

THE TAXONOMIST

My, How Times Have Changed

By Robert S. McIntyre

Back in the late 1970s, when gasoline prices zoomed and oil companies were raking in money hand over fist, our government enacted a windfall profit tax to return some of those unjustified gains to the public that was paying for them. Today, as gasoline prices have again skyrocketed, the federal government's reaction is exactly the opposite: add to the excess profits of energy companies with new tax concessions, paid for by ordinary American taxpayers.

Back in April, in a rare moment of economic sanity, President Bush noted the obvious fact that "with \$55 oil we don't need incentives to oil and gas companies." By August, however, Bush sadly reverted to form, signing a 1,725-page energy bill premised on the notion that the free market doesn't work so well after all. Apparently, \$55 per barrel of oil was the magic number. At \$64 a barrel, energy subsidies are once again needed.

The 2005 energy act includes billions of dollars in tax breaks and grants to oil, ethanol, coal, nuclear and (to a much lesser degree) renewable-energy interests. Its enactment reflects classic pork barrel politics in the worst sense. In the House, some 200 of 231 Republicans and 75 of 200 Democrats voted aye. In the Senate, the margin was even larger, 74-26, including 25 of 45 Democrats and all but six Republicans. The vote was not so much party line, as regional—reflecting where the pork was doled out.

To illustrate, half of the Republican no votes in the House came from one state, Florida, both of whose Senators, one Republican and one Democrat, also opposed the bill. It seems that Florida got stiffed on subsidies—as did Massachusetts, whose 13 Representatives and two Senators (all Democrats) voted unanimously against the bill.

In contrast, all of the Democratic Senators in 15 states voted for the bill—including those in six states, Arkansas, Hawaii, Illinois, Michigan, North Dakota and West Virginia, where the Democrats hold both seats. These votes reflected handouts for things like coal, ethanol, chicken poop, or in the case of Michigan, lack of action on vehicle mileage standards.

Ethanol, by the way, is already subsidized at 50 cents to \$1 per gallon, but still can't compete without governmental assistance. Meanwhile, it probably uses more energy to make than it saves and lowers vehicle gas mileage (among other shortcomings). Generating electricity from wind, garbage and chicken waste has been subsidized since the Carter administration, yet these "infant industries" never seems to grow up enough to stop sucking on the public teat.

Environmentalists are always telling us that their favored alternative energy sources will be able to stand on their own feet once fossil fuel prices get high enough. When will we ever see that day?

House Energy and Commerce Chairman Joe Barton (R-Tex.) offered the most Orwellian defense of the package, arguing that "this bill is based on the premise that we believe in private free market capitalism to develop the resources of this land in a cost-efficient fashion." In an almost as weird assessment, Sen. Kay Bailey Hutchinson (R-Tex.) claimed that "we need to make domestic oil and gas exploration projects cost competitive."

Other Senators and Representative unabashedly praised the bill's subsidies for their local interests. For instance, Sen. Max Baucus (D-Mont.) joined his state's Democratic governor, Brian Schweitzer in touting an otherwise uneconomic coal process. "Developing this state-of-the-art technology will usher in . . . hundreds of new high-paying jobs for Montanans," Baucus said. "I'm talking to the captains of industry about partnering in this thing," said Schweitzer.

Speaking of captains of industry, a spokesman for the American Petroleum Institute summed up the anti-market spirit of the bill: "If you don't provide the relief, nothing will happen," he said. It's reminiscent of the famous old Doonesbury cartoon in which an oilman's wife tells him it's time to go to work. "I just don't have any incentive," he whines. "I don't even have enough incentive to get out of bed."

Officially, the energy bill's giveaways are supposed to cost \$14.5 billion over the next ten years, offset in part by \$3 billion in higher gasoline taxes on consumers. But that doesn't include the bill's \$70 billion in authorized but unfunded subsidies, for which cash will have to be appropriated later. One of those, for example, would fund oil exploration in Georges Bank, the enormous (and already struggling) fishing area off the coast of Nantucket. A spokesman for Bush's Mineral Management Service dismissed environmental concerns about this item, telling the *Boston Globe* that "we're being asked to do something, but we're not provided any money to do it with." Not yet, that is.

At bottom, the energy bill proves the iron rule of politics as it's practiced these days: those with the most money are first on the list to be given still more. It stinks.

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