

A Campaign for Fair Energy Taxes by Charles Komanoff & Dan Rosenblum

Note — We wrote this in late March 2006. Events since then have only confirmed our belief in the need for and timeliness of a campaign to shift much of the U.S. tax burden onto fossil fuels. At some future time we may update the references to other like-minded pieces, although they may be growing too numerous to track. Please see our briefer, companion piece, http://www.komanoff.net/fossil/energy_taxes_myths.pdf.

— C.K., D.R., June 21, 2006

Context

The political leadership and the citizenry of the United States appear to be turning a corner in acknowledging the need to restrain and reduce runaway energy usage that is threatening permanent damage to our global environment, public health, national security and economic well-being. This welcome development needs to be supplemented and sharpened as quickly as possible by a national conversation about the need to raise taxes on fuels and energy.

Higher energy prices are necessary to reflect the enormous environmental and geopolitical costs of fossil fuels and feed them back into the multiplicity of decisions that determine the level and composition of energy consumption. Keeping these costs separate from energy prices hides the true costs of using energy from consumers, distorts the market to favor the use of fossil fuels and constrains the growth of alternatives. Indeed, low energy prices virtually guarantee that use of oil, coal and gas will keep growing, with the costs paid in destabilized climate, stunted democracy, economic injustice and war. Conversely, higher energy prices would level the energy playing field and unleash the tremendous potential of clean energy efficiency and renewable energy to displace fossil fuels.

While higher energy prices are essential for capping and reducing energy use, it is also essential that the mechanism for increasing energy prices be taxes rather than simple reliance on “market forces.” Market signals would be too volatile in the short term and too weak in the long term to provide proper incentives and would ravage the poor and middle class. With clear insistence on earmarking revenues from energy taxes to phase out existing regressive taxes (dubbed “progressive tax-shifting”), it may be possible to overcome political inertia and assemble a legislative majority in favor of higher taxes on energy, as suggested by a recent New York Times / CBS News poll.¹ Moreover, unlike

¹ The poll of 1,018 adults conducted Feb. 22-26, 2006 reported 55% in favor and only 37% opposed “if [an] increased tax on gasoline would reduce the United States’ dependence on foreign oil,” and an even more impressive 59%/34% split “if [an] increased tax on gasoline would cut down on energy consumption and reduce global warming.” See “Americans Are Cautiously Open to Gas Tax Rise, Poll Shows,” *The New York Times*, Feb. 28, 2006, at <http://www.nytimes.com/2006/02/28/national/28gas.html>. Since an increase in gasoline taxes would indeed reduce oil consumption via substitution of shorter and fewer trips along with more fuel-efficient vehicles, the poll appears to imply majority support for raising gas taxes.

high prices due to resource scarcity (“peak oil”) or other factors, only taxing fuels can head off massive development of synthetic fuels such as tar sands, liquefied coal or oil shale, which have even worse environmental consequences than conventional fuels.²

Stirrings of this conversation are already evident. But resistance to it is deeply rooted in American culture and politics, and perhaps even in standard modes of thought. Advocating for alternatives to fossil fuels, whether wind turbines or cellulosic ethanol or higher-mileage cars, is easier than advocating for what is admittedly an indirect and even negative mechanism. Yet only higher energy prices (achieved via taxation) have the capacity to reach into every sphere of energy-using activity: to affect not just vehicles’ miles-per-gallon efficiency, for example, but also *overall* transportation efficiency by influencing miles driven, driver behavior, and even how cities and suburbs are settled, not to mention ton-miles carried by freight vehicles and passenger-miles flown by aircraft. Similarly, only higher energy prices will produce the necessary major reductions in consumption of electricity and natural gas in homes and businesses and the necessary shifting of electricity generation to sustainable energy sources such as wind and sunlight.

Advancing the conversation

To advance the needed discussion, we propose a Campaign for Fair Energy Taxes. Such a campaign can confer legitimacy and create visibility for specific proposals for raising energy taxes as well as convey the rationale for doing so. These proposals need not be limited to the federal level; at least a dozen states have already enacted laws or procedures to limit climate-altering carbon emissions, and states are excellent proving grounds for progressive tax-shifting from regressive taxes (e.g., sales taxes) toward fuel taxes.³ In our federal system, states have often served as laboratories to incubate fledgling ideas. A Campaign for Fair Energy Taxes can also be the means to dispel popular misconceptions that impede movement toward higher energy taxes. (See our piece, “Energy Taxes — Rebutting the Myths.”)

