Biden Calls for A "Higher Tax" And Other Restrictions Against Oil Companies

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On October 31, President Biden threatened to raise taxes for oil companies that choose not to reinvest their profits into production. This comes as gas prices reached $3.76 per gallon according to AAA, down a few cents from $3.79 a few weeks ago, but still higher than when the 99-day streak of price declines ended on September 20. The Biden administration's anxiety about gas prices mirrors the importance of the economy to voters ahead of the midterm elections, with 49% of registered voters polled by Gallup ranking it as "extremely important," the highest of any issue.

Regarding oil companies' profits and lack of production, Biden stated, "[t]hey have a responsibility to act in the interest of their consumers, their community and their country. If they don't, they're going to pay a higher tax on their excess profits and face other restrictions." American Petroleum Institute President Mike Sommers countered Biden's assertion in a written statement: "[i]ncreasing taxes on American energy discourages investment in new production, which is the exact opposite of what is needed. American families and businesses are looking to lawmakers for solutions, not campaign rhetoric."

Biden has consistently blamed corporations' high profits and the use of stock buybacks for causing inflation and higher gas prices. According to CNBC, profits at the six largest publicly traded oil companies reached $70 billion in the second quarter of 2022 and companies spent $20 billion on buybacks. Stock buybacks have often been vilified by Keynesian economists, such as when Paul Krugman attacked the 2017 Tax Cuts and Jobs Act for leading to $171 billion in stock buybacks. "They were supposed to lead to an investment boom… but it looks as if companies are using the tax windfall to buy back stock – basically pay off investors – rather than ramping up spending on plant and equipment," said Krugman in a series of tweets in 2018.

The maligning of stock buybacks, however, ignores their economic benefits, which go beyond shareholder profit. They act as a form of long-term investment that allows corporations to allocate their resources more efficiently and reward shareholders. When a firm has a high level of liquidity and no appealing investment opportunities exist, reinvesting this money to shareholders makes economic sense. In the 2017 *Harvard Business Review* piece "The Case for Stock Buybacks," London Business School Professor of Finance Alex Edmans explains the long-

term benefits of stock buybacks: “[f]irms that buy back stock subsequently beat their peers by 12.1% over the next four years. Rather than eroding long-term firm value, buybacks create value by ensuring that surplus capital is not wasted.”

This capital does not rest in the coffers of the wealthy, rather, these shareholders act as angel investors, reinvesting their money back into the economy by funding potentially profitable businesses. As Chris Edward of the Cato Institute explains in a policy analysis on the role of angel investors: “[w]ith their independent pools of capital, angel investors support a large variety of promising start-ups that explore new goods, services, and technologies that existing businesses overlook. Many of the greatest successes in U.S. business history got off the ground with the help of wealthy angel investors.”

The U.S. and Europe are in an energy crisis due to over-reliance on production by authoritarian powers such as Russia and Saudi Arabia, both of which have recently reduced oil and gas supply. The U.S. must deal with this issue by encouraging domestic oil production through deregulation and increasing the number of drilling permits, not by blaming corporations (who supply the oil in the first place) for making economically sound decisions.