

PERVERSE SUBSIDIES

**How Tax Dollars Can
Undercut the Environment
and the Economy**

NORMAN MYERS AND JENNIFER KENT

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Undercut the Environment
and the Economy**

*Norman Myers
and Jennifer Kent*

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Preface

Our initial report on perverse subsidies was published in mid-1998 by the International Institute for Sustainable Development in Winnipeg, Manitoba, Canada. The timing was favorable. In May of that year, the annual G8 meeting, a gathering of presidents and prime ministers from the eight biggest economies in the world, was to meet in Birmingham, England. What a splendid opportunity, we thought: our text would show those heavyweights how they could do more to boost their economies through phasing out perverse subsidies than through any other single measure. They could cancel their budget deficits at a stroke, they could offer huge tax cuts, they could reorient their fiscal priorities by supplying large increases to front-rank sectors such as education and health, and they could do lots of other things, with enough left over to throw nationwide parties. At the same time, they could go far to reduce the grand-scale degradation of their environments and repairing past damage. We duly ensured that copies of the report were put into the hands of leading advisers of each president and prime minister.

Alas for our hopes. Not a single word from on high was breathed with regard to perverse subsidies. Nor has there been any mention of perverse subsidies in other topflight gatherings of political leaders, except at the World Bank. There is a long way to go before these subsidies take their rightful place in the center of the radar screens of those who shape our future.

Because of the issue's importance and the lack of attention given to it, I decided to revise the original report and present a more detailed assessment of the problem. Hence this book, the preparation of which was kindly supported by Island Press and its senior editor, Todd Baldwin, together with the International Institute for Sustainable Development and Stephan Barg. As a result of fine-grain analysis, our calculation of the subsidies total was bumped up from \$1.9 trillion to \$2.5 trillion per year. I am convinced that were the issue to be given an even more in-depth treatment, the total would turn out to be larger still. An assessment of the United States by Paul Hawken¹ found that one-third of the country's economy serves no worthwhile human purpose, and much of the waste is fostered by those (expletive deleted) subsidies. Worldwide, Hawken believes, the waste could amount to \$10 trillion.

Fortunately, there has been a scattering of initial efforts to cut perverse subsidies in countries west, east, north, and south. These efforts are a start: nothing more, and also nothing less. "Nothing more": it is a curious circumstance that greater attention, or much attention at all, is not directed at such a prominent phenomenon of our daily lives. Of course, there should always be room for constructive subsidies: they help our world to go around better. But many other subsidies are "perverse" in that they are damaging to our environments and economies alike. The perverse ones total around \$2 trillion, within a global economy of \$35 trillion; hence, they are highly distortional and damaging. Were they to be phased out, huge sums would be released to pursue the Holy Grail of sustainable development. The 1992 Rio Earth Summit offered a budget for sustainable development, with a total of \$600 billion per year—which was dismissed by governments as quite unavailable. Yet perverse subsidies, which by definition are superb supports of *unsustainable* development, could supply funds three times larger than the Rio proposal. This surely presents an insurmountable opportunity.

Key question: why has the issue not attracted more attention from professional analysts, policy makers, political leaders, and the general public? Still more to the point, why has it remained a black hole for research? Primarily, I think, because it is such a murky subject. Data are hard to track down or are simply not available, which is understandable when most governments do not keep even minimal track of subsidies overall. Then there is the age-old problem of what constitutes a subsidy, let alone a perverse subsidy.

As a result, this was the most complex and challenging of all the fifteen "big-picture" research projects I have undertaken during the

past quarter century. The issues are manifold, the sectors are wide ranging, and the information base is extraordinarily deficient. So I was far more dependent than usual on support from a host of friends and colleagues around the world. Many sent or directed me to papers and reports; over 2,000 have been collated in all—a total so large that we cannot thank all these helpful individuals by name here. Certain others supplied analytic insights, and anyone who has tackled an intractable research issue such as this one will understand that “idea people” contribute much more than they are often aware. In the front rank of these are Stephan Barg, Jane Corbett, André de Moor, Peter Gleick, Arthur J. Hanson, Rick Heede, Douglas Koplow, Todd Litman, Jim MacNeill, Mara Myers, David Pimentel, Sandra Postel, David Roodman, and Ronald Steenblik.

