

# Clinton energy tax comes under attack

by Anthony K. Wikrent

President Clinton's proposed tax on the British thermal unit (BTU) content of energy sources was subjected to some revealing examination by the U.S. Senate Energy and Natural Resources Committee on Feb. 24. Senators and witnesses made clear that there were serious problems with a BTU tax, including pronounced inequities between different regions of the country, different earnings groups, different industries, and even different types of fuel. It was also noted that the collection of the tax is likely to be an administrative nightmare.

Committee chairman Sen. Bennett Johnston (D-La.) began the hearings by noting that while everyone agrees that the federal budget deficit must be reduced, it was open to question whether the BTU tax was the best, or even an acceptable, solution. Senator Johnston made clear that he personally favored the adoption of a value added tax.

Sen. Malcolm Wallop (R-Wyo.) addressed the question of just who will bear the heaviest burden of the BTU tax. "Who lives in America's oldest houses with the least amount of insulation, with the oldest appliances, the least efficient furnaces?" he asked. "Who lives farthest from work? Who drives America's oldest and least efficient transportation? It's America's working people and working poor. And this tax comes crashing down right smack dab in the middle of them."

Wallop also noted that the BTU tax would cost "the people of my state five times more per capita, as a producing state, than it does the people of Rhode Island; about 50 bucks a head in Rhode Island, about 300 bucks a head in Wyoming. The equity of that is hard to explain."

In one of the sharpest exchanges of the day, Senator Wallop castigated Dr. Robert C. Repetto, vice president and senior economist of the World Resources Institute, for making "a statement of the comfortable, of the coddled, of the wealthy, and of people who, like you, live close to your work, who, like you, whose work is not