

## LEVEL PLAYING FIELD ON A ROUND PLANET

### Should we get rid of all energy subsidies?

by David Roberts 6 Jan 2011 12:04 PM

Should the U.S. get rid of energy subsidies altogether?

In a new piece for *Washington Monthly*, Jeffrey Leonard argues just that: "Get the Energy Sector off the Dole." Amory Lovins argued something similar in *The Weekly Standard* in past October. Way back in 2002, Ed Crane (head of the libertarian Cato Institute) and Carl Pope (then head of the Sierra Club) made the same argument in a *Washington Post* op-ed.

So, is it a good idea? Today I want look to at the question from a policy angle. Tomorrow I'll get into the politics.



for you!

None

#### Can government get out of the energy game?

The intuitive appeal of a subsidy-free market is that energy technologies would compete in a pure meritocracy -- a "level playing field," as pols are fond of saying. Success would be determined by the aggregate distributed decisionmaking of market actors rather than the whims of bureaucrats. A proper market at last, hallelu.

But you don't have to tug on that string very long before you end up with a whole armful of yarn. Leonard cites \$20 billion a year in U.S. energy subsidies, but there is heated disagreement about that figure, mainly because no two people agree exactly what qualifies as a market-distorting subsidy. Obviously cash. Tax breaks, credits, and write-offs, sure. After that it gets a bit fuzzy.

What about military deployments to (among other things) secure foreign oil supplies? Should that count as a subsidy? If so, \$20 billion gets a lot closer to \$650 billion and that's a different conversation.

What about unpriced market externalities? An industry that pollutes without paying for it is effectively subsidized by the taxpayers who pick up the bill for the negative health and employment effects.

In the case of greenhouse gases, that's a large subsidy indeed. Obama's original budget contained a program to auction carbon permits, beginning at a relatively low price, that was going to raise \$80 billion a year. Even at a fraction of the true price of carbon pollution, that's quadruple the subsidies Leonard cites. That's to say nothing of the external costs of mercury, smog, and acid rain, which include sick people, reduced productivity, missed work days, lost jobs, and higher health-care costs. EPA regulations go some way toward mitigating those costs, but don't come close to eliminating them.

What about sunk infrastructure costs -- highways, train tracks, and electrical wires? They have been designed to support private automobiles and large, remote power plants. Do they count as subsidies to oil and coal companies?

What about the quasi-semi-monopolistic regulatory structure of U.S. electrical utilities, which encourages profligacy, waste, and gigantism? Is that a subsidy to coal?

One could go on. The point is, there is no disentangling governments from energy markets. The best way to think of the relationship is as coevolutionary: Governments evolve in symbiosis with energy sources, technologies, and markets. Energy is too central to modern life for it to be otherwise.

#### Picking winners

This is in no way an argument against subsidy reform. Leonard is absolutely correct that there's no credible policy rationale for shoveling taxpayer money onto mature industries like oil, gas, nuclear, and corn ethanol -- it's both economically and environmentally daft. He's right that in many cases subsidies lock in 30-40 year (bad) investments, at great long-term detriment to our energy posture. And he's right that the bulk of subsidies go to fossil fuels, so eliminating tax-based subsidies would, on balance, benefit cleaner sources, which already have the wind at their back (pardon the pun).

But we should be careful not to buy the libertarian fantasy that governments have ever been or can ever be *neutral* toward energy, or that removing tax subsidies would produce that exalted state. Even if it were possible to reach such a state, nobody really wants it. Nobody, least of all the purported free marketeers on the right or their corporate contributors, is content to simply accept whatever is produced by a free, perfectly competitive market. Everyone, regardless of their rhetoric, is for some industries and technologies and not others. Everyone is after outcomes that reflect their values.

That's why progressives should feel no shame about asking for government policy that disfavors fossil fuels and favors a cleaner, more democratic energy system. Not because that's what a genuinely free market would do -- though that may be true -- but because fossil fuels make people sick and concentrate political power, while clean, distributed energy yields healthy people and politically empowered local communities.

Having said that, of course we should pursue outcomes that reflect those values in the *smartest way possible*, with both political savvy and policy acumen.

Policy-wise, the best subsidies are performance-based and time-bounded. That is to say, they should be keyed to targets -- like output-based pollution standards or renewable portfolio standards (which Leonard mentions but does not seem to consider a subsidy) -- rather than individual technologies or industries. And they shouldn't last forever. There should be a drawdown of support based on a schedule of targets.

There's also a solid case to be made for substantial public investment in R&D and early assistance to innovative tech companies trying to cross the "valley of death" between lab and market. And there's a case for substantial infrastructure investments in things like electrical car charging stations. There's a credible economic case for all sorts of things that might fall under someone's definition of "subsidy," and that's fine -- no sense taking the free-market, anti-subsidy rhetoric too seriously, whatever its political utility.

Politically speaking, supporting progressive values on energy might some day mean trading away comparatively paltry renewable subsidies in exchange for the pullback of some larger subsidies for oil and coal. If we could make that happen by opportunistically forming coalitions with libertarians and even Tea Partiers, I'm all for it. Yay for pragmatism!

But I don't believe that kind of deal stands a chance. More on that tomorrow.

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