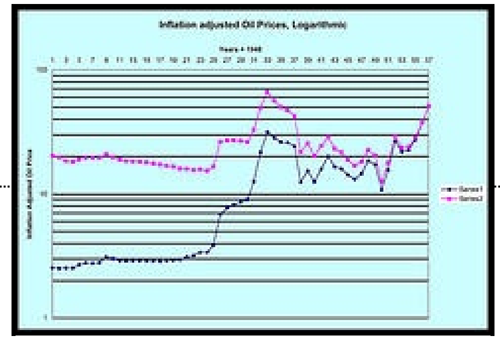
Repost: Gas Tax Increases Revisited

Posted by Prof. Goose on August 18, 2005 - 10:08am
Topic: Alternative energy



Inflation Adjusted Oil Prices, inflationdata.com
Originally uploaded by profgoose.

This piece was originally posted 6/19/05, but seems important after hearing Chris Farrell of Business Week on NPR this morning suggesting (thanks NC for grabbing this quote):

> *"We should institute a $0.50-1.00/gal gas tax. This would help reduce demand and show that markets work. The tax would allow individuals to make decisions on how best to deal with higher gas prices. This would unleash the technical innovations that the U.S. is capable of and find alternatives to high oil as well as improve efficiency. The high price caused by the tax, even after demand is reduced and oil prices moderate, would show that the economy can cope with higher energy costs."*

I couldn't agree more (as that is pretty much what I said in the original post on this topic)! (Also, it should be noted that the statstics in the post have not been readjusted to reflect this last month's increased prices, but that just means we're even closer to the all-time adjusted-for-inflation price than we were when I wrote the original post.)

The chart presents inflationdata.com yearly average data, plotted on a logarithmic scale. This unit of time flattens out the spikes in prices, which is probably a more valid measure of sustained price.

The blue line in the graph is the raw price, the pink line is the inflation adjusted price.

As was suggested in the comments in the post below (where you will find an interesting discussion of gas taxation and whether or not it is regressive, which was then followed up by a post on the subject by Ianqui which had good comments too.), this kind of a plot does have a more interesting story to tell.

The data tell us that the price of oil averaged $51/bbl so far in 2005, whereas oil averaged $66.20/bbl in 1981, adjusted for inflation. *(edited to add: I think we're at around a $53/bbl average now for '05...)*

It is interesting that we think of the shock in 1979 as being the time of the highest prices (at least I did). However, prices were much higher in 1981 than 1979 (according to the data available at inflationdata.com).

An interesting history lesson I found at a site on the history of oil prices: events in Iran and Iraq led to another round of crude oil price increases in 1979 and 1980. The Iranian revolution resulted in the loss of 2 to 2.5 million barrels of oil per day between November of 1978 and June of 1979. In 1980 Iraq's crude oil production fell 2.7MMBPD and Iran's production by 600,000 barrels per day during the Iran/Iraq War. The combination of these two events resulted in crude oil prices more than doubling from $14 in 1978 to $35 per barrel in 1981.

That means, by this way of looking at the data, we're not actually at 63% of the 1981 high in 2005 as I discussed in an earlier post.

Instead, with this more valid data, we're at 76% of the 1981 price!

That means the call for alarm should be even greater than it was in my earlier post on gas prices.

The data tell the story. Find some method of demand destruction. Now.

What we do with the remaining difference and when we do it is going to be one of the crucial public policy decisions of this generation. And the time to make that decision is not far in the future.

Now, granted, I was but a mere pup in 1979...but I do remember President Carter in his sweater. I remember my parents bitching profusely about gas prices (what were they, 50c a gallon?). I remember the lines of cars on television every night. It wasn't pretty. People were losing jobs left and right. It wasn't Bladerunner, but it wasn't pretty either.

The real conundrum, in my opinion, is how to destroy demand so as to come in for a soft landing, even if we are heading towards a 1979 to the googol (ed: not google the search engine, and googol is the correct spelling as I just learned in the comments) power. (no pun intended, I assure you.)

I advocate taxing gasoline now. Abruptly. Quickly. Severely. Better to bend the shit out of the economy now than completely break it later.

If we were to somehow organize and convince Congress (which is, of course, unlikely...and perhaps this is a pipe dream because it would so wildly unpopular that it would be perceived as political suicide unless the peak oil case was made and made well) that a 50c-$1/gal tax on gas now would make their political futures brighter than the alternative. I maintain that's the first rational course of action as I've said in many posts on this blog.

The first step to convincing anyone in elected office is demonstrating that there is a problem that, if not solved by them, will hurt them politically. If politicians can ignore something, they will, because it is politically expedient for them to do so.

The second step is finding politicians that actually think oil policy is in their purview (it is, from the conversations I have had thus far considered a "private and corporate" matter, not one for the public sector to regulate...and THIS is going to be a real problem if that mindset does not change...).

Remember, politicians, if they are anything, they are the ultimate in rational actors. That's why I have spent so much time talking about the tragedy of the commons and the governing of the commons.

As I said in the comments a few posts back, this is why politicians will wait to build the wolf trap until the wolf is at the door. The problem is that the stuff to make the wolf trap is out in the workshed.

Technorati Tags: peak oil, oil