In particular, I want to express hefty thanks to those people who took great amounts of time to read chapters and send back detailed critiques: Dennis Anderson, Bill Barclay, Stephan Barg, Chris Barr, John Browder, Tom Burke, Peter Dauvergne, Tom Downing, Malin Falkenmark, Chris Flavin, Fred Gale, Robert Gale, Peter Gleick, the late David Hall, Arthur J. Hanson, Rick Heede, William Hyde, David Kaimowitz, Douglas Koplow, Ann Platt McGinn, Randal O’Toole, David Pimentel, Sandra Postel, Andrew Rajkumar, David Roodman, Carl Safina, Douglas Southgate, Ronald Steenblik, Michael Strauss, Michael Sutton, Michael Weber, and Peter Weber.

Of course, the original research project would not have got to the starting line if it were not for the generous financial support of The John D. and Catherine T. MacArthur Foundation in Chicago. Special thanks go to Dan Martin, director of the Program on Global Security and Sustainability. I much appreciated Dan’s believing in my seemingly way-out idea in the first place.

Thanks also to Arthur J. Hanson, former president, and Stephan Barg, senior program advisor, of the International Institute for Sustainable Development in Winnipeg, who agreed to publish my original report in 1998. They have continued to highlight perverse subsidies by setting up a World Wide Web site with regular listings of subsidies news from around the world. The 1998 report subsequently caught the eye of Todd Baldwin, senior editor of Island Press in Washington, D.C. He suggested that I engage in a full-bore revision of the earlier report with a view to commercial publication, and the result is what you, the reader, now hold in your hands. I warmly welcomed Todd’s enthusiasm for the beefing-up exercise and his steady support while I and my research associate sweated away with mountains of statistics and analyses. The result is a much more com-

prehensive assessment. The book now includes forests as a sixth sector, and it features many more fine-grain evaluations of what's what. It is not a "Son of *Perverse Subsidies*"; it is more like a "Father and Mother Account of *Perverse Subsidies*." As the reader will note at numerous points in the book, this latest estimate of perverse subsidies—\$2 trillion per year—is surely more of an underestimate of the real-world situation than was the first-time assessment.

I also want to recognize the support of my literary agent, Virginia Barber of New York. As with most of my sixteen books, she handled the contract negotiations with her customary acumen, and she remained enthusiastic about the venture at those times when I felt underwhelming interest in giving it another whirl. Hefty thanks to you, Ginger: you contribute more than you know.

Finally and foremost, I conducted the project from start to finish with the super-est support of my research associate, Jennifer Kent. Self-trained, she has become far more of a statistical guru than I am. At the same time, she has researched, chased down references, dug out endless streams of nitty-gritty detail, re-rechecked a hundred this's and a thousand that's, and spent huge amounts of time clarifying the entire manuscript (often working at it until nearer dawn than dusk). This was a monumental task for her, and she did it monumentally well. I can best express my thanks to Jennie by saying that it long since became plain that her name belongs on the title page as coauthor—and in certain respects, her name should come first.

To reiterate the central point: perverse subsidies remain little known. Precisely because we are generally unaware of them, they are free to work away cancer-like in our body politic. This book not only sees them as problems but also views them as opportunities—surely insurmountable opportunities. Governments of the world: go for it!

NORMAN MYERS

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Part I

BACKGROUND

Chapter 1

INTRODUCTION: WHAT ARE SUBSIDIES?

Subsidies: the term sounds like the ultimate bore. But subsidies are a prime feature of our economic landscape. That much is well understood; we can live with the idea. But who has heard of—or who cares about—“perverse” subsidies? What have they ever done for us, or, rather, against us? Well, they affect us at every turn of our daily lives, and their harmful effect detracts from the pleasure and fulfillment we gain from every one of those daily lives. We can consider them to be subsidies that exert adverse effects on our economies and our environments alike. Hardly any other factor has such a downside influence on us.

Here we go, then, with a book that aims to document the problem of perverse subsidies in six main sectors: agriculture, fossil fuels and nuclear energy, road transportation, water, fisheries, and forestry. Total subsidies (perverse or not) in these sectors and a few others have long been thought to be around \$2 trillion worldwide per year,¹ but they have remained almost entirely undocumented. This means that subsidies play a prime role in the functioning of the global economy. Suppose too that perverse subsidies amount to a sizeable pro-