

Why We Need a Fossil Fuel Tax

We all want to reduce our country's dependence on foreign oil. And most of us agree that we need to reduce our use of fossil fuels, which contribute to global warming. So what's the best way to accomplish these twin goals?

That was the question the Wall Street Journal posed to a group of Business Economists last month. And the overwhelming response, by 85% of them, was that the Federal Government should put a hefty tax on all fossil fuels.

Now hold it there, all you "read my lips" types. These aren't a bunch of screaming liberals being polled. They're Business Economists, the types who sell their economic forecasts to Wall Street and Corporate America. And they support a fuel tax for one and only one reason: it's the best, most efficient way to get the market system to reach these goals for us.

Consider our current approach. We have fuel standards for cars, and different standards for trucks, both of which Congress may or may not vote to increase. We have tax breaks, at various and sundry rates, for ethanol, and wind power, and solar energy. We have this set of research subsidies for one potential energy technology, and that other set of research subsidies for some other potential technology.

In other words, our current approach assumes that politicians, lobbyists, and bureaucrats are particularly good at identifying the best energy alternatives. It assumes that the approaches that they have targeted their subsidies towards are indeed the ones that will ultimately have the greatest payoff.

It assumes that they are not only scientifically knowledgeable and carefully objective in their decision making, but also downright prescient about the future. And frankly, that's a lot more assuming than I can handle.

In contrast, the fuel tax approach assumes just one thing – that politicians, lobbyists, and bureaucrats realize that burning fossil fuels at our current level (and projected future levels) is not a good thing. Because the tax would equally penalize the burning of all carbon-based fuels, and therefore it would equally encourage the development and investment into all possible alternatives.

And who knows what those alternatives might be? But that's the beauty of the fuel tax approach – it leaves the decision as to which approach to pursue to the marketplace. With the tax equally increasing the payoff to every energy alternative, from wind to solar to, well, who knows what, we'll no longer need some government agency to recognize the genius of that guy tinkering with whatever he's tinkering with back in his garage. All we'll need is some group, any group of savvy venture capitalists to recognize that, now that the price of fuel is higher, they can make a bundle by backing his idea.

"But wait," you conservatives shout, "what about all those extra taxes the government will collect?" "And isn't that a pretty regressive tax?" you liberals add. No problem. All we need to do is find an offsetting tax cut, one that disproportionately helps out the low income. One possible solution would be to put the fuel tax revenues into Social Security, and rebate to each worker the first \$500 to \$1000 of Social Security taxes they had withheld.

If you really believe that the bureaucracy is that good at locating finding the best energy investments, maybe we should stay with what we have. But you can add my name to that 85%, that say the fuel tax is the only rational approach.