



An Appeal to Facts in a “Fact Check”

*A Response to the Union of Concerned
Scientists Critique of BHI’s
Renewable Portfolio Studies*

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On [Graham's Hierarchy of Argument](#), ad hominem is at the second lowest rung, one step above name calling. Instead of focusing on arguments against the Beacon Hill Institute's policy studies, time and time again organizations like the [Union of Concerned Scientists](#) have chosen primarily to engage in ad hominem. We will instead address the best of their arguments against our analysis.

[Jeff Deyette](#), Assistant Director of Research & Analysis of clean energy for Union of Concerned Scientists, leans in part on a criticism published earlier this year by [Synapse Energy Economics, Inc.](#)¹ The crux of the argument is that the [STAMP® used by the Beacon Hill Institute \(BHI\)](#) does not allow for the presence of Keynesian employment effects caused by a lack of spending in the economy. This is what it means that the model "assumes full employment." In doing so, Synapse dismisses the job numbers generated by BHI's model.

Essentially, there are two ways of thinking about how labor markets function. We may be in a "neoclassical" world where the STAMP methodology is entirely correct. Or, we may be in a "Keynesian" world wherein additional spending and inflation can meaningfully reduce unemployment. These two models of reality are complementary, not adversarial. In extreme labor market situations

with significant unemployment, it may make sense to consider in what ways, and how, a green energy project may affect total spending in the economy. Academic Keynesian research argues that policies which increase overall spending may lead to more employment. But it is important to emphasize that the typical economic analysis by green energy advocates does not properly portray these effects, or anything close to it. The headline number of jobs the project employs is taken to represent the number of jobs it created. That is wrong, and in no way should it be taken to represent economic analysis relevant to policymakers.²

Insufficient aggregate demand is an issue that can affect employment rates in the *short run*. Any introductory economic textbook will distinguish between long run and short run aggregate supply curves for this reason. But there can be too little aggregate demand, or too much. Recent years have featured too little aggregate demand, but that is a historical anomaly. During the Great Moderation, shortfalls in aggregate demand disappeared rapidly. Prior to the Great Moderation, the United States economy was characterized by too much aggregate demand, not too little.

¹ Jeff Deyette, "Fact Checking ALEC's Attacks on Ohio's Clean Energy Standards," *The Equation*, Union of Concerned Scientists, 2013, <http://blog.ucsusa.org/fact-checking-alecs-attacks-on-ohios-clean-energy-standards-267>; Frank Ackerman, Thomas Vitolo, Elizabeth A. Stanton, and Geoff Keith, *Not-so-smart ALEC: Inside the attacks on renewable energy* (Cambridge, MA: Synapse Energy Economics, Inc.), 2013, <http://www.synapse-energy.com/Downloads/SynapsePaper.2013-01.CSI.ALEC-Critique.12-092.pdf>

² The [New Keynesian theory](#) is that government spending raises inflationary expectations. By raising these expectations, the government encourages more private investment to take place. It is in doing so that more jobs are created. While the number of people employed by the project is not irrelevant, it is not crucial for the New Keynesian construction of the fiscal multiplier. Just counting the number of people a project employs is a very, very crude way of calculating increases in employment.

Even if we take the best economic analysis by green energy advocates, job creation figures work on the assumption that there will be a shortfall in aggregate demand for decades.³

That makes no sense historically or theoretically. The long-run behavior of employment and job creation is correctly portrayed by BHI's STAMP model. Aggregate demand is best thought of as a variable for which there is too much or too little at any given point, not as a variable that fiscal and regulatory policies must continually increase to ensure job growth takes place.

The best models — those which correctly specify how a RPS may induce investment, or how government deficit spending may induce private investment — therefore apply only to special, fairly extreme circumstances. These analyses imply that problems with current day labor markets will apply indefinitely. Such analyses performed years earlier or when the US returns close to full employment have no relevance to job creation at all. In contrast, the effects derived from STAMP *always* apply; i.e., there are always supply side job effects to higher imposed costs or tax increases, regardless of aggregate demand.

We also believe that green energy advocates must be more careful in communicating the economic rationale for the job creation. Government spending will not increase overall spending unless it is financed

³ Claudio Martinez, Jeff Deyette, Sandra Sattler, and Anne McKibbin, *A Bright Future for the Heartland: Powering the Midwest Economy with Clean Energy*. (Cambridge, MA: Union of Concerned Scientists, 2011.)

with deficits.⁴ Practically speaking, the reason why RPS would increase investment is by legally mandating the purchase of more expensive equipment. Any number of

alternative projects or regulations would have identical effects. In other words, projects that have nothing to do with green energy would have the same effect on jobs. The interesting question (and what BHI's methodology is better at doing) is examining whether making these specific investments are worthwhile in comparison.

Even in the Keynesian world where a project leaning on spending will create jobs, the same can be said of any other number of things. Presumably, we can achieve the same number of jobs by paying unemployed people to dig ditches. The reason why green energy is preferable can be clearly inferred with traditional cost-benefit analysis. But why green energy and not spending on public schools, roads, or basic science? An effective, convincing evaluation of green energy would show that it offers greater societal value than others. Projects, green energy or otherwise, should not be defended on an ad hoc appeal to Keynesianism.

