Energy Taxes — Rebutting the Myths
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Americans are notoriously anti-tax, but they may be open to shifting part of the tax burden to petroleum and other fuels to extricate the U.S. from oil dependence and to forestall global warming and other environmental catastrophes caused by the fossil-fuel cycle. To cross that threshold, six pervasive myths about energy taxes must be put to rest (or at least rebutted).

The Six Myths

The myths about energy taxes, their exponents, and brief counter-arguments, are these:

1. New taxes on energy will hurt the poor and middle class.
Who says? Low-income advocates, civil rights groups.
Rebuttal: The wealthy use more energy by far. Energy taxes can be made progressive by redistributing revenues equally to all or by "tax-shifting" from regressive taxes such as state sales taxes and federal social security check-offs. Energy-efficiency measures can be targeted to subsets of the population that stand to be harmed, such as the rural poor who must drive long distances for work. What's *really* regressive is the ongoing laissez-faire rises in fuel prices, not a penny of which is rebated to the public.

2. Energy taxes won't change habits — after all, high gas prices haven't cut consumption.
Who says? The "conventional wisdom" (at least until recently).
Rebuttal: Demand for energy ordinarily increases with economic growth. Thus, flat gasoline use during the current economic expansion demonstrates price elasticity. (See spreadsheet, http://www.komanoff.net/oil_9_11/price_elasticity_komanoff.xls.) Price-responsiveness will only grow over longer periods, as consumers buy more fuel-efficient vehicles, move closer to jobs, etc., and as society transitions to a more fuel-efficient infrastructure.

3. Taxes aren't necessary. Vehicle efficiency standards and subsidies for wind, ethanol, hydrogen, nuclear power [pick one or more] will solve the crises.
Who says? Special interests, environmental groups, security advocates, technology buffs.
Rebuttal: Standards and subsidies are blunt instruments — vehicle efficiency standards don't influence vehicle usage, for example — and can be contested for years and undermined by "gaming" (viz., CAFÉ standards, tax credits for hybrid SUV's). Moreover, fuel usage is diffuse (nearly 60% of petroleum is *not* used in cars or light

trucks) and inertial. Only taxes on fuels can create the clear, rapid, across-the-board incentives needed to shift massively to clean alternatives.

4. Heavy fuel taxes will wreck the economy.
<u>Who says? Traditional growth champions, fossil fuel interests.</u>
Rebuttal: The real economic havoc is from oil's price *volatility*. Price increases are manageable when they're regular and predictable. And they need not be draconian. By our admittedly rough estimate, carbon taxes on coal, oil and gas equivalent to annual real price increases of 10-12% — smaller than the last three annual "market" increases — could halve U.S. CO_2 emissions in 20 years and wipe out most oil imports, even with 3% annual economic growth.

5. Energy taxes will provide more revenue for government to squander.
<u>Who says? Anti-tax advocates, conservatives.</u>
Rebuttal: Not if the new revenues are fully rebated or dedicated to shifting from current taxes (see Myth 1). Because higher taxes on fuels will be sufficient by themselves to create the "market pull" to clean energy, none of the revenues need be earmarked for hybrid cars, mass transit, biofuels, etc. — or to Congress Members' pet projects.

6. Heavy fuel taxes will price U.S. goods out of the marketplace.
<u>Who says? Business, labor.</u>
Rebuttal: This argument assumes a static economy, *sans* adaptation and innovation. In reality, increased energy taxes will shrink the trade deficit (by cutting both volumes and prices of foreign oil), while reduced reliance on oil imports should permit cutting military expenditures considered necessary to protect foreign supplies. The higher prices will also spark innovation in clean, efficient technologies better suited for world markets than, say, supersized automobiles. Finally, taxing energy will create parity with our traditional competitors — the EU and Japan — while encouraging like-minded actions in the emerging powerhouses — India and China.

A Campaign for Fair Energy Taxes

These myths are pernicious. Each of them dissuades key constituencies — liberals and conservatives, environmentalists and pro-growthers — from embracing gasoline and carbon taxes. In combination, they make clear why only a relative handful of us (economists, pundits, the civic-minded) have thus far come out for shifting the tax burden to energy taxation as the prime means of combating oil dependence and climate change.

A Campaign for Fair Energy Taxes is needed to puncture these myths — clearly, repeatedly, ubiquitously. As that is done, it will become possible to rally receptive constituencies to advocate for shifting taxation to fuels until, eventually, a political majority is reached.

We are, for now, simply two concerned citizens seeking to jump-start a movement. There is no official Campaign for Fair Energy Taxes as yet. (Note that we are open to a different name, e.g., Energy Tax-Shift; suggestions welcome!) We will, of course, arrange for a compatible fiscal sponsor to ensure that contributions are tax-deductible.

The world is waiting for U.S. leadership. Each American creates as much CO2 each day as do other humans each week, making our 3-4% share of humanity responsible for 25% of global emissions. Other countries have the same incentives as we do to eliminate oil dependence and prevent climate catastrophe. Indeed, much of the world already pays far more for fossil fuels than we do. While U.S. action may not guarantee the same by others, our inaction virtually ensures the same. The time to act is now.

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For a fuller rationale for a Campaign for Fair Energy Taxes, see <http://www.komanoff.net/fossil/fair_energy_taxes.pdf>.