

Approaching the subsidy beast

by Ronald Steenblik
Director of Research

GSI Global
Subsidies
Initiative

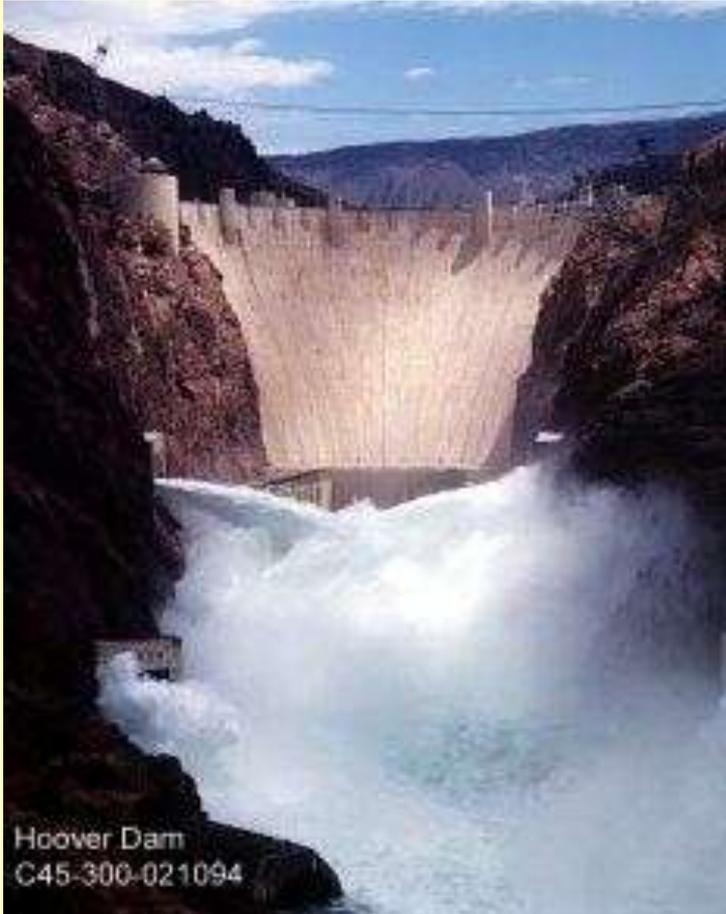
The GSI is a programme of:

iisd International Institute for Sustainable Development
Institut international du développement durable

Some subsidy story angles

- Make the subsidy sound ridiculous
- Uncover subsidies that somebody else has not
- Look for evidence of bad design, or unintended consequences
- Take a sceptical view of what vested interests are saying
- Uncover inequality

Uncover hidden subsidies



These are not likely to appear in budget statements

Type of expenditure	Ground	Surface
Tax credits and other tax-based instruments	+	..
Government guarantees on borrowed capital	++	+
Assumed liability for accidents	..	+
Cross subsidies among different (paying) water users served by the same facility	+	++
Capital or other costs allocated to “public good” beneficiaries of water projects (e.g., recreation)	..	+++
Subsidized electricity rates for pumping	+++	+
Losses from not charging full opportunity cost of water (including diversion upstream from hydro-electric turbines)	+++	++



Look for
evidence of
bad design,
or unintended
consequences

Consumers undo planners' intentions

- *Example:* In 1993, authorities required cars in central Athens be fitted with catalytic converters. Incentives were provided *if* owner sold a vehicle at least 15 years old.
- *Problem:* Subsidies tied to disposal but not scrapping of older, dirtier capital.
- *Result:* Many low-income families became car owners for the first time.



Subsidy is dissipated

- *Example:* Dutch subsidy for thermal-pane windows (1970s).
- *Problem:* Generous consumer subsidy coincided with constrained supply.
- *Result:* prices rose, rent was captured by Belgian producers.



Subsidy is poorly targeted

- **Example:** Incentives that offer uniform prices for wind-generated electricity, irrespective of the turbine's location.
- **Problem:** Investors favour installing turbines in high-wind areas remote from transmission lines.
- **Result:** More transmission lines are built, and other system costs increase.



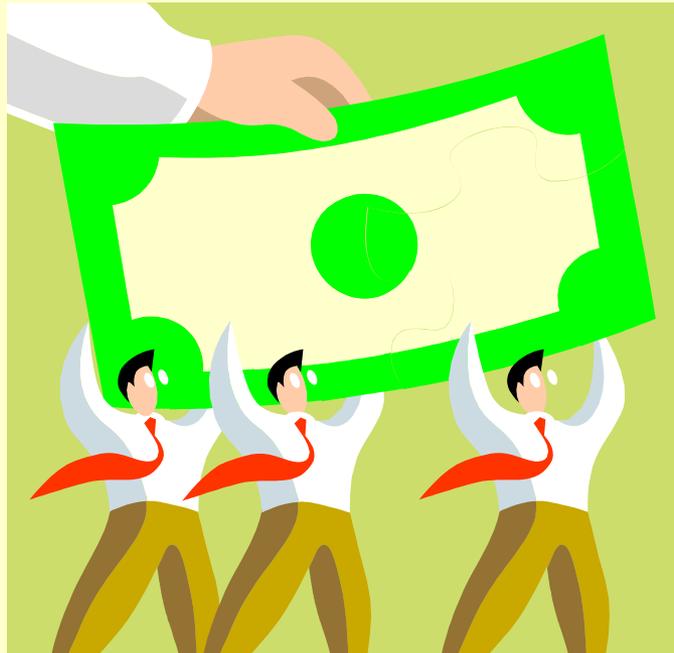
Example: subsidies to liquid biofuels



- Strong environmental rationale for biofuels, but also potentially significant environmental effects.



Be suspicious of self-serving arguments from special interests



Subsidy is captured by special interests

- **Example:** Grants for construction of “clean coal technologies” in the 1980s and 1990s.
- **Problem:** Subsidies for “clean” technology get diverted to “dirtier” source.
- **Result:** Many of plants were built in connection with high-sulphur, high-ash mines.



Subsidy overlooks key environmental effects

- *Example:* Irish and EU subsidies for peat-fired power plants.
- *Problem:* Subsidy based on simplistic reasoning, in this case an obsession with “renewable” aspect of a fuel.
- *Note:* peat is renewable only over millennia.



- *Result:* bog destruction; very high net CO₂ emissions.



Uncover inequality



2007 Chevrolet Tahoe

- In the USA, 75% of flex-fuel vehicles (able to burn E85) from 2007 model year have 5.3-litre engines.
- To keep one of these running on E85, under “normal” driving conditions, costs U.S. taxpayers over **\$520** a year.
- \$520 is approximately the average per-capita income of a person living in a low-income country.

Distinguish between myth and reality



Idealized farm couple



Corporate farmer

Migrant laborers



Make links with development

- Some agricultural production and consumption in OECD countries would not have existed without government subsidies and border protection.
- That support has implications for developing-country producers and consumers



Example: fisheries



- Fishing subsidized by around \$15 billion a year worldwide, mainly by richest coastal countries.
- Subsidies are (with poor management) partly responsible for rapid depletion on fishing stocks.

Thank you

www.globalsubsidies.org

rsteenblik@iisd.org