



Sequestration Is No Excuse for Energy Tax Hikes

By Pete Sepp March 2, 2013

Tax hike proposals in Washington are, unfortunately, as common as crabgrass. Variations on the theme include heavier government burdens on traditional energy. The latest twists and turns on energy tax hikes have a self-imposed urgency, thanks to the federal "sequestration" budgeting mechanism. However, the potential for capitulation on more taxes might actually be worse now that the sequester has taken effect.

Despite screaming headlines of "severe," "brutal," "meat-cleaver" spending cuts that will kill scads of jobs, the sequestration process does not quite herald the end of the world, either for civilian agencies or the Pentagon. My colleague Brandon Arnold put it best in a recent posting on National Taxpayers Union's "Government Bytes" blog when he wrote:

According to new numbers from the Congressional Budget Office, the sequester will reduce spending by \$995 billion over the 10-year budget window. While that is a lot of money, it's but a small percentage of the \$47.2 trillion the federal government is projected to spend over that same timeframe. It seems even smaller when you consider that nearly \$7 trillion of this spending will be heaped onto our national debt. It should be pretty clear to anyone that even with the sequester, we have an enormous debt and deficit problem.

Given this reality, what's far more alarming than the sequester itself is many politicians' openness to replacing it with something much worse—not smart, targeted program reductions, but rather, another round of tax increases.

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Even a few Republican lawmakers have been concerned about sequestration's impact on the Pentagon's budget, leading them to contemplate tax hikes as a substitute. Back in 2011, Republican California Rep. Buck McKeon contended he would "go to strengthen defense" if presented with revenue-raising options instead of the sequester, even though he had "never voted for a tax increase" in the past. More recently, Republican Florida Rep. Tom Rooney said that if forced to choose between "hollow[ing] out the Pentagon or increas[ing] taxes, I would support the latter to make sure that we didn't lose our capability to maintain our superpower status." And in a February 10 Fox News interview, Sen. John McCain signaled that he would be willing to "look at revenue closers" to stop the sequester's parebacks in military spending.

Granted, these and other Republicans' remarks have come with many caveats—McCain, for example, noted in the same interview that "we've already just raised taxes." And, the GOP caucuses have admirably stood their ground against tax hikes so far. Still, the willingness of some in the party to utter the word "tax" brings to mind another term that begins with the letter "t": trap.

President Obama and his allies have made no secret about wanting another bite at the tax increase apple—and one sector of the economy into which they'd sink their teeth is oil and gas. In a separate Fox interview last month, House Minority Leader Nancy Pelosi said it was "almost a false argument to say we have a spending problem" and instead called for going after "Big Oil" because doing so "gives us a lot of money."

Although Senate Democrats crafted a sequester alternative that took a different tack from discriminatory ploys to strip oil and gas of provisions other businesses get, old bromides such as Representative Pelosi's never seem to go away. That means new incarnations of past tax hike plans against "Big Oil" are likely to surface now. After all, the sequester will take place gradually over the remainder of the year, leaving plenty of room for deal-making that could concoct higher taxes on politically convenient targets as a price for keeping Pentagon (or civilian) spending levels at their current heights.

For members of either party to accede to such a swap would be a terrible mistake. As this column has often explained, most legislative proposals to boost tax burdens on the oil and gas industry center upon taking away from this one industry alone a job-creation deduction and a foreign tax credit that are available to numerous businesses. Such schemes are counterproductive, most ironically so for supporters, since their long-term impact on government revenues could be negative.

Furthermore, self-described fiscal conservatives in Congress, especially those who voted against the 2009 "stimulus" debacle, ought to recognize that keeping government spending in check does not mean economic devastation. This is true even for Pentagon spending, as Chris Preble of the Cato Institute has

ably shown ever since sequestration began looming on the budget horizon. Meanwhile, oil and gas has made a solid contribution to the recovery. In 2011, the industry delivered 148,000 new jobs, 9 percent of the total among all sectors of the economy.

[See a collection of political cartoons on energy policy.]

Knowing these circumstances, why would any advocate for limited government opt for a sequester "compromise" that props up inefficient, ineffective programs in the public sector, which at the same time undermines the genuine opportunities for economic growth in the private sector?

Sequestration is not an optimal way to trim back civilian or military expenditures, but the solution is not to avoid spending restraint altogether, or impose more destructive tax hikes on Americans. Instead, as a "transpartisan" letter to Congress from 22 organizations (including my own) on Pentagon spending pointed out, prudent program reductions guided by a rational re-examination of priorities can better serve the nation.

Proponents of energy tax hikes seem willing to seize any political turf that will allow them to plant their agenda. Sequestration is just one piece of ground where such crabgrass can spread. Hopefully all Members of Congress who support fiscal discipline will keep this noxious idea from taking root anyplace in the budget process.

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