Werther, Haar: A 2-cent gas tax is answer to looming deficits

By Bill Werther and Jerry Haar | September 21, 2017 | Updated: September 21, 2017 10:09pm

Photo: Robin Cornett, STAFF PHOTOGRAPHER

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A worker changes the price board above the gas pumps at a Sunoco gas station on Monday, Aug. 28, 2017, in Latham, N.Y. (Paul Buckowski / Times Union)

The August recess now over, tax cuts, infrastructure, and raising the budget deficit have become central to Congress' agenda. President Donald Trump seeks a trillion dollars for infrastructure over 10 years while cutting the corporate tax rate to 15 percent, costing another trillion dollars over 10 years. Concurrently, the budget deficit cap must be raised. The obvious elephant in the room: How do we pay for this agenda without ballooning the budget deficit still further?

The answer is the 2-cents solution. It begins with a couple of questions: When people buy gas, do they notice a 2-cent increase? And, even if they do, do they change their behavior?

Assume our political leadership has the foresight and fortitude to add a 2-cent per gallon gas levy; the result is $6 billion annually. Continue with an automatic 2-cent-a-gallon increase every month for 6 years, and the U.S. Treasury takes in $1.3 trillion. Thereafter, this cumulative $1.44 (72 months x 2-cents) yields $432 billion annually in revenue without any further increases. Over a 10-year period, an extra $3 trillion flows through the Treasury. Not only are incremental, long-term infrastructure needs entirely financed and the lost corporate income tax fully offset, the nation's carbon footprint is reduced, as is the rate of increase in the national debt.

Some assumptions matter. First, our calculations assume that oil consumption remains constant at the 2016 rate of 19.63 million barrels a day. Admittedly, consumption over 10 years will vary. Additional miles driven, kilowatts generated, roads paved and other uses will increase demand, especially if taxes are lowered. At the same time, wind, solar, and new vehicle Corporate Average Fuel Economy standards will lower petroleum use.

Additional assumptions apply to the 2-cent solution only to petroleum consumed in the U.S., keeping the playing field level for our growing oil exports. Phasing-in levies over 6 years avoids a sudden shock to the economy. (Even if the full levy was imposed tomorrow, the price of gas, for example, would be lower than today's prices in Norway, the Netherlands, Turkey, Sweden, Germany, France, the United Kingdom, South Korea, Japan and many other countries.) And by automatically raising levies when wholesale fuel costs drop, the retail price never falls. This floor gives alternate energy producers a firm planning horizon, as well as making more reliable return-on-investment decisions for retrofitting trucks, fleets and other end users. At the same time, higher petroleum costs will lead to smaller and more fuel-efficient vehicles and shifts to alternative energy sources such as electric and natural gas-reducing the nation's carbon footprint.

The dynamics of implementation hold two countervailing trends. First, corporate tax and infrastructure outlays are economic stimuli. Lower taxes leave more money for investment, dividends or other expenditures, while infrastructure spending also drives economic growth through greater outlays and hiring. Second, with more competitive corporate tax rates, fewer companies are likely to move jobs overseas, while more companies will be prone to set up or expand operations in the U.S. Fortunately, with joblessness near "full employment" (4.3 percent), the risk of igniting wage inflation from tax cuts and infrastructure spending is partially offset by the growing levies on petroleum.

Amid trade-offs, the engines of societal wealth - businesses - become more competitive, with future productivity gains resulting from an improved infrastructure. And the surplus revenues generated beyond infrastructure spending and tax cuts can help ameliorate annual budget deficits as Social Security, Medicare, Medicaid and other entitlements grow during the coming decade.

Looking ahead, the U.S. will be energy self-sufficient by 2021 and oil self-sufficient by 2030. Oil consumption and U.S. oil exports will increase, while the growing demand for electric vehicles and more efficient cars and trucks, in general, will mitigate any significant increase in the retail cost of gas at the pump. The 2-cents solution proposed here, along with tax cuts, will enable the nation to upgrade its infrastructure, fund entitlement programs and reduce the budget deficit. This is one idea that Republicans and Democrats should eagerly embrace in a true spirit of bipartisanship.

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