legislation to Congress in July 1970, and signing the final bill in December of that year, should have given his detractors a much more solid case for drastic action.

The EPA is a classic creation of the first phase of environmentalism, in which preventing Cleveland’s Cuyahoga River from catching fire (as it did in 1969) was a moral crusade and costs were considered irrelevant. It operates through a “command and control” mechanism similar to that of the old Soviet economy, in which decrees are issued and the market forced to adapt to them, rather than through any serious attempt to calculate the true externalities of an environmental problem and use the price mechanism to reduce them.

A classic example of EPA rule is the Corporate Average Fuel Economy (CAFE) standards, first imposed by Congress in 1975 and intended to regulate the mean fuel economy of each auto manufacturer’s fleet. Operated jointly by the EPA and the National Highway Traffic Safety Administration (two bodies whose interests in this area are structurally in conflict) they have been responsible for a series of perverse and expensive changes to the U.S. automobile market.

A 2002 National Academy of Sciences study of the CAFE standards estimated that without them, fuel consumption would have been about 14% higher in 2002, but that the cost of this reduction was an annual 1,300 to 2,600 fatalities. In terms of the automobile industry’s structure, the CAFE standards pushed automobile buyers artificially towards the small cars made by Japanese and other Asian manufacturers, who consequently gained market share at the expense of GM, Ford and Chrysler. The CAFE standards thus bear much of the responsibility for the 2009 bankruptcies of the latter two companies. In addition, in order to survive Detroit found a loophole in the regulations, by which “sports utility vehicles” and minivans built on a truck chassis, were subject to less demanding fuel economy standards – the CAFE standards are thus responsible for the decline of the saloon car.

The cost of CAFE standards is now being immeasurably increased by two successive regulations tightening them, the first signed by President Bush in 2007 and the second by President Obama in 2011. In their latest form, CAFE standards mandate fuel economy of 54.5 miles per gallon by the 2025 model year, introduced in late 2024. The automobile industry agreed to these, not surprisingly since two of the three U.S. manufacturers were controlled by the government, while the foreign manufacturers no doubt reflected that Obama would be out of office well before 2024, and that if Obama-esque economic and environmental policies were pursued by his successors, then 2025’s U.S. automobile market wouldn’t be worth a damn anyway.

The 2025 standards cannot be met by hybrid cars like the Toyota Prius; they will require an admixture of fully electric vehicles like the Chevy Volt. Given the cost and spectacular lack of market penetration of that expensive toy, the CAFE standards may by 2025 require the unfortunate U.S. public to buy cars costing $50,000 in today’s money. As well

as expensive automobiles, the new standards will also further increase traffic fatalities, as commuters buzz around the highways in 70mph golf carts.

Without the EPA, the environmental gains of the CAFE standards could easily have been achieved by an increase in the price of gasoline, through a tax that would have produced money for the federal exchequer rather than costing it money. Assuming even a very low 20% price elasticity of gasoline consumption, the 14% decline produced by the 1986 CAFE standards would have required a 70% increase in 2002’s price of gasoline – to $2.30 a gallon from the $1.35 at which it actually stood in that year. Much of that saving would have come from lower mileage driven by motorists, as they adapted their lifestyles to higher gas prices. In this respect, Europe has been far more market-oriented than the United States; with gas prices at $8 per gallon cars and lifestyles have already adapted to a lower fuel-consumption world, without the costs in either individual liberty or economic disruption of the U.S. command-and-control approach.

At the opposite end of the spectrum, the EPA intrudes aggressively into almost all business decisions, even at the individual level. This was demonstrated last week by a unanimous Supreme Court decision in Sackett v. EPA, in which the Court declared “There is no reason to think the Clean Water Act was uniquely designed to enable the strong-arming of regulated parties into ‘voluntary compliance’ without the opportunity for judicial review.” The Sackett family had attempted to build a house on a plot of land which the EPA post-facto declared to be “wetland” – a catch-all term used to justify endless EPA meddling – and the EPA had denied them a hearing and ordered them to pull down their property or face fines of $75,000 a day.

The total cost of EPA depredations can only be estimated, but there is one very significant measure of the EPA’s potential damage to the U.S. economy. U.S. productivity growth averaged 2.8% annually in the quarter century before 1973, the economic cycle peak immediately after the EPA’s formation. In 1973-2011 U.S. productivity growth averaged 1.8%. Had productivity continued at the pre-1973 pace, the U.S. economy would today be 45% larger, a matter of some $7 trillion in annual GDP. With pre-1973 productivity growth continuing to today, the impoverishment of the U.S. middle class would never have occurred, as median incomes today would be 45% higher.

Sure, the EPA probably is only partially responsible for that productivity slowdown. However economists have puzzled since 1980 or so for an explanation of the slowdown, and so far have failed to come up with a cause of sufficient importance. Given the EPA’s universality and Soviet approach to regulation, the impartial observer must conclude that a substantial part of the slowdown must have been caused by the EPA’s diversion of the U.S. economy from free-market patterns. If even a third of the slowdown was caused by the EPA and its tenticular, market-defying web of regulations, that’s $2.3 billion in lost annual output for which the EPA must be held responsible.

As I said, the EPA is far more expensive than the Defense Department. And it’s about time that the squeezed U.S. middle class knew where the blame for their impoverishment truly lies.

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