Clinton Energy Tax—Worse Than It Seems

By Terence L. Barnich

President Clinton’s energy tax proposal is fundamentally discriminatory and grants a massive artificial advantage for natural gas.

Mr. Clinton has proposed a BTU-based tax of nearly 90 cents for every million BTUs of energy content contained in oil and about 26 cents for the comparable energy content in other raw fuels. Putting aside the more than double BTU tax rate for oil, the tax imposes gross disproportionality in the tax burden on different energy sources used for electric generation. Because different fuels contain quite different energy content relative to their prices, the BTU tax amounts to about a 10% sales tax on natural gas, a 24% sales tax on coal and a 50% sales tax on uranium for nuclear power plants—thereby anointing natural gas as the government’s fuel of choice. The president has even decided to impose the tax, on an imputed BTU basis, on water used for production of hydroelectric power, even though the cost of river water flowing through electric turbines is zero.

Mr. Clinton’s BTU-based tax must have been consciously designed to push the market toward gas and away from coal, hydro and uranium. After all, his stated reasons for advancing the energy tax are so transparent and false.

The president first claims that energy in America is undetaxed relative to tax levels in other developed countries. But that simply is not true. While gasoline is more heavily taxed in Europe and Japan, the Europeans continue to provide massive tax subsidies for energy and utility fuels. The European industrial nations take full advantage of the European Community’s rules permitting them to subsidize their energy sector by up to 20% of cost. In Britain, for instance, coal is the annual beneficiary of nearly $2 billion in explicit price supports, and the government applies its EC subsidy allocation to prop up the British nuclear industry. Most EC countries mandate coal purchases by utilities, an indirect fuel subsidy.

By contrast, in the U.S. hardly anything is more heavily taxed than energy utility service. In Chicago, for example, about 25% of the total monthly residential electric and gas bill is accounted for by a variety of federal taxes, state taxes and local utility taxes and franchise fees.

The supporters of the energy tax have also dragged out that tired old dog of American political debate—the threat of imported oil. But the tax will be the same on both imported and domestic oil and, therefore, will not make domestic sources any more economically attractive. Nor is the energy independence argument buttressed in the least by the claim that the energy tax will result in conservation. BTU-tax-induced conservation will have little effect on imported oil, since (as of 1991) imported oil represents only 17.5% of total raw energy sources used in the U.S.

That leaves environmental protection as the Clinton-Gore trump card for justifying the tax. But if the greenhouse effect is the greatest challenge facing humanity, as Vice President Gore tells us in “Earth in the Balance,” why is the heaviest proportional tax, relative to delivered fuel price, placed on the two fuels that produce no greenhouse gases—nuclear and hydro?

Perhaps there is a more street-wise, unstated, political explanation for the “tilt” toward gas. It is no secret natural gas is a favorite of the president. White House chief of staff Mack McLarty, of course, is only one month out of his job as CEO of one of the country’s prominent natural gas pipeline and local utility companies.

So far, the Clinton administration has followed the old rule that the best way to make sure the hounds don’t follow you is for another fox to cross your path. The Treasury Department has tried to focus the discussion solely on the direct effects of the tax, telling middle-class Americans that the BTU tax will cost roughly $2.25 a month on a $65 monthly household utility bill and 7.5 cents per gallon of gasoline, leaving the average American family only worse off by $17 a month. The promise is that much more value will magically flow back to American consumers in the form of a reduced deficit or the satisfaction for having “contributed.”  If nothing else.

In addition to the misrepresentation of the BTU tax as fair and evenhanded, the numbers being dribbled out by Treasury, explaining the effect on consumers, focuses only on the direct costs to energy end-users. But household direct energy costs are but a small fraction of the impact of the energy tax. A new tax that increases underlying natural gas costs by 10%, coal by 24%, nuclear fuel by 50%, and hydro by heaven knows what amount will dramatically echo throughout the economy. If this is the president’s idea of the courage to change, then call me “chicken.”

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