Think about it this way. Assume that state governments already made the

⁴ One could archaically argue for the existence of the "balanced budget multiplier," which may still appear in certain textbooks. However, this multiplier will be even smaller than the numbers cited later in this essay. If one wants to take reasonable values of the balanced budget multiplier and use *those* numbers to calculate job creation, we do not object.

"Aggregate demand is best thought of as a variable for which there is too much or too little at any given point, not as a variable that fiscal and regulatory policies must continually increase to ensure job growth takes place."

determination that it would perform various policies which will ameliorate aggregate demand. Whatever issues caused by aggregate demand will be eliminated. The question is why green energy projects should run to the front of the line compared to other projects (roads, schools, etc.). In terms of brute economic costs and benefits, that has not been effectively answered. It may be the case that green energy indirectly leads the government to engage in more expansionary fiscal (or regulatory) policy than it would otherwise. It also may be the case that it crowds out other stimulus dollars.

The second economic criticism from Synapse Energy is questioning the values of certain parameters used in the model. Synapse cites a [criticism by Professor Alberta Charney](#), which claims to find fault in BHI's modeling.⁵ Charney's method makes just as many assumptions as BHI's method, with the primary difference being the assumptions are implicit rather than explicit. The efficacy of the STAMP model lies in part due to the need to make the assumptions explicitly. This we do while testing their impact on our reported results. [As we noted in a response to Professor Charney in 2010](#), the assumptions we make — particularly concerning elasticities — are in line with standard economic analysis and are far superior to the implicit assumptions of older methods. When we have adjusted their values in the past, they do not materially change the results.

One could argue that there are additional benefits to green energy. Obviously,

⁵ Alberta Charney, "Comparison of UA, REMI, and STAMP Simulations of Tax/Spending Increases," 2010, http://ebr.eller.arizona.edu/research/articles/2010/compare_ua_remi_stamp_simulations.asp

the biggest concern is global warming. Beacon Hill Institute takes no position on the existence of global warming. We are an economics think tank, not climatologists. If global warming is taking place, the answer is a carbon tax – and a carbon tax alone. [Professor William Nordhaus's proposal would serve this purpose](#). If it is place, extra subsidies for certain types of energy are superfluous. And superfluous is wasteful. If green energy proponents shifted their focus from RPSs and specific industrial projects to carbon taxes, they would find allies in many of the groups they today consider enemies. Don't believe us? Go ask free market economists like [Gary Becker](#), [George Shultz](#), and George W. Bush's onetime Chairman of the Council of Economic Advisers [Greg Mankiw](#), who have published op-eds extolling the virtues of such taxes this year alone.⁶

There are other quibbles one can point to about other benefits of green energy. Deyette, in the course of his "fact check," points to the neglect of the price volatility of fossil fuels versus wind. Okay, but we are still waiting for hard numbers on this. This can be incorporated into a cost-benefit analysis. If volatility is the concern that we care about, we can frame that in terms of buying insurance against the price of fossil fuels increasing versus buying insurance against the price of wind going up (which is not impossible – it is certainly conceivable that any number of things could lead to increases in its cost). The differential would be a benefit. We do not think this would be significant enough to sweat; prove to us otherwise.

⁶ George P. Shultz and Gary S. Becker, "Why We Support a Revenue-Neutral Carbon Tax," *The Wall Street Journal*, April 7th, 2013, <http://online.wsj.com/news/articles/SB10001424127887323611604578396401965799658>; N. Greg Mankiw, "A Carbon Tax That America Could Live With," *The New York Times*, <http://www.nytimes.com/2013/09/01/business/a-carbon-tax-that-america-could-live-with.html>

This is our perspective generally. One cannot simply raise an objection – i.e. a cost or benefit our analysis did not include – and leave it as that. An infinite number of such objections exist on either side of the argument. What is of interest is whether any of these factors are *economically* large enough to change the basic result. One does not offset China’s carbon emissions singlehandedly by not driving across the state to visit your wife’s aunt. One impact is large and the other is small. Your wife might ask to see the numbers if you claimed you cannot visit her aunt because it is crucial for stopping global warming. We are asking to see the *economic* effects – in terms of a traditional cost-benefit analysis, not a qualitative list – of these objections. A directional sign is not nearly enough.

Cost-benefit analysis leaves plenty avenues for disagreement. To perform any analysis, assumptions are made out of necessity. The STAMP model assumes that government spending multipliers are zero.

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While in times of extreme slack, it is not unreasonable to argue that additional deficit spending or similar policies may reduce unemployment. However, it is speculative to say that such issues will persist even more than

year in the future. And “green energy” isn’t itself creating the jobs; it is the decision to lean on private investment with deficits or regulatory in general.

We hope that in the future, rather than engaging in arguments toward the lower end of Graham’s Hierarchy of Argument, green energy proponents put hard numbers to whatever benefits they claim so as to directly address the core of BHI’s argument. It is essential that they more carefully state under which conditions and why the demand-side effects on jobs exist at all. And we hope green groups move towards the carbon tax route (as opposed to the green subsidy), where perhaps we may join them.

The Beacon Hill Institute at Suffolk University in Boston focuses on federal, state and local economic policies as they affect citizens and businesses. The institute conducts research and educational programs to provide timely, concise and readable analyses that help voters, policymakers and opinion leaders understand today's leading public policy issues.

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