

# WELFARE FOR WASTE *Executive Summary*

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Americans love recycling. It is one of the few ways that citizens believe their individual everyday actions help protect the environment. More than 120 million Americans now recycle more than one quarter of the total U.S. municipal discards.

But, at the same time that citizens take pride in their community recycling programs, the federal government is wasting billions of dollars every year on programs that directly undermine those efforts. This report shows that recycling competes with virgin materials and waste disposal industries on an uneven playing field. Well-financed and politically influential virgin materials industries receive significant tax breaks and other subsidies. This wastes taxpayer money while encouraging environmental depletion, pollution, lost job opportunities, and trashing of recyclable resources. Meanwhile, resource-efficient recycling and reuse businesses, which tend to be smaller, community-based and run by entrepreneurs, struggle against subsidized competitors.

Favoritism to virgin materials industries originated in the 1800s with federal and state subsidies intended to develop the West, and to spur the transition of the nation from an agrarian to an industrialized society. Many of these subsidies still exist and more have been added. However, the society that these subsidies were intended to develop no longer exists, transformed in part *because* of the early influence of such policies.

Subsidies for resource extraction have their twin in subsidies for waste disposal facilities. Both are integral parts of a linear production model which involves extracting raw materials, making them into products, then discarding them “out of sight, out of mind” in landfills and incinerators. The waste disposal industry, in fact, competes directly with reuse and recycling businesses for the supply of discarded resources. Moreover, burying, burning or otherwise destroying discarded material simply fuels more resource extraction to make more products.

The 15 subsidies targeted in this report will pour an average of \$2.6 billion every year into direct subsidies for resource extractive and waste disposal industries, or more than \$13 billion over five years.<sup>1</sup> This is real money to real people who pay taxes. Moreover, while the dollar level may seem relatively small, that kind of preferential economic treatment is immensely significant when compared to its potential impact on the much smaller recycling and reuse industries. For example, in the late 1990s, the value of all postconsumer recyclable materials furnished to recycling manufacturers, including non-ferrous metals, has ranged from \$16-19 billion per year.<sup>2</sup> Subsidies to the raw materials industries that are worth 15% of the recycling industry’s feedstock costs are clearly influential.



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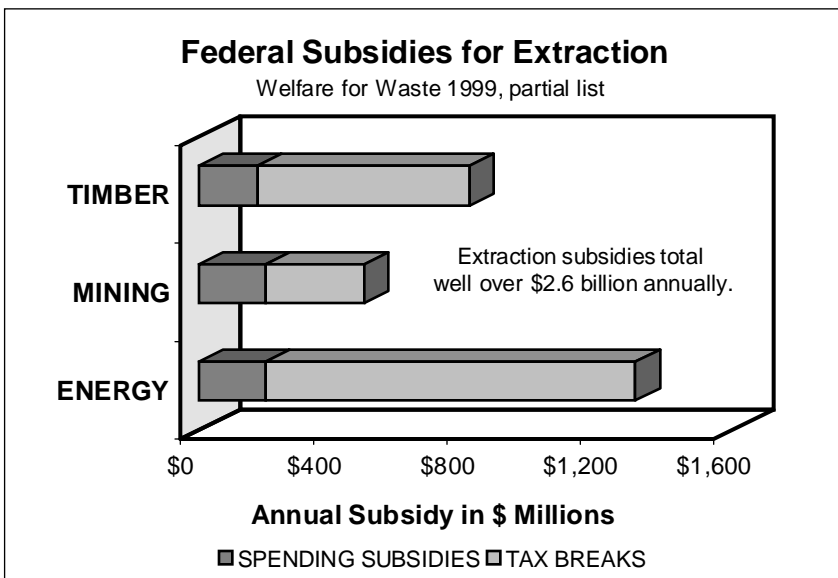
Moreover, the direct subsidies detailed in this report represent just the tip of the iceberg. Billions of dollars more in preferences for resource-wasting industries tip the scales farther against recycling and reuse. These include indirect subsidies, such as:

- cheap energy that disproportionately benefits the more energy-intensive extractive industries,
- road building at taxpayer expense to serve industries remote from metropolitan markets, and
- tax policies that favor capital expenditures over labor costs.

Even more substantial are the costs that virgin materials and waste disposal industries *don't* pay but should. Too often, taxpayers end up paying these costs, such as:

- impacts of environmental damage,
- pollution clean-up, and
- waste disposal.

By paying for subsidies to extract virgin resources, taxpayers end up:



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- losing money on undervalued, taxpayer-owned resources,
- providing welfare for private corporations,
- cleaning up pollution, eroded land, silted rivers, damaged ecosystems, and hazardous waste sites in an even larger number than might have been created if subsidies had not encouraged more extraction,
- paying for disposal of companies' products when they're discarded,
- encouraging substitution of capital-intensive processes that extract materials instead of more labor-intensive industries that conserve them, and

- paying more for recycling that could have been competitive with or even less expensive than fairly priced virgin materials production.

If, instead, materials and products reflected their full costs, in part by removing subsidies that disguise them, it would help recycling and reuse industries and spur more efficient product design and manufacturing. These changes would make a major contribution to resolving many of today's critical environmental and resource issues.

This report does not claim that eliminating federal virgin materials subsidies will, alone, revolutionize the economics of recycling and reuse. After all, more than a century of subsidies and federal favoritism has showered virgin materials industries with economic and political benefits. The result

## FEDERAL TAXPAYER SUBSIDIES THAT UNDERMINE RECYCLING AND REUSE

	Average over 1 year (\$ Millions)	Total over 5 years (\$ Millions)	Tax or Spending Subsidy <sup>a</sup>
<b>DIRECT SUBSIDIES</b>			
<b>Timber</b>			
1. Capital Gains Status For Timber Sales	\$ 635	\$ 3,175	tax
2. Below-Cost Forest Service Sales	111	555	spending
3. Forest Roads Construction	31	157	spending
4. Forest Service Salvage Fund	34	171	spending
<b>Timber Subsidies Subtotal</b>	<b>\$ 811</b>	<b>\$ 4,058</b>	
<b>Hard Rock Mining</b>			
5. 1872 Mining Law	\$ 200	\$ 1,000	resource
6. Mining Percentage Depletion Allowance	269	1,345	tax
7. Expensing Exploration And Development Costs	27	135	tax
8. Inadequate Bond Requirements	NA	NA	tax
<b>Mining Subsidies Subtotal</b>	<b>\$ 496</b>	<b>\$ 2,480</b>	
<b>Energy</b>			
9. Percentage Depletion Allowance	\$ 276	\$ 1,380	tax
10. Intangible Drilling Costs (IDCs)	9	45	tax
11. Passive Loss Tax Shelter	38	190	tax
12. Alternative Fuel Production Credit	543	2,715	tax
13. Enhanced Oil Recovery	245	1,225	tax
14. BPA: Electric Power Subsidies For Aluminum	200	1,000	spending
<b>Energy Subsidies Subtotal</b>	<b>\$ 1,311</b>	<b>\$ 6,555</b>	
<b>Waste Facilities</b>			
15. Private Activity Bonds	NA	NA	tax
<b>TOTAL DIRECT SUBSIDIES</b>	<b>\$ 2,618</b>	<b>\$13,093</b>	
<b>INDIRECT SUBSIDIES</b>			
<b>Energy</b> (e.g. unnaturally low prices, cheap feedstocks)	<b>Substantial</b>	<b>Substantial</b>	
<b>Water</b> (e.g. replacement for higher-priced energy)	<b>Substantial</b>	<b>Substantial</b>	
<b>Transportation</b> (e.g. remote highways, inland waterways)	<b>Substantial</b>	<b>Substantial</b>	
<b>Tax</b> (e.g. bias towards capital investments)	<b>Substantial</b>	<b>Substantial</b>	
<b>International</b> (e.g. Multilateral promotion of extractive industries, trade and aid favoritism, transfer pricing)	<b>Substantial</b>	<b>Substantial</b>	
<b>Unfunded External Costs</b> (e.g. avoidance of pollution clean-ups, environmental damage, failure to incorporate cost of disposal)	<b>Substantial</b>	<b>Substantial</b>	

<sup>a</sup>Tax subsidies are taken from line items in Table 5-1. "Total Revenue Loss Estimates For Tax Expenditures In The Income Tax," in the *Budget of the United States Government, Fiscal Year 2000, Analytical Perspectives* (Washington, DC: Office of Management and Budget, 1999). Calculations of spending subsidies (which in this report include related subsidies for resource giveaways) were carefully developed, in consultation with experts from diverse perspectives, from amounts allocated in appropriations bills. Some of the spending subsidies were first published in *Green Scissors*, Friends of the Earth (Washington, DC: Friends of the Earth, 1999).

is substantial advantages for extractive and disposal industries in terms of wealth, pricing, distribution, stability, ability to attract investments, and political clout to continue the subsidies. But eliminating the subsidies will at least give recycling and reuse industries a more even playing field on which to compete while also saving taxpayer money.

Current demand for energy and virgin resources, many of which are non-renewable, cannot continue without fostering ever-greater environmental and economic degradation. Lawmakers and producers must, instead, recognize the necessity of a new policy for the new century — a policy based on the environmentally and economically sustainable use of materials, or “materials efficiency.” Recycling and reuse, which usually use materials, energy and water more efficiently than virgin materials industries and produce less pollution, are essential elements of such a materials efficient policy.



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On the brink of the new millennium, the United States can no longer afford to apply 19th century policies to a world unimaginable when they were devised. Holding to archaic policies cripples innovations necessary for continued economic health and environmental sustainability. Eliminating the subsidies outlined in *Welfare for Waste* is an essential start in leveling the playing field to allow the industries best suited for the future to develop today.

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#### A FOUR-STAGE PROCESS FOR ELIMINATING SUBSIDIES FOR VIRGIN MATERIALS AND WASTING RESOURCES

- 1) **Congress should cut the direct federal subsidies listed in this report.**
- 2) **Federal, state and local agencies should investigate state and local subsidies** and recommend reforms to save taxpayer money while promoting materials efficiency.
- 3) **Congress and the executive branch should examine the indirect federal subsidies** listed in this report, such as those for energy and transportation, and others that negatively affect materials efficiency, and identify opportunities for future cuts.
- 4) **Government should sponsor a public review** to determine policies to develop a materials-efficient economy that requires less taxpayer subsidies.

*Welfare for Waste: How Federal Taxpayer Subsidies Waste Resources and Discourage Recycling* is authored by GrassRoots Recycling Network, Taxpayers for Common Sense, the Materials Efficiency Project and Friends of the Earth. The report is available at <http://www.grn.org> or in printed form for \$10.00 (including shipping and handling) from the GrassRoots Recycling Network, P.O. Box 49283, Athens, GA 30604-9283.