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Energy Tax Subsidy Madness

Sympathy for oil company executives is not a frequent emotion for many of us. Still, there was something poignant about the news photo the other day showing five such unhappy men facing a House committee that tugged on the heart strings.

Their unenviable task was to justify continuation of $18 billion in tax credit subsidies for an industry that made $123 billion in *profits* last year. This was not a gig for which any sensible corporate bureaucrat would have volunteered. From the looks on the faces in the photo, they would have much rather been playing golf.

Who can blame them?

The Select Committee on Energy Independence and Global Warming (who thinks up these goofy names?) informed them that the public's opinion of oil companies was even lower than the opinion of Congress itself. That's about as low as you can go.

Since I know these guys were getting paid handsomely to put up with the politicians' questions, my sympathy was short-lived. Moreover, I doubt that the oil industry will have to give up the $18 billion in public largesse any time soon.

The standard bureaucratic defense, of which the oil executives availed themselves, is "Oh, the uncertainty we face!" Oil prices are volatile, they point out, and prices could crash any minute.

Yeah, right.

Oil companies were profitable when prices were $50 a barrel and no one I know is forecasting prices anywhere near that low for 2008. If the current record prices hold up, profits this year will be a whole lot more than $123 billion unless clever accountants come up with some big write-offs. Revenues from domestic crude oil production alone are about $1 billion per day at today's prices.

So why worry about a measly $18 billion in lost tax revenue? After all, we're spending more than that every month in Iraq with less to show for it.

The reason we should worry is PayGo.

"What the heck is PayGo?" I hear you ask.

PayGo is a not an unreasonable idea for pretending to balance the federal budget. Schemes to spend tax money or to reduce tax revenues through new subsidy programs must pay as they go. (Pay – Go. Get it?) That is, such schemes must be revenue neutral.

New tax subsidies must be accompanied by the demise of old ones, for example.

PayGo is not required of all programs, of course. The Pentagon has carte blanche. Congress' decision to hand out cash for people to spend and rescue the economy did not require offsetting tax increases.

The result of PayGo is a tussle between those who now have subsidies and those who want them. When tussling with the likes of Exxon-Mobil, winning is unlikely.

Oil company subsidies appear to be permanent. Tax subsidies for solar, wind, and other renewable energy developments are due to expire again this year, as they do every year.

To reauthorize subsidies for renewable energy companies struggling to gain a foothold in the energy market, PayGo requires the lost revenue to be made up. Ending subsidies for obscenely profitable oil companies would be an obvious choice for doing so.

I have no doubt whatsoever that the public would prefer—by a huge margin—to subsidize the renewable energy industry instead of the oil industry.

However, as I pointed out in this space not long ago, $18 billion has a lot of inertia. Steering it away from the oil companies will take a force larger than the Select Committee on Energy Independence and Global Warming is likely to muster.

The betting in Washington is that Congress cannot politically afford to let the existing renewable tax credits die. Solar is sexy. Funds to satisfy PayGo will be found somewhere. The reauthorization will likely be for only one more year, however.

The customary one-year extensions of tax subsidies are of dubious value to the renewable industry, however. It takes much more than a year to plan, permit, and construct a major renewable project, not to mention the time required for access to the transmission system.

Renewable energy companies routinely quote two prices to their customers—whether they will have the tax benefits or not—since no one knows what their tax situation will be if and when their project comes on line. This is not a good strategy for enhancing sales.

The PayGo fig leaf covering the huge federal deficits and protecting oil company subsidies illustrates just how laughable the U.S. government has become.

The Select Committee on Energy Independence and Global Warming?

Ha, ha, ha.

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Opinions expressed by DrF are not necessarily those of any organization with which he is affiliated.