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Clean Energy Tax Incentives: What Role Should Government Play?

Hearing of Subcommittee on Energy, Natural Resources and Infrastructure Committee on Finance

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ACCF Senior Vice President and Chief Economist Margo Thorning testified today before the Senate Subcommittee on Energy, Natural Resources and Infrastructure on the role of government in clean energy subsidies.

Executive Summary

Government Subsidies and Tax Incentives for Clean Energy: The wind, solar power, biofuel and ethanol industries do not meet the standard criteria used to justify taxpayer-funded subsidies for their deployment across the U.S. economy. They are not "infant industries," are not essential for U.S. economic and job growth and they are unlikely to provide benefits commensurate with their costs. Addressing the huge U.S. federal budget deficit requires cutbacks in programs whose costs exceed their benefits.

Renewable Energy Costs are High: Energy use is a key component in U.S. economic recovery, in recent years each 1% increase in GDP in the U.S. has been accompanied by a 0.2% increase in energy use. Data from DOE's EIA show that new electric generating capacity using wind and solar power tends to be considerably more expensive than conventional, available and secure natural gas and coal resources.

Impact of Clean Energy Standard: A national mandate requiring that electricity retailers supply a specified share of their sales from clean energy sources would have adverse economic impacts. A new EIA analysis shows that by 2035, the CES will raise electricity prices by 20% to 27% and reduce GDP by $124 billion to $214 billion.

Renewable Energy Receives Largest Share of Tax Code Subsidies: In 2010, an estimated 76% of the $19.1 billion in federal tax incentives went to renewables, for energy efficiency, conservation and for alternative technology vehicles while only 13% went to fossil fuels according to the Congressional Research Service (CRS). Some renewable electricity enjoys negative tax rates: solar thermal's effective tax rate is -245 % and wind power's is -164%.

Tax Code Should be Neutral: Accelerated depreciation, Section 199, the foreign tax credit deduction and LIFO are examples of tax code provisions that are available to any industry and are not considered "subsidies."

Fossil Fuels Expansion: Several recent economic analyses suggest that increased access to domestic onshore and offshore oil and gas reserves , including shale gas, could strongly boost U.S. economic recovery, manufacturing and job growth as well as increasing energy security.

Conclusions: Continued high levels of federal support for the deployment of clean energy and alternative fuel vehicles in the U.S. is unlikely to have a significant impact on reducing GHG concentrations in the atmosphere since the real growth in emissions is coming from developing countries. Government funded basic R&D for renewables and conservation may be a better use of taxpayer dollars than the current suite of tax incentives and direct spending programs whose renewal by policymakers is highly uncertain, especially

given the critical situation of the U.S. federal budget.

Watch video of the hearing and Thorning testimony here: