

Crony Capitalism Lurks in Renewable Energy Subsidies Programs



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Crony capitalism occurs when the government interferes with the economy, creating advantages for some businesses at the expense of others. When government colludes with businesses to distort the free market, inefficiencies are introduced into the economy. A popular form of crony capitalism is subsidies to renewable energy companies. Government policies that favour renewable energy companies are common because politicians believe such policies will help fight climate change, reduce dependency on oil, and protect the environment for future generations—all while creating “green jobs.” However, critics argue that these subsidies do little or nothing to protect the environment. Furthermore, subsidies to renewable energy companies damage the economy because



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they result in higher taxes, higher government debt, and higher energy prices for individuals and businesses.

The Spanish experience with renewable energy subsidies is worth examining because it is pointed to by many world leaders as an example to follow. As *The Wall Street Journal* reported, “Boosters of clean energy, including President Barack Obama, have pointed to Spain as a success story showing how government policies jump-started renewable energy, created new industries, and helped the environment” (Gonzalez and Johnson, 2009). Speaking in Ohio in January 2009, newly elected US President Barack Obama proclaimed that the renewable energy economy “can create millions of additional jobs and entire new industries if we act right now. The need for this action has never been more urgent.” He



Spain's renewable energy subsidies have been an economic disaster

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continued, “think of what’s happening in countries like Spain, Germany and Japan, where they’re making real investments in renewable energy. They’re surging ahead of us, poised to take the lead in these new industries” (Obama, 2009).

The truth is that the Spanish experience with renewable energy subsidies has been an economic disaster. A paper published by researchers from the King Juan Carlos University in Spain found that “for every renewable energy job that the State manages to finance, Spain’s experience cited by President Obama as a model

reveals with high confidence, by two different methods, that the US should expect a loss of at least 2.2 jobs on average, or about 9 jobs lost for every 4 created, to which we have to add those jobs that non-subsidized investments with the same resources would have created” (Alvarez et al., 2009). The study also found that every green energy job created by Spain since 2000 cost the government €571,138 on average—including subsidies of over €1,000,000, on average, for each job in the wind industry. Even worse, only one of ten jobs created was permanent (Alvarez et al., 2009). *The Wall Street Journal* observed that once the government subsidies dried up, Spain’s solar power industry collapsed (Gonzalez and Johnson, 2009). The King Juan Carlos University paper also reports that “each ‘green’ megawatt installed destroys 5.28 jobs on average elsewhere in the economy” (Alvarez et al., 2009).

The final cost of the Spanish experience with renewable energy subsidies is massive. From 2000 to 2008, “the total over-



Ontario's Green Energy Act (GEA) has had devastating impacts on Ontario's energy rates

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cost—the amount paid over the cost that would result from buying electricity generated by the renewable power plants at the market price” was €7.92 billion (Alvarez et al, 2009). The total subsidies spent over this time came to €28.67 billion—a staggering sum to pay for higher electricity prices and lost jobs. The researchers also found that “the costs do not appear to be unique to Spain’s approach but instead are largely inherent in schemes to promote renewable energy sources” (Alvarez et al., 2009).

Indeed, similarly to the Spanish experience, the Ontario government’s Green Energy Act (GEA) has been a failure. “The GEA has had disastrous impacts on Ontario’s energy rates and is going to seriously threaten economic competitiveness for the manufacturing and mining sectors,” according to the Fraser Institute, which estimates that the increasing energy prices will cause returns to investment to decline by 29% in manufacturing and 13% in mining (Green and McKittrick, 2013). The increased

Renewable energy subsidies distort the market and cost taxpayers money

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energy prices will take their toll on households as well. It is estimated that over a 20-year period, "Ontario energy users could be burdened with an extra cost of at least \$18 billion," with residential electricity customers paying \$285 million more per year on average (Angevine, Murillo, and Pencheva, 2012).

Even if the GEA had created 50,000 jobs in Ontario as had been promised, the subsidy would have been \$179,000 per job per year (Dachis and Carr, 2011). However, the jobs promised by the government did not materialize, and as in Spain, most of the jobs that were created were temporary. "The claim by the government of Ontario that 50,000 jobs will be created by the GEA was a guess without any basis in formal analysis, and the province has since admitted both that the vast majority of any GEA-related jobs will be temporary and that the figure of 50,000 does not account for offsetting permanent jobs losses caused by increases in the price of electricity under the GEA" (McKittrick, 2013). The C.D. Howe Institute predicted in 2011 that net job creation resulting from the GEA could be negative (Dachis and Carr, 2011), and the Fraser Institute found that the "Green Energy Act will not create jobs or improve economic growth in Ontario. Its overall effect will be to increase unit production costs, diminish competitiveness, cut the rate of return to capital in key sectors, reduce employment, and make households worse off" (McKittrick, 2013).

Subsidizing renewable energy is similar to subsidizing any other industry—the subsidies are intended to create jobs in the subsidized industry. However, renewable energy subsidies are doubly harmful. Not only do they unfairly distort the market and cost taxpayers money, but businesses and homeowners are forced to pay again in the form of higher electricity prices. Furthermore, since wind power production “peaks when it is least needed and falls off when it is most needed, surplus power is regularly exported at a considerable financial loss... The Auditor-General of Ontario estimates that the province has already lost close to \$2 billion on such exports” (McKittrick, 2013). Clearly, subsidizing the renewable energy industry is a wasteful and reckless course of action for any government. Unfortunately, as former Ottawa Mayor Larry O’Brien writes, “the differences between practical politics and ethical businesses are chilling” (O’Brien, 2013). A CEO’s objective is efficient management and sustainable profits. A politician’s objective is re-election. Sadly, subsidies for renewable energy will continue as long as they are politically expedient, no matter how badly these policies damage the economy.

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