To be sure, the idea of taxing energy to more fully reflect its true costs runs smack against both Americans’ traditional sense of entitlement to cheap energy and the anti-tax ideology of the past quarter-century. Today, gasoline taxes and other fees levied on driving don’t even cover the costs to build, maintain and administer roads, while other fuels such as coal, natural gas and jet fuel are taxed even more lightly. This cheap-energy entitlement helped kill the last two national efforts to raise energy prices — Bill Clinton’s Btu tax in 1993 and John Anderson’s “50/50” program in the 1980 elections — and it is why no prominent elected official is calling today for raising taxes on energy.

² See, for example, “New Reserves: As Prices Surge, Oil Giants Turn Sludge Into Gold,” *The Wall Street Journal*, March 27, 2006. The article notes that “... higher energy prices have unleashed a bevy of heavy-oil projects that will increase emissions of carbon dioxide...” Carbon taxes would ensure that prices of these synthetic fuels remain above market-clearing levels.

³ Neal Peirce, “‘Energy Federalism’ — Has Its Time Come?,” Feb. 19, 2006 (http://www.napawash.org/resources/peirce/Peirce_02_16_06.html).

Yet voices for higher fuel taxes are becoming more numerous and insistent. The influential *New York Times* columnist Thomas L. Friedman has called for sharply higher gas taxes at least half-a-dozen times in the past two months. In a column published a week after President Bush declared that America is “addicted to oil,” Friedman lambasted Vice President Dick Cheney for opposing an increase in the gas tax, and he warned of the downfall of America if gas taxes are kept low.⁴ Including Friedman, four of the Times’ six regular columnists have identified taxing the carbon content of fossil fuels as the best way to combat global warming.⁵ Support for fuel taxes is increasingly found in newsmagazines as well as arbiters of liberal culture such as the *New Yorker* magazine.⁶

Encouragingly, appeals to tax energy are being heard across the political spectrum. Writing in *The Wall Street Journal*, Harvard economist Gregory Mankiw, the top economic advisor in the first Bush administration, strongly voiced support for raising the federal tax on gasoline.⁷ Belying the notion that fossil fuel “externality costs” are a construct of the environmental left, Senator Richard G. Lugar (R., Ind.), a bulwark of the Republican center, also wrote in *The Journal* that “The price of gasoline does not reflect its true cost. Properly calculated, fossil fuels are far more expensive than they appear.”⁸

Why this surge of interest in taxing energy? Alarm over mounting manifestations of global warming, concern over possible “peaking” of world oil production, and awareness of burgeoning demand in China, India and the U.S., for starters. Many commentators are also stressing the need for taxes to reduce windfall oil profits flowing to malevolent regimes in Saudi Arabia, Iran and elsewhere. Recognition may also be spreading that regulatory approaches to fuel conservation such as more stringent CAFE standards may be undermined by “gaming” and require bolstering by price incentives in any event. And of course the ongoing occupation of Iraq gives constant reminder of the cost of America’s

⁴ Thomas L. Friedman, “No More Mr. Tough Guy,” *The New York Times*, Feb. 8, 2006. Friedman concluded his column, “How tough is it, Mr. Cheney, to will the ends — an end to America’s oil addiction — but not will the means: a gasoline tax? It’s not very tough, it’s not very smart, and it’s going to end badly for us.”

⁵ *Times* columnist Nicholas G. Kristof urged taxing carbon in his Jan. 8, 2006 column, “A Paradise Drowning,” as did Paul Krugman in “Sins of Emission” (<http://www.pkarchive.org/column/112900.html>), Nov. 29, 2000. Columnist John Tierney wrote on Feb. 7, 2002, “The fairest and most efficient way to reduce greenhouse gas emissions would be with a carbon tax on all fossil fuels.”

⁶ Hendrik Hertzberg wrote in *The New Yorker* of Feb. 13 & 20, 2006, “The best way to encourage conservation — and the true sign of a serious energy policy — would be imposing a hefty gasoline tax and raising mandatory fuel-efficiency standards.” *New Yorker* writer and climate-change author Elizabeth Kolbert endorsed a carbon tax or emissions-trading system in an interview with *Wired Magazine* published March 29 (http://www.wired.com/news/politics/lifescience/0,70393-1.html?tw=wn_story_page_next1).

⁷ Number 4 of Mankiw’s “Seven New Year’s Resolutions for 2006” stated: “This year I will admit that there are some good taxes. I will tell the American people that a higher tax on gasoline is better at encouraging conservation than are heavy-handed CAFE regulations. It would not only encourage people to buy more fuel-efficient cars, but it would encourage them to drive less, such as by living closer to where they work. I will advocate a carbon tax as the best way to control global warming.” (abridged; full text at http://post.economics.harvard.edu/faculty/mankiw/columns/WSJ_Repeat_After_Me_010306.pdf)

⁸ Letter to the Editor, *The Wall Street Journal*, Feb. 8, 2006.

entanglement with our network of oil-producing client states in the Middle East, which to some extent is an artifact of our subsidization of energy through minimal taxes.

Undergirding all these factors is spiraling U.S. energy consumption. Americans' consumption of petroleum has jumped by 5 million barrels a day in the past 20 years and by 1 million barrels a day in the last five.⁹ Oil imports are more than 2 times their 1985 level,¹⁰ and U.S. emissions of carbon dioxide, the primary global warming gas, rose 20 percent from 1990 to 2004, a period in which emissions needed to *fall* to begin slowing the rate of climate change.¹¹ That the increases in energy use may trail growth in economic activity is little comfort in a world whose geopolitics and climate are shaped not by theoretical ratios but by absolute numbers.

What is to be done?

What's needed is to organize and combine the forces that support slowing and stopping global warming and are alarmed about oil and other fuels' deleterious impacts on national security, the U.S. economy, and democracy into an organized political force that demands increased energy taxes.

Gathering together what are now only separate and ineffectual articulations of desire into a coherent expression of political intent — a campaign for greater and more equitable taxation of fuels and energy — will launch the urgently needed national conversation about increasing energy taxes. It will also provide cover for elected officials and other public personages to declare their support for raising energy taxes. In this way, the why, what and how of taxing energy can take center stage in discussions of national security, energy policy, international relations, jobs and economic growth, climate protection, and social justice in America and the world.

Making it happen

Following are possible components for a campaign to tax energy in America:

Immediate Steps

- Organization, with name, office (can be virtual) and minimal staff
- Web site with blog
- Fact sheets and FAQ's summarizing the case for fairly taxing energy
- Commission research reports to "make the case" and rebut criticisms

⁹ According to the U.S. Energy Information Administration's *Monthly Energy Review*, U.S. consumption of all petroleum products averaged 20.7 million barrels per day (mbd) in 2005, 15.7 mbd in 1985, and 19.7 mbd in 2000. See http://tonto.eia.doe.gov/merquery/mer_data.asp?table=T03.01b.

¹⁰ U.S. oil imports for the first 11 months of 2005 averaged just over 13.5 mbd. Imports in 1985 averaged 5.1 mbd. See http://tonto.eia.doe.gov/merquery/mer_data.asp?table=T03.03h.

¹¹ Draft Inventory of U.S. Greenhouse Emissions and Sinks: 1990-2004, p. 23. See <http://yosemite.epa.gov/oar/globalwarming.nsf/content/ResourceCenterPublicationsGHGEmissionsUSEmissionsInventory2006.html>.

- Begin gathering a network of grassroots activists-supporters.

Next Steps

- Complete and disseminate research reports
- Focus groups to effectively frame message
- Conference to launch the movement

Further Steps

- P.R. consultant
- “Push” polling to demonstrate support
- “Profile in Courage” awards for elected officials
- Citizen petitions for higher taxes on energy
- Other

More on the conference

We envision a large, well-publicized meeting bringing together supporters and effectively launching the campaign for higher fuel taxes. The meeting will not only generate attention but also invest participants with a sense of mission. The conference will be organized around ambitious and explicit goals to raise energy taxes within a relatively short timeframe, with the people in the room being called upon to spearhead the effort.

The conference will feature a wide variety of plenary speeches, panels and workshops. Speakers will be selected with an eye toward defusing standard objections to taxing energy and to demonstrating a broad base of support. Thus, for example, leaders standing for poor and working people will speak to opportunities for progressive energy taxes through tax-shifting; labor leaders will speak to jobs in America in manufacturing, installing and maintaining energy efficiency and renewable energy equipment. Standard-bearers on both the left (e.g., Rep. Dennis Kucinich, Rep. Maxine Waters) and the right (James Woolsey or other leading neocons or “security hawks”) will be solicited, with their message carefully vetted to ensure consistency. Citizen petitions for higher energy taxes will be presented to show broad public support.

The conference could be held in Washington, DC, to underscore the political focus of the meeting and of the movement growing around it. Alternatively, it could be staged in New Orleans, Miami or another city threatened (or already damaged) by unabated global warming.

A preliminary budget and timeline can be prepared following sufficient demonstration of interest.