IRET Congressional Advisory

March 14, 2000 No. 101

GASOLINE PRICES AND CLINTON'S CROCODILE TEARS

The price of energy is up — way up. OPEC is squeezing output and boosting prices. Nationwide, the average price of gasoline has gone from a low of well below a dollar a gallon one year ago to somewhere around $1.60 today, and may be headed for $2.00 or more by summer. Similar stories can be told regarding the price of home heating oil and natural gas. Each night the evening news features a different story about the hardships being suffered by Americans. Truckers who are having to pay higher prices for gasoline and the elderly and the poor who are having to find ways to afford higher heating bills are all looking to Washington for help. And clearly, the Clinton Administration seems to "feel their pain," freeing-up government money to assist in their plight and expressing its concern about the high prices by sending Administration officials to discuss the problem with oil-producing countries.

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A more practical response, one which the government can enact without any help from overseas, would be to cut the federal tax on gasoline. The federal gasoline tax is 18.4 cents per gallon, and 24.4 cents a gallon for diesel fuel. The tax is supposedly reserved for road construction, but has been collected in amounts that exceed spending on highways, with the excess used to finance general government. In 1993, the gasoline tax was raised by 4.3 cents per gallon and a previously enacted temporary 2.5 cent portion of the gas tax was made permanent. The tax hike passed the Senate by a single vote when Vice President Gore voted for it to break a tie. Republicans, and some House Democrats, are talking about suspending the 4.3 cent "Gore tax" through the end of the year. If Washington is concerned about providing relief to gasoline consumers, there is no reason to limit the tax relief to the 4.3 cent "Gore tax", or to make the suspension temporary.

It is not clear how the Clinton Administration would react to a proposal to cut the gas tax. Given President Clinton's dedication to the United Nation's Global Climate Treaty, one might suspect that he is shedding crocodile tears over the rise in the market price. The Treaty, known as the Kyoto Protocol, would force Americans to make massive reductions in their use of oil and coal. The purpose of these reductions would be to reduce U.S. emissions of carbon dioxide by about 35% over the next decade. The theory, which has not been born out by actual climate data, is that increases in atmospheric CO_2 (necessary for all life on earth) will increase global temperatures by about 4 degrees over the next 100 years.

So how could people be induced to make such a significant decrease in their use of oil and coal? The answer is by increasing the price. This would be done through a significant tax increase on oil, gasoline, and coal — a so called carbon tax — or

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by simply making these energy sources artificially scarcer with a complicated regulatory scheme known as "tradeable emissions permits." One way or another, under Kyoto, energy prices would increase to heights never seen before in this country. The level of hardship that this would cause would make us nostalgic for the problems that people are experiencing today.

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How bad will things get? One need only look to the Clinton/Gore Administration's own Department of Energy. According to the DOE, the Kyoto Protocol would lead to a 52% increase in the price of gasoline. In today's market, this would mean prices of \$2.50-\$3.00 per gallon. In the same study, the DOE estimates that the price of electricity would go up by about 84%; the price of home heating oil would go up by 76%; and the price of natural gas would go up by a whopping 147%. Natural gas prices would soar because electric utilities would shift from using coal and oil to using natural gas, which emits very little CO_2.

> ***For the long run, we could significantly reduce the influence of OPEC in world markets by allowing increased oil exploration in this country — both in Alaska and off-shore. This may be too much to hope for from an Administration whose apparent long term goal is to increase oil and gasoline prices to levels that are much higher than they are today.***

Since energy is an input into all production processes, these price increases would amount to a significant across-the-board tax on productivity and job creation. These oppressive price increases would lead to a reduction in gross domestic product of about \$400 billion and a loss of 900,000 jobs annually by 2010.

But won't these price hikes, as burdensome as they might seem, be for a noble cause? The fact is that all of this hardship would lead to no discernable effect on the climate — even if we agreed that there is a real global warming problem to be concerned with. According to an article in the *Geographical Research Letter*, if the UN Treaty were implemented with 100% compliance by all the nations involved, the earth's temperature would be 13/100 of a degree cooler than it would be without the treaty. We would have tens of millions of people thrown out of work around the world and our standards of living drastically reduced in order to trim temperatures by an undetectably small amount.

Higher energy prices are part and parcel of the environmentalist agenda that has been adopted by the Clinton/Gore Administration. Authors from the World Resources Institute, important advisors to the Administration on environmental issues, have called for gasoline tax hikes of two dollars a gallon. Seven years ago, as part of his first budget proposal, President Clinton proposed the first across-the-board energy tax in our country's history, the "BTU tax". This measure was considered so hurtful to consumers and the economy that his own party shot it down. As a compromise, the President accepted a net tax hike of 4.3 cents per gallon of gasoline.

Could his allegiance to this agenda be the real reason why the President is not calling for measures that would truly ease the burden on American motorists? State and federal taxes contribute as much as 50% to the price of gasoline, but he has not even mentioned the possibility of reducing or suspending these taxes. For the long run, we could significantly reduce the influence of OPEC in world markets by allowing increased oil exploration in this country — both in Alaska and off-shore. This may be too much to hope for from an Administration whose apparent long term goal is to increase oil and gasoline prices to levels that are much higher than they are today.

It may be that the President is not really miffed because the price of gasoline has risen, but because the oil producers are getting the extra money. The President might prefer to pay the producers less and, instead, drive up the price on American consumers with a higher gasoline tax collected by the U.S. government. The fact is, the OPEC cartel is injuring consumers by acting in restraint of trade. The cartel is being aided and abetted in holding down oil production by our government's self-imposed restrictions on domestic energy production. Consumers would not be helped if our own government simply took over the role of price gouger. The best course of action for the American public is for the U.S. government to cut its taxes on energy and allow the development of our own energy resources.

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Note: Nothing written here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before Congress.