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ECONOMIC IMPACT OF CARTER'S ENERGY PROGRAM

Background

As the Carter Energy Package nears the end of its consideration in the House, concern is growing over its potential cost to the American public. Much of the measure consists of tax programs intended to either encourage or discourage some sort of activity in the energy area. While the Administration has repeatedly emphasized that the taxes will be rebated, the fact is that in many instances they will not be returned.

For example, one of the more significant tax credits is for insulation; however, there is some indication that there will not be nearly enough fiberglass available to meet even relatively modest increases in demand. Without this material, many firms will not be able to insulate and therefore not be able to take this credit.

Another instance of no rebate credit is that most firms will not be taking the risk associated with unproved technologies such as solar and wind power. In any case, where they do these technologies have relatively specialized applications at present. The simple fact is that the majority of the tax revenues under the Carter plan will wind up in the federal coffers and quite possibly eventually be used for social programs. For example, while the Administration claims that all of its crude oil tax will be rebated, in fact only 75% will be, leaving \$40.8 billion out of \$163 billion to be eaten up by administrative and similar costs.

Other costs associated with the Carter Energy program are more difficult to identify than taxes. For instance, as we depend on increasing amounts of imported oil, we not only pay higher prices but become more vulnerable to economic dislocation as well. One thing is certain: the energy bill in its current form is going to significantly raise costs to the public and at the same time tend to create severe disincentives for the

Added Costs from Imports

One aspect of the costs of the Carter energy program which has received relatively little attention is the potential additional cost of imported oil. While there are some OPEC members who take a more moderate view of price increases, many of them are pushing quite hard for significant escalations in the cost of crude. While the actual amount of the increases is obviously open to debate, there can be little doubt that they will be significant. One must remember that the initial increase voted by OPEC was nearly 400%. There is no reason to believe that the members of OPEC will be content to merely keep pace with inflation. For the purposes of this estimate, it has been assumed that OPEC increases will average only 3% annually. This, of course, is far less than the increases have been historically; however, even at this figure they come to a substantial amount. Based on an assumed 3% annual increase in the real price of oil, the cost of imports for the period between 1978 and 1985 will be fully \$57.8 billion. This amounts to over \$825.00 for every family in the United States.

Natural Gas

Much has been said about the pricing of natural gas. There is considerable evidence of its price responsiveness and of the fact that the current low prices have been a strong disincentive to exploration and development. There is no reason to believe that the \$1.75 price contained in the energy bill will provide the incentive necessary to increase our supply. In fact, there is a considerable body of evidence which would indicate the opposite. For the purposes of this estimate, however, the secondary costs associated with shortages which are likely to occur at the \$1.75 price have been ignored. Although these costs will be severe, they are difficult to quantify as their exact nature is dependent on a number of exogenous variables such as region, time of the year, and the like. Instead, it is assumed that supplies will be adequate to meet demand, and the tax consequences are all that will be considered. These alone are significant enough to be of considerable concern. For the period between 1978 and 1985, it is estimated that the cost of the taxes on natural gas will amount to \$44.2 billion, or slightly over \$631.00 per family.

Gasoline Taxes

One of the most onerous taxes to the middle class citizen is the tax on gasoline. Individuals living in areas where there is inadequate mass transit are going to be especially hard hit.

conversion (the cost of coal conversion will be \$722.00 for every family just for utilities):

<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
\$104.	\$357.	\$491.	\$584.	\$663.	\$783.	\$832.	\$851.

The American public is on the verge of discovering just how expensive the Carter Administration's approach to solving the energy puzzle will really be.

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Figure #1

TOTAL COST OF CARTER PLAN
(Billions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Taxes on Oil less Rebate	2.0	6.3	6.7	7.1	7.2	8.9	8.8	9.1	56.1
Taxes on Natural Gas	Ø	6.2	6.0	6.0	5.9	6.8	6.8	6.5	44.2
Gasoline Taxes	2.1	4.8	8.2	8.3	8.5	8.7	9.0	9.2	58.8
Auto Efficiency Taxes	1.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	10.0
Tax on Coal	.19	.20	.21	.22	.23	.24	.25	.27	1.81
Added Cost of Imported Oil	Ø	1.5	3.3	5.3	7.6	10.2	13.4	16.5	57.8
Addition ¹ Fed. tax caused by inflation from Energy Taxes ¹	2.0	5.0	9.0	13.0	16.0	19.0	18.0	16.0	98.0
Utility Conversion ²									50.6
Total	7.29	25.0	34.41	40.92	46.43	54.84	58.25	59.57	377.31

¹Source: Chamber of Commerce Forecasting Center Model

²Source: Edison Electric Institute -- Annual figures not available

Figure #2

TAXES ON OIL
(Billions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Wellhead Tax on Crude Oil	8.1	23.7	23.7	23.0	22.4	21.8	20.5	19.8	163.0
Rebate	6.1	17.8	17.8	17.6	16.8	16.3	15.4	14.8	122.2
Administrative and Opportunity Cost	2.0	5.9	5.9	5.8	5.6	5.5	5.1	5.0	40.8
Industrial Users Tax	Ø	.4	.8	1.3	1.6	2.1	2.4	2.8	11.4
Utility Tax						1.3	1.3	1.3	3.9
Direct Cost to Consumer									56.1
Annual Cost to Consumer Less Rebate	2.0	6.3	6.7	7.1	7.2	8.9	8.8	9.1	

Figure #3

TAXES ON NATURAL GAS
(Billions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Industrial Users Tax	0	6.2	6.0	6.0	5.9	5.9	5.8	5.6	41.4
Utility Use Tax						.9	1.0	.9	2.8
Annual Cost to Consumer	0	6.2	6.0	6.0	5.9	6.8	6.8	6.5	44.2

Figure #4

TAX ON COAL¹
(Millions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Tax on Under-ground Bituminous Coal	48.1	51.6	54.3	57.9	60.9	63.5	65.0	67.8	517.2
Tax on Surface Bituminous Coal	136.5	141.7	152.2	160.6	168.7	176.2	182.8	194.6	1,313.3
Tax on Lignite	3.0	3.1	3.3	3.5	3.7	3.9	4.0	4.2	28.7
Total Tax on Coal Mining	187.6	196.4	209.8	222.0	233.3	243.6	251.8	266.6	1,811.1

¹ Estimates based on Bureau of Mines data.

Figure #5

MISCELLANEOUS TAXES
(Billions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Extension of Existing Gasoline Tax	0	0	3.3	3.4	3.5	3.6	3.7	3.8	21.3
Additional Gasoline Tax	2	4	4	4	4	4	4	4	30
Repeal of Deduction for State Gas Tax ¹	.12	.78	.86	.90	1.0	1.1	1.3	1.4	7.46
Auto Efficiency Tax	1	1	1	1	1	1	2	2	10
Annual Total	3.12	5.78	9.16	9.3	9.5	9.7	11.0	11.2	64.96

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House Ways and Means Committee data, rounded to nearest hundred million dollars.

Figure #6

ADDED COST OF IMPORTED OIL
(Billions of 1977 Dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Cost of Imported Oil	42.3	54.0	58.7	65.1	71.7	78.7	87.7	95.2	553.4
Domestic Price for Equal Volume	42.3	52.5	55.4	59.8	64.1	68.5	74.3	78.7	495.6
Added Cost from Imports	0	1.5	3.3	5.3	7.6	10.2	13.4	16.5	57.8

Figure #7

OIL CONSUMPTION
(Billions of Barrels Annually)

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Domestic ¹ Production	3.8	3.7	3.7	3.6	3.5	3.4	3.2	3.1	28.0
Foreign Imports	2.9	3.6	3.8	4.1	4.4	4.7	5.1	5.4	34.0
Indus- trial Consump- tion (less utili- ties) ²	1.1	1.2	1.3	1.3	1.4	1.5	1.5	1.5	10.8
Utility Consump- tion ³	.66	.72	.75	.82	.85	.84	.84	.88	6.36
Total Consump- tion	6.7	7.3	7.5	7.7	7.9	8.1	8.3	8.5	62.0

¹ Source: National Chamber of Commerce Forecasting Center.

² Federal Energy Administration data.

³ Edison Electric Institute.

Figure #8

NATURAL GAS CONSUMPTION
(Trillions of Cubic Feet)

	1978	1979	1980	1981	1982	1983	1984	1985
Industrial Consumption (Less utility consumption)	5.8	5.9	5.8	6.0	6.0	6.2	6.1	6.3
Utility Consumption	2.4	2.2	2.1	1.8	1.7	1.5	1.5	1.2
Total Industrial Consumption	8.2	8.1	7.9	7.9	7.8	7.7	7.6	7.4
Total Consumption	16.9	16.7	16.5	16.6	16.7	16.7	16.7	16.4

Figure #9

COAL PRODUCTION¹
(in millions of tons)

	1978	1979	1980	1981	1982	1983	1984	1985
Under-ground Bituminous Coal	320.5	344.0	362.0	386.0	406.0	423.0	433.0	452.0
Surface Mined Bituminous Coal	389.9	404.8	434.8	458.8	482.0	503.4	522.2	556.0
Lignite	29.6	31.2	33.2	35.2	37.0	38.6	39.8	42.0
Total Production	740	780	830	880	925	965	995	1,050

¹ Source: Bureau of Mines data

