

David Gordon Wilson

# A Subsidized Energy Binge

Here's a delicious thought. Suppose that the government were to offer "free" ice cream to all citizens. It's easy to imagine some of the benefits—and a few of the disadvantages—of such a policy.

(1) The government would become wildly popular.

(2) Consumption of ice cream would rise dramatically.

(3) Government would pay out large sums to farmers, ice-cream producers, distributors and retailers. Employment in these industries would increase greatly. A huge lobby in support of these apparently excellent policies would arise, almost guaranteeing their continuance.

(4) Consumption of "bread and broccoli" would fall precipitously. Products of all "alternative foods" would ask for government subsidies, which would be grudgingly given. Employment in all these other areas of agriculture and food supply would plummet.

(5) Obesity and ill-health would spread. Government would institute research programs to discover the causes.

(6) Some would start using the free ice cream to make plastics, to feed pigs and to cool their houses. Water pollution would become serious as sewage plants became overloaded. Government would set up a special branch of the police with draconian powers to search and seize evidence of these appalling transgressions.

(7) The huge increase in the consumption, legal and illegal, of ice cream would cause shortages to develop. Lawmakers would propose rationing.

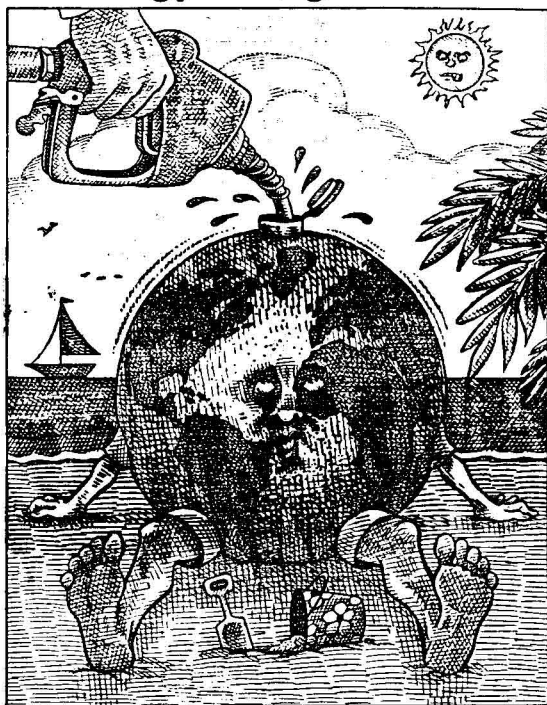
(8) Taxes would become burdensome. Economists would earn Nobel prizes for theories tying general low agricultural employment and high taxation to long-wave market-preference theories.

It's all pretty silly, isn't it? Yet if you try substituting transportation fuels for ice cream and bus companies for broccoli farmers in this imaginary scene, you may see some similarities. Here is a quotation from the "State of the World, 1993."

## Driving Subsidies:

"Contrary to popular beliefs, drivers do not pay their own way through user fees. In the U.S., gasoline taxes and other user fees account for roughly 60 percent of federal, state and local spending on highways. The remainder, \$29 billion in 1989, comes from general funds, property taxes and other sources. Another cost, "free" parking, has an estimated value of \$85 billion per year. Additional expenses not covered by drivers, such as for police and emergency services, traffic management and routine street maintenance, represent some \$68 billion annually. When harder-to-quantify costs such as air pollution, traffic congestion and road accidents are figured in, the total subsidy to drivers in the U.S. soars to an estimated \$300 billion a year."

The nonpayment of these "external costs" amounts to a subsidy of 25 cents per vehicle mile. Even this huge handout excludes the cost of part of the defense budget and of such major factors as the effect of air-conditioner CFC discharges on the destruction of the ozone layer.



BY P. KOSTI

U.S. military might is at least partly dictated by the need to "protect" Middle East oil supplies. Why shouldn't the oil users—almost all of us—pay a small proportion of these defense expenditures? If we did, our costs would double to 50 cents per mile.

Transportation subsidies are merely one category among many. For instance, we provide huge quantities of precious water to farmers at a small fraction of its cost, and because petroleum is subsidized in the ways just mentioned, so are agricultural fuel and fertilizer and everything else that comes from oil. Two results are examples of prodigious overconsumption, like Las Vegas, and totally inappropriate rice farming in western deserts.

## Should we internalize external costs?

An economic principle states that we should internalize external costs—the polluter-must-pay principle. However, doing so would lead to increases in the costs of many goods and services (including such basics as energy and water). It would be regressive, hurting poor people more than rich. It would also trigger an apparent inflationary step. (It would be apparent rather than real because we don't figure income taxes into the cost-of-living index now. If we were to switch from income taxes to consumption taxes, these would likewise be excluded from COLAs).

A long-advocated solution is TPR, or "tax-plus-rebate." Energy, for instance, should be taxed on a gradually increasing scale until politicians feel that the level is socially appropriate. The proceeds of the taxes, which could eventually be quite large if the desired effects are to be reached, must be deposited into an impregnable trust fund. From this an equal per-adult rebate would be given each month to all citizens. Because the citizen of average income would see no change in his or

her standard of living, while those poorer would become richer and those richer would become poorer (if all maintained their same consumption patterns), TPR is progressive rather than regressive. Everyone would, however, have strong incentives to reduce consumption of anything that incurs external costs. Consequences of internalizing external costs:

(1) Socially/environmentally damaging activities (e.g., polluting, driving) would gradually become expensive, in some case extremely expensive.

(2) Non-damaging activities would become relatively less expensive. Having something repaired would be more attractive than throwing it away and buying something new. Starting new businesses to make more efficient, less damaging devices (e.g., solar cells, windmills, human-powered vehicles) would be stimulated. Employing someone to redecorate the house or to mend the roof would begin to seem more attractive than trying to do difficult and skilled jobs oneself.

(3) Employment would thereby increase greatly (in contrast to the false self-serving statements of the energy-industry lobbyists). Exports would rise and imports would fall.

(4) Everyone would have a guaranteed income from the division of the surcharges. People who worked would have a considerably higher income. Individual and corporate income taxes would decrease and could possibly eventually be dispensed with.

The only change required in this beautiful prospect to address our present fiscal woes is that some proportion—perhaps a quarter—of the energy taxes would be diverted to reducing the country's debt. It is worth it. Let's do it.

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