

OCPA FaxLine Report

a public policy information service for members of the Oklahoma Council of Public Affairs, Inc.

Dear OCPA Member:

Thursday, August 14, 2008

It's been said, "nothing is so admirable in politics as a short memory" . . . or as dangerous. Take any public policy discussion today and you will find someone calling for policies which have been tried and have failed. Consider the Windfall Profits Tax.

Ben Lieberman, Senior Policy Analyst in Energy and the Environment, and Nicolas D. Loris, Research Assistant in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation, note in their WebMemo, "Energy Policy: Let's Not Repeat the Mistakes of the 70's" that populist thinking always leads to bad policy. "America is currently facing energy challenges reminiscent of the 1970s. Unfortunately, rising gas prices have policymakers repeating the mistakes from that decade—mistakes that took a bad situation and made it worse.

"Then, as now, good energy policy is easy to distinguish from bad energy policy: Good policy leads to more supplies of affordable energy; bad policy leads to less. Chief among the good policies is expansion of domestic oil production, and chief among the bad are windfall profits taxes, price controls, and federal subsidies and mandates for alternative energy sources. These bad ideas were tried before and backfired, and they will do no better this time around.

"Criticizing big oil companies and their big profits is very popular in Congress right now. But experience has shown that hurting big oil is not the way to help consumers, and ideas like the windfall profits tax (WPT) that have failed before should not be given a second chance.

"The WPT is an excise tax on oil when its price exceeds some predetermined level. For example, Senator Byron Dorgan (D-N.D.) introduced the Windfall Profits Rebate Act of 2005 (S. 1631) that would have imposed a 50 percent tax on the price of oil above \$40 per barrel. Given that the price of a barrel of oil is about \$125 today, Senator Dorgan's bill would have increased the price to \$187.50.

"Of course, there is a considerable populist appeal to taking more in taxes from big oil at a time when they can most easily afford it and giving the proceeds to taxpayers when they are straining to pay high energy costs. But the last time it was tried, the WPT backfired badly. It discouraged expansion of domestic energy supplies and led to increased oil imports. According to a 1990 Congressional Research Service study, the WPT in place from 1980 to 1988 'reduced domestic oil production from between 3 and 6 percent, and increased oil imports from between 8 and 16 percent.' These unintended consequences were among the reasons why the WPT was repealed in 1988 and why similar bills should not be introduced today."

We need to encourage expansion of domestic energy exploration. The best way to do this is to let the energy companies do what they do best – fuel our economy with domestic energy resources and move America toward genuine energy independence.

Until next time. . . Brett A. Magbee, Vice President for Operations

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