Faithful Budget, Faithful Stewardship
An Analysis of Energy Subsidies and Poverty Assistance Programs

Budgets are moral documents that reflect the priorities of their communities, and responsible Christian stewardship requires advocacy for the appropriate use of shared resources. Since the financial crisis of 2008, there has been increased emphasis on budget priorities as the United States attempts to reduce its deficit. Policymakers have a wide variety of options within the general framework of raising taxes or cutting spending, and Christians are called to advocate for a budget that protects all of God’s people and God’s Creation.
Christians are called to be stewards of the resources that God has entrusted to them (Gen 1:26, 2:15). This includes both private resources that they own individually, as well as public resources that have been entrusted to the community. One of the central actions of proper stewardship is budgeting.

This resource examines two elements of the United States federal budget: energy subsidies for fossil fuels (oil, natural gas, and coal); and assistance programs that help the least among us. It looks specifically at opportunities for expanded assistance in the Children’s Health Insurance Program; the Women, Infants, and Children program; the Low Income Home Energy Assistance Program; Head Start; and water infrastructure if subsidies for fossil fuel energy development were ended.

**SUBSIDIES FOR OIL, GAS, AND COAL**

There are four major categories of subsidies:

1. **Direct Spending**
   Direct spending is the easiest form of subsidy to identify, and is money given directly from the government to the company(ies) in exchange for making a certain type of good (in this case, energy). The Energy Information Administration estimates the cost of direct subsidies to oil, gas, and coal at 46 million dollars.¹

2. **Targeted Tax Expenditures**
   Targeted tax breaks provide a financial benefit through the tax code, allowing industry to pay less in taxes, which requires the government to either increase taxes elsewhere, cut spending, or increase the deficit in order to make up for the lost revenue. The Energy Information Administration estimates the cost of targeted tax expenditure subsidies to oil, natural gas, and coal at 4.13 billion dollars.² There is little difference between the government reducing a corporation’s taxes by 4.13 billion dollars and giving them 4.13 billion dollars. Both are forms of subsidies that transfer 4.13 billion dollars to the corporation and away from the government’s other priorities.

3. **General Tax Expenditures**
   Many of the tax breaks that apply to businesses in general are used by the fossil fuel industry. It is difficult to find a precise number because only a portion of the savings given by the tax break goes to the fossil fuel industry. After analyzing several of the biggest tax breaks for businesses it is estimated that the oil, gas, and coal share of general tax expenditure subsidies is approximately 6 billion dollars.³

4. **External subsidies**
   External subsidies are the cost equivalent of what economists call externalities. Externalities occur when a deal between two people or companies affects a third party that was not part of the original deal. For example, when a coal or oil company buys land from one individual, it can have a drastic effect on the individuals who own nearby property, even though they had no chance to review the sale and repurposing of their neighbor’s land. Much of the pollution and the health related impacts of pollution are not paid for by the fossil fuel industry, but show up instead in decreased property values and increased healthcare costs.
My name is Brenda Mutter Urias. I’d like to welcome you to my home here in Island Creek of Phyllis, Kentucky.

My father’s dad came to settle in this area around 1825. He built a home and raised a large family. He was a farmer. My father built the house I’m living in back in 1955 with lumber he sawed himself from a particular type of tree taken from the mountains that surround the homeplace. He built it solid and with pride just like his dad before him. It was a place he was proud of and he took comfort in knowing his family would always have a place to call their own.

We had good well water, beautiful mountains, clear streams and clean air. We were poor in material things but we were also rich. Most of our food came from the garden. We had fruit orchards and, of course at that time, farm animals.

My dad was a miner and he fought to help establish the UMWA so that the workers and their families would have better pay and medical coverage. He died at the age of 68 from black lung. He had one son and his one wish was that his son would never go into coal mining to make his living. Gladly to say, he didn’t.

Today, the beautiful mountains have been destroyed by mountaintop removal/contour mining. The streams are buried and have dried up. The air is full of dust and the well water is contaminated. The house is not as solid as it was just a few years ago. The nearby blasting is taking a toll. The mountain around the house now also poses a threat to our home in regards to flash floods and mud slides. I fear daily as to what may happen to my home. I don't want to see it destroyed but sometimes I feel I'm watching a slow death to it and to the environment that surrounds it.
Because externalities are not priced into our electricity bills, they are sometimes referred to as hidden costs, and allow energy from fossil fuels to seem much cheaper than it is. In 2005, Congress asked the National Academy of Sciences to calculate the hidden costs of energy production. The National Academy of Sciences estimates the non-climate change related external costs of oil, gas, and coal to be 117 billion dollars per year. More recently, Harvard Medical School ran a study on the life cycle of coal, estimating the hidden costs of coal to be between 333 and 500 billion dollars annually.

**TOTAL SUBSIDIES FOR THE FOSSIL FUEL INDUSTRY: 10.17 BILLION**

Since it is difficult to accurately estimate the costs of externalities and because they do not show up in the budget ledgers of the federal government, when comparing the priorities of our federal budget we will use 10.17 billion, the sum of the direct subsidies and the targeted and general tax expenditures. The 10.17 billion dollars reflects money the government could easily redirect to one of the five poverty assistance programs that we will analyze in this report. However, it is important to keep in mind that eliminating the massive subsidy that is given to the fossil fuel industry by allowing them to externalize many of their long-term costs is another reason to support policies that aid in the switch to renewable sources of energy.

**EFFECTS OF SUBSIDIES ON CONSUMER PRICES FOR ELECTRICITY AND GAS**

The cost to consumers of removing 10.17 billion dollars of energy subsidies is amazingly small. Even using an extremely conservative estimate in which all of the increased prices borne by domestic oil companies were passed on to consumers, the change in gasoline prices would amount to one cent per gallon. However, because the price of oil is set on a global market, domestic oil companies cannot simply raise prices; prices are instead set based on global supply and demand. Economists forecast that removing the subsidies to the oil industry would reduce world production of oil (the relevant supply to consumer price calculations) by only one-tenth of one percent, leading to no change in prices at the pump.

The Global Subsidies Initiative estimates that eliminating fossil fuel subsidies would raise electricity prices by 0.12 cents per kilowatt hour. The average price of electricity across the U.S. is 9.63 cents per kilowatt hour, so this would be an increase of one percent.

Though tax policy and direct subsidies can be removed with minor costs, factoring in environmental externalities would begin to significantly raise costs. Though studies are not available across the board, the Harvard Medical study on the costs of coal suggests that factoring in environmental damage would raise the price of coal by between 18 and 27 cents per kWh, effectively doubling or tripling the price of electricity from coal. However, this paper focuses instead on the 10.17 billion dollars of direct budgetary subsidies that could be eliminated with minimal adverse effects to consumers.
WOMEN, INFANTS, CHILDREN (WIC)

Women, Infants, Children (WIC) is a program by the U.S. Department of Agriculture (USDA) to improve the health of pregnant women, infants, and children up to the age of five by subsidizing the cost of healthy food. In 2011, WIC served 8.96 million people at an average cost of 65 dollars per person per month, and a total cost of 6.98 billion. WIC currently serves 53 percent of all infants born in the United States.

WIC is widely considered one of the most effective government programs because it prevents poor birth outcomes, and it also reduces consumer's healthcare expenses. The USDA has determined that each dollar spent on WIC saves between $1.77 and $3.13 in the first 60 days of a child's life. In this sense, WIC pays for itself by reducing public health expenditures.

However, WIC is facing budget cuts. The House of Representatives voted to cut 733 million dollars from the budget, and the Senate voted to cut 152 million. According to the Center for Budget and Policy Priorities, the House of Representatives cuts would result in turning away 700,000 people in 2012, the first time in 15 years that WIC has been forced to turn away pregnant women, children, and infants.

Cuts to WIC could be easily avoided by removing tax expenditures, repealing either the Excess of Depletion over Cost Percentage (980 million dollars), or the Temporary 50 Percentage Expensing for Equipment Used in the Refining of Liquid Fuels (760 million dollars), tax expenditures given to the oil and natural gas industries.

CHILDREN’S HEALTH INSURANCE PROGRAM (CHIP)

The Children’s Health Insurance Program (CHIP) is designed to cover children in families with modest incomes who do not qualify for Medicaid. CHIP and Medicaid combine to cover about 60 million children. CHIP cost 10.1 billion dollars in 2010. In 2009, CHIP was expanded and 1.2 million additional children have been insured, bringing the national percentage of children insured up to 93 percent.

Both short term and long term cuts have been proposed to CHIP in the U.S. House of Representatives. In the short-term, the Energy and Commerce Committee of the House of Representatives has voted to cut 400 million dollars from CHIP. The long-term cuts are even more severe. The FY 2012 budget passed by the House shrinks both CHIP and Medicaid from 2 percent of GDP in 2011 down to 1 percent in 2050. The Congressional Budget Office is unable to forecast what those cuts would mean for enrollment because of the unknown reactions of state governments and insurance companies. However, it is clear that even if health care costs stopped growing significantly faster than inflation this would mean massive cuts in the number of children insured.

In the short term, rather than cut 400 million from CHIP, we could repeal any one of a number of tax expenditures given to coal, oil, and natural gas.

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

The Low Income Home Energy Assistance Program (LIHEAP) consists of block grants to states whose funds are used to help low-income individuals with heating and cooling costs. In 2012 the federal government authorized 3.47 billion dollars in funding for LIHEAP, down from a high of 5.1 billion in 2010, a cut of 1.63 billion. The impacts on low-income citizens are difficult to quantify because each state can react differently to cuts in funding. For example, in Vermont, state funds will be used to cover the shortfall; however, in Maine just as many households will receive assistance, but the average benefit will be slashed.
The National Energy Assistance Director’s Association estimates that the cuts will mean 1 million fewer people will receive funding. Regardless of whether states meet budget cuts by dropping people or by slashing benefit amounts, cutting LIHEAP while preserving energy subsidies for corporations shows that our nation prioritizes energy subsidies that help the wealthy over energy programs to help those in need. As Christians, we recognize this as an immoral way to steward the energy and financial resources with which God has blessed us.

**HEAD START**

Head Start provides pre-school for low-income families who could not otherwise afford pre-school. Although some studies have cast doubt on its long-term academic efficacy, it is important to remember that Head Start provides many other advantages in terms of positive socialization and physical health. Head Start alumni are less likely to repeat grades, more likely to graduate from high school and college, and more likely to get jobs. They are also less likely to wind up in jail. Finally, they are healthier and have lower rates of death from illness. Like WIC, Head Start is another instance of investments in young children leading to drastically reduced costs later. Unfortunately, while numerous studies have shown long-term cost reductions, none have done a formal cost-benefit analysis.

In 2011 the House of Representatives voted to cut 1.1 billion dollars of funding from Head Start. The Senate blocked those cuts and funding to Head Start was actually increased by 409 million to its 2012 level of 7.97 billion. However, Head Start is likely to be looked at for cuts to meet the requirement of cutting 1.2 trillion dollars from the federal budget over the next 10 years. Although Congress has not yet specified an amount to cut from Head Start, for the purpose of this analysis we will estimate the cost of preventing Head Start cuts at 1.1 billion.

**WATER INFRASTRUCTURE**

Water is the source of life and access to clean water is a basic human right. In the U.S., maintaining an adequate infrastructure to distribute clean drinking water will require an increase over current levels of funding. Based on long-term projections of the cost to maintain or replace aging water infrastructure, the U.S. needs to commit 3.3 billion dollars per year to cover our current shortfall. Over the last decade, the U.S. has allowed its water infrastructure to deteriorate. Time and time again, policy makers have blamed this on a lack of available money. However, the truth is the money is there; we must begin to prioritize the accessibility of clean drinking water for all over the subsidization of fossil fuels. Failing to act now sets us up for decreasing public health and higher future repair costs.

**CONCLUSION**

Christian stewardship calls for the prioritization of the needs of the vulnerable over the interests of the wealthy. Through public witness, we have an opportunity to influence the way in which we use our shared resources. The 10.17 billion dollars a year that we spend subsidizing fossil fuels could be put to better use by preventing cuts to CHIP, WIC, LIHEAP, and Head Start while also increasing funding for water infrastructure. The proposed and actual cuts analyzed in this paper total 3.86 billion dollars. Another 3.3 billion dollars could insure drinkable water. While cuts proposed in the future may be more or less drastic, it is clear that we could adequately fund all five programs by shifting between 7 and 10 billion dollars away from the fossil fuel industry and towards valuable social programs that protect and provide for the most vulnerable among us and future generations.
1 The Energy Information Administration (EIA) lists direct subsidies for oil and gas at 4 million, and for coal at 42 million in the year 2010, the most recent year for which data is available. See chart on page xiii. http://www.eia.gov/analysis/requests/subsidy/pdf/subsidy.pdf

2 The EIA gives individual breakdowns for targeted subsidies. I have included the Research and Development Credit and the Federal and RUS electricity in the overall number, even though the EIA lists them separately from other tax expenditures. See chart on page xiii. http://www.eia.gov/analysis/requests/subsidy/pdf/subsidy.pdf

3 I evaluated four major tax breaks:

1) Section 199 of the American Jobs Creation Act: The American Petroleum Institute estimates the repealing this subsidy would cost 11.6 billion dollars over 10 years. While that would not be evenly distributed each year, the API did not make year by year projections available, so I have chosen to use the 10 year average: http://energytomorrow.org/blog/the-presidents-energy-tax-hikes-section-199-deduction/#type/all

2) The Last In First Out Method of Accounting Tax Break: 2.25 billion, again using the average of a 10 year estimate from API: http://www.api.org/-/media/Files/Policy/Taxes/FY2012_Budget-Short_Tax_Issues_Paper.ashx

3) The Manufacturing Tax Deduction: 1.73 billion. Again, I used the average of a 10 year estimate, this time from the Center for American Progress http://www.americanprogress.org/issues/2010/05/oil_company_subsidies.html

4) Foreign Tax Credit: 850 million. Average of a 10 year estimate from the Center for American Progress http://www.americanprogress.org/issues/2010/05/oil_company_subsidies.html


6 Story From Kentuckians For The Commonwealth: http://www.kftc.org/out-work/canary-project/stories/brenda-urias/


15 ibid


20 Center on Budget and Policy Priorities “Will WIC Turn Away Eligible Low-Income Women and Children Next Year?” September 19, 2011.


24 ibid


28 Head Start Office http://edkc.ohs.acf.hhs.gov/hcle/standards/Pls12/re-sour-pr1_001_012612.html


30 CHIP = 400 million (Energy and Commerce Committee in House of Representatives), WIC = 733 million (House of Representatives) LIHEAP = 1.63 billion (Actual Budget Cuts between 2010 and 2012) Headstart = 1.1 billion (House of Representatives)
The National Council of Churches Eco-Justice Program develops materials and reports to help congregations celebrate and care for God’s Creation. For more information about the Program, to make a donation, or for additional Earth Day resources, visit www.nccecojustice.org or email info@nccecojustice.org. For more information on how your congregation can practice stewardship of God’s Earth or for fact sheets on the topics covered in this report visit www.nccecojustice.org or contact info@nccecojustice.org.