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PUMP PRESSURE

by James Surowiecki

James Surowiecki on why the gas tax won’t budge.

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In Mississippi, police cars escorted gasoline tankers along the roads. In Georgia, gas lines stretched for blocks. In New York, a gallon of fuel ran you $3.50 or more. Along with the devastation that Hurricane Katrina visited on the people of the Gulf Coast, it wreaked havoc on oil rigs and refineries, and for the past two weeks American consumers have been dealing with the results.

The precipitous rise of U.S. gas prices was straight from an economics textbook: with refineries out of commission, the supply of gas shrank, while demand stayed the same, and prices jumped. Americans are happy with the free market when it allows them to buy cheap T-shirts and twenty-nine-dollar DVD players, but they tend to like it less when they have to pay fifty dollars to fill up their gas tanks. So politicians, anxious lest angry consumers become angry voters, have been contemplating a variety of dubious plans to ease pressure at the pump: price caps, prosecution of alleged price gougers, and—the surefire political winner—tax cuts. Georgia has already temporarily repealed its gas taxes, and Michigan, Florida, and a host of other states are thinking about it.

Let’s hope they keep thinking. While a gas tax cut looks like a panacea, it’s more like a placebo. To begin with, unless cutting taxes brings Gulf Coast refineries back online, it’s unlikely to have any real impact on prices. And if prices do drop, that will exacerbate the problem of supply shortages and long lines. What we need now—as even President Bush, hardly a conservationist, has said—is for people to drive less, not more. And that means paying more for gas, not less.

Americans consume about a quarter of all the oil in the world, with per-capita use of gasoline at least double that of other developed countries. But the supply chains we rely on are remarkably fragile. Most of the world’s oil fields are working to capacity, so every minor hitch sends oil prices gyrating. Last week, a study conducted by the National Commission on Energy Policy identified a shortlist of possible problems—political unrest in Nigeria, terrorist attacks in Saudi Arabia—and showed that taking as little as four per cent off the global oil market could cause prices to soar to more than $161 a barrel. Meanwhile, the refineries that we count on to turn all this oil into gasoline are similarly stretched. No new ones have been built in the U.S. since 1976; even on a good day, refineries here run at about ninety-six per cent of capacity, leaving little margin for error. Calamitous as Katrina was, it shut down just ten per cent of all refining capacity, and look at the havoc that caused.

These supply problems are not ones that Americans can do much to fix. Hurricanes, floods, and political instability abroad are hard to control, and, even if oil companies overcome their reluctance to spend billions of dollars on new refineries, construction would take years. But, if we can't affect the supply of oil, we can affect the demand for it—and the best way of doing that is not to cut gas taxes but to raise them.

Gas taxes are unpopular in the U.S., although they're remarkably low compared with those in other countries—and even, adjusting for inflation, much lower than in the late nineteen-fifties. But, of all taxes, a gas tax is among the most fair and efficient. In the late nineties, a survey of forty top economists found disagreement on nearly every issue, but gas taxes had unanimous support.

The gas tax works well for a couple of reasons. First, it relies on the free market instead of trying to tinker with it. Unlike fuel-economy standards, the most common method of reducing demand for oil over the past thirty years, a gas tax doesn't tell people what kind of car to drive. It simply raises the price of gasoline and lets people adjust their behavior accordingly.

The other, more fundamental virtue of the gas tax is that it brings the price of gasoline in line with its true cost. When all is said and done, cheap gas is an illusion, because our reliance on gas creates a whole series of costs that aren't factored in to the pump price—among them congestion, pollution, and increased risk of accidents. The most rigorous study of these "externalities," by the economists Ian Parry and Kenneth Small, suggests that a tax that took them into account would come to $1.01 for every gallon of gas.

There are also hefty costs that aren't included in that number. The most notable is the cost of having the military protect world oil supplies; three weeks ago, President Bush said that we were in Iraq partly because we could not let terrorists "seize oil fields to fund their ambitions." In addition, there is a long history of stealth subsidies and tax credits for oil companies. Two months ago, Congress passed an energy bill that will provide tens of billions of dollars in subsidies to energy companies over the next few years in an attempt to stimulate production. One way or another, that is, we've been paying to keep the oil flowing. A gas tax would at least let us know what the price really is.

Of course, in political terms the gas tax's virtues—simplicity, transparency, immediacy—are vices. Politicians prefer complex systems that allow them to satisfy particular constituencies, reward supporters, and disguise the true costs of things. And, strangely enough, voters implicitly prefer indirect taxes to direct ones. So it may be that the gas tax will remain one of those economically sensible ideas that are doomed to fail. But oil crises are going to keep coming, and each new bout of turmoil will show just how expensive our free ride on gasoline has become.