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Energy Policy Is Far Too Complicated to Be Left to the Politicians

By ROBERT H. FRANK

HISTORIANS argue about whether the admonition "First, do no harm" actually appeared in the original Hippocratic oath. But no one disputes that it is sound advice, not just for physicians, but also for others entrusted to act on our behalf. Yet many government officials seem almost determined to ignore it. For example, the recent spike in gasoline prices has prompted a wave of proposals that if enacted would do far more harm than good.

Senator John Thune, Republican of South Dakota, among others, has advocated suspension of the federal gasoline tax of 18.4 cents a gallon. Similar proposals to suspend state taxes have been advanced in New York and at least 12 other states. These proposals make no economic sense. Tax suspensions promise only illusory relief in the short run and would actually create new financial burdens for consumers

in the long run.

An immediate problem is that a tax cut would be offset in part by OPEC's response to it. The Organization of the Petroleum Exporting Countries sets its price target with an eye toward what motorists are able to pay. Dealing with OPEC is thus like dealing with a rational kidnapper, whose demands are governed by the ability of the victim's family to pay. A visible transfer of money to the victim's family (like an inheritance) would serve only to increase the kidnapper's ransom demand. Similarly, since OPEC now realizes that motorists are able to pay $3 a gallon, its best response to a gasoline tax cut would be to raise the price of oil by enough to keep gasoline prices at $3.

A more general problem is that reducing gasoline taxes would promote inefficient consumption patterns. The lost revenues would also require some combination of increasing other taxes, borrowing more money from abroad (which taxpayers would have to repay in full, with interest), and enacting further cuts in valued public services.

Gasoline prices are rising because the world's appetite for oil has been outstripping dwindling supplies. Legislatures cannot repeal the law of supply and demand. To escape the burden of widespread energy shortages, we must consume less energy. And to achieve that goal, gasoline prices need to be higher, not lower.

The most efficient means to that end is thus precisely the opposite of what Senator Thune proposes. In my Feb. 16 column, I suggested an additional gasoline tax of $2 a gallon. All revenue would go into a common pool, which would then be returned on an approximately equal per capita basis by reducing payroll taxes.

Because rebates for individual consumers would be independent of the amount of gasoline tax they paid, the higher post-tax gasoline prices would strongly encourage conservation. This would not only reduce our dependence on foreign oil, but would also alleviate congestion and pollution. And just as a gasoline tax cut would encourage future OPEC price increases, a tax increase would discourage them.

As with all such proposals, the devil is in the details. Because the losers from any policy change cry more loudly than the winners sing, a tax increase would be palatable only if the resulting economic gains were distributed equitably.

Readers were quick to identify deficiencies in my proposed payroll tax rebate. It would not help retirees, for example, because they no longer pay this tax. The rebate for retirees could instead take the form of an augmented Social Security payment. (Because retirees typically drive less than workers, this supplement should be smaller than the payroll tax rebate.)

Businesses could also receive rebates, which could be based on historical patterns of fuel consumption by industry and company size. To promote efficiency, the critical design feature is that the rebate for each business be independent of its current gasoline consumption.

Would a steep gasoline tax jeopardize automakers like Ford and General Motors, whose current product lines emphasize light trucks and sport utility vehicles? It would shift demand away from such vehicles to more fuel-efficient ones, but automakers could respond by altering their product mix. The transition could be smoothed by announcing a start date well in the future — say, Jan. 1, 2009 — and then phasing in the tax gradually, say, by 10-cent monthly increments.

What about low-income motorists who could not afford to buy new fuel-efficient cars? A gradual phase-in would also provide valuable transition time for these drivers. They could retire their current vehicles within a few years in favor of more recent used models with better fuel economy. Rebates could also be made progressive.

Another reader's concern was that the new tax might be inflationary. But unlike the gasoline price increases of the 1970's, which sent hundreds of billions of dollars to OPEC, revenues from a tax would remain in the United States. The prices of products whose production or delivery is intensive in gasoline use would rise because of the tax. But even now,

the gasoline required to produce these products imposes environmental and foreign policy costs on Americans. To the extent that higher gasoline prices encouraged conservation, they would be offset by lower costs elsewhere.

An academic economist clearly runs less risk than a politician in proposing higher gasoline taxes. But how much political risk would such a proposal really entail? According to a recent New York Times/CBS News poll, 55 percent of Americans would be willing to support a higher gasoline tax if it reduced dependence on foreign oil. Given that widely reported finding, proposing to suspend gasoline taxes in the midst of pervasive energy shortages will strike no one as bold political leadership. It might strike some as an unconscionable pander.

It may be naïve to expect our current crop of leaders to take affirmative steps to alleviate the energy crisis. But elections are coming. And in the meantime, surely we can demand that politicians do no further harm.

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