Approaching the subsidy beast

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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

<table>
<thead>
<tr>
<th>Type of expenditure</th>
<th>Ground</th>
<th>Surface</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax credits and other tax-based instruments</td>
<td>+</td>
<td>..</td>
</tr>
<tr>
<td>Government guarantees on borrowed capital</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Assumed liability for accidents</td>
<td>..</td>
<td>+</td>
</tr>
<tr>
<td>Cross subsidies among different (paying) water users served by the same facility</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>Capital or other costs allocated to “public good” beneficiaries of water projects (e.g., recreation)</td>
<td>..</td>
<td>+++</td>
</tr>
<tr>
<td>Subsidized electricity rates for pumping</td>
<td>+++</td>
<td>+</td>
</tr>
<tr>
<td>Losses from not charging full opportunity cost of water (including diversion upstream from hydroelectric turbines)</td>
<td>+++</td>
<td>++</td>
</tr>
</tbody>
</table>
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 CO$_2$ emissions.
Uncover inequality

• 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

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