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Windfall Profits Taxes: A Return to Jimmy Carter’s Energy Policy?

Gasoline prices are skyrocketing, and as in every crisis, Washington is suffering from a predictable case of the "do something" disease. Products of the ready-to-eat microwave culture, Americans want an instant solution to high energy costs, and this lends itself to grandstanding and election-year maneuvering by politicians of all stripes.

Recently Congress summoned the CEOs of the major oil companies to come and defend their livelihood – more or less defending how the free market allows “Big Oil” to make “unseemly” profits from the sale of gasoline.

Record gas prices unfortunately bring out all sorts of political demagoguery and open a new battle in the never-ending war against corporate profits. Whenever high gasoline prices are in the headlines, various commentators and politicians immediately jump on the "price gouging" bandwagon, while others renew calls for a "windfall profits tax" on energy companies.

This nation's experiment with windfall profits taxes in the 1980s proved to be economically devastating. When it was last tried, the windfall profits tax failed to raise even a fraction of the revenue forecasted and crippled the production of the domestic oil industry.

In all the crusading against oil profits, one very important fact is being neglected: The biggest winner from high gasoline prices is none other than government. For starters, American motorists pay an average of 47 cents per gallon in state and federal gasoline taxes. If your vehicle uses diesel fuel, you pay more than 53 cents per gallon on average.

Taxes on gasoline don't end there. The government collects billions from energy companies in corporate income taxes, off-shore royalties, severance taxes, property taxes, payroll taxes, the list goes on.

According to Department of Energy data, from 1977 to 2004, federal and state governments extracted $397 billion by taxing the profits of the largest oil companies and an additional $1.1 trillion in taxes at the pump—that's nearly three times what the oil industry made in profits over that same period.

While Hillary Clinton, Barack Obama, and others in Congress are touting their populist themes and continuing their calls for the resurrection of a 1980’s style windfall profits tax, it is important to note that America's energy companies are already providing a "windfall" of tax revenue. Various proposals aimed at the oil industry have nothing to do with "fairness" or righting a so-called wrong. They are simply attempts by the government to abscond with additional revenue. Taking aim at profits also sets an extremely dangerous example by targeting a certain industry based on its level of success.

What could be worse than imposing higher costs on energy companies at a time of high prices? As economists of all stripes agree, businesses don't pay taxes, people do. Plans to hike taxes on American energy companies will simply result in higher prices for American motorists. Jimmy Carter tried this approach and we all paid the price. But as they say, those who fail to learn from history are doomed to repeat it.

Of course, no one enjoys paying more than $3.50 per gallon to fill up, but gasoline prices will always be determined by the supply and demand for oil in the world market. Unfortunately, while talking about supply and demand will earn you an "A" in economics class, it usually gets you an "F" in the political arena. The truth is that the oil industry often serves as a convenient whipping boy for politicians eager to deflect blame for high gasoline prices. How else can you explain the renewed interest in a windfall profits tax to punish oil companies for their profitability?

It is a shame to think profit has become a dirty word in a nation that built its industrial might through the free enterprise system. The relentless war against "Big Oil" and their profits will assuredly continue as long as gas prices are elevated, and as long as elections are on the horizon. However, when you feel the pain at the pump, remember who is really cashing in – your good friend, Uncle Sam.

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