



**Statement of Pete Sepp, Vice President for Policy & Communications
National Taxpayers Union, on
Proposed Revisions to the National Ambient Air Quality Standard for Ozone**

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Introduction. Since its founding in 1969, the National Taxpayers Union's (NTU's) members have recognized that not all of government's burdens come from taxes, fees, expenditures, and debts. Regulatory mandates often amount to "hidden taxes" that can be every bit as destructive as more overt fiscal policies. This is definitely true of a new proposed rule before the Environmental Protection Agency (EPA) to tighten the existing National Ambient Air Quality Standard (NAAQS) for ozone.

The following are several fiscal-policy reasons why the Administration should halt implementation of another NAAQS edict.

Higher Tax and Consumer Burdens. The proposed NAAQS revision would, by most accounts, heap a significant bundle of mandates on state and local governments. These entities have spent two years and millions of dollars in crafting implementation policies for recently issued EPA ozone edicts. If NAAQS is changed yet again, states will spend even more time and money that they can ill-afford in this environment (not to mention the political pressure they will face from outside forces to build the new standards into their own procurement plans).

Recently the National Association of State Budget Officers reported that more than two dozen states are projecting budget deficits for the current or upcoming fiscal year. If past is prologue, many state officials could bow to special interests and shun spending reductions in favor of tax hikes or reduced aid to localities. Given the fact that property tax collections have been rising more than twice as fast as inflation since 2001, the onus of new policies requiring additional government compliance expenditures will likely fall on heavily strained taxpayers – through higher state-level taxes, local property taxes, or fees. This would be unacceptable to our 362,000 members, who are already launching citizen-initiated tax limitation measures from Washington State to Maine, and places in between.

In addition, industries themselves will be forced to cope with the new regulatory costs of complying with a drastic NAAQS ozone rule. By some estimates, tens of billions of dollars could be in store for firms that have ozone considerations in their operations. Such costs will not be without consequences. Either they will hit consumers, in the form of higher prices, will be foisted upon workers, in the form of lower wages and lost employment opportunities, or will be passed along to millions of shareholders (including retirement funds), in the form of lower returns on investments. None of these outcomes are tolerable.

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Existing Regulations Are Already Strict – and Costly. Current policy already includes provisions to steadily tighten ozone emission restrictions and increase enforcement. In less than a decade, for example, the “CAIR Rule” will force power-plant emissions to be reduced by half. This standard will be difficult enough for utilities (and their ratepayers) to meet; indeed, many U.S. cities (among them Houston) are locked into a multi-billion-dollar NAAQS compliance spiral as this is being written. Whatever direction the scientific or environmental debate over more rules may take, ozone levels have been slashed and will continue to decline even if no further tinkering with NAAQS takes place.

Our International Competitiveness Will Suffer. Americans have benefited a great deal from the individual income tax rate reductions of 2001 and 2003, through increases in personal income, job growth, and a flourishing entrepreneurial culture that enriches our lives with innovative products and services. Yet, this proven policy approach to economic prosperity has been somewhat less evenly applied toward decisions that impact our business sector, particularly manufacturing. As this Administration has commendably noted, America’s combined corporate tax rate is second-highest in the industrialized world; even after accounting for deductions and credits, the U.S.’s overall corporate tax burden is among the worst, exceeding many Scandinavian and European countries whose governing philosophies can best be described as socialist. This, however, is not the only daunting challenge to the vitality of our business and industrial base. According to a study authored scarcely more than a year ago by economist Jeremy Leonard, the U.S. manufacturing output is more heavily constrained by pollution abatement regulations than that of France, Germany, or the United Kingdom. After allowing for other overhead such as taxes, Leonard concluded that manufacturers in this country suffer a 32 percent cost disadvantage relative to our nine largest trading partners abroad.

As we’re certain this Administration is aware, protectionism is the wrong answer to maintaining the health of our manufacturing industry, whether in the form of trade barriers or “Buy American” rules. Rather, policymakers should concentrate on removing the obstacles that government has placed before our domestic companies. That includes not only reducing taxes, but also repealing unnecessary regulations. Until such actions can be taken, surely officials can avoid steps that would make matters worse. Avoiding imposition of the new NAAQS ozone rule is a perfect place to start.

The Timing for Our Economy Could Not Be Worse. Economists differ in their opinions of the ultimate impact that the new NAAQS rule would have on a national scale. Estimates range from -\$20 billion to +\$20 billion among official sources, though the deadweight losses could be much higher. The adverse fallout from such a rule should be enough to give policymakers pause even in a strong economy. In today’s uncertain environment, considering this ozone revision should be unthinkable. The rule would exert countless pressures to weaken the economy, in the form of higher energy costs, higher taxes, and depressed business activity. It is tragically ironic that as policymakers are seeking ways to *stimulate* our economy, some would even contemplate an action that is guaranteed to *sedate* our economy.

Conclusion. For these reasons, NTU’s 362,000 members urge you to reject the new EPA/NAAQS ozone rule. By doing so, you would affirm to the nation’s taxpayers that the Bush Administration stands for free markets and limited government. America’s taxpayers and consumers will gratefully remember this courageous and sensible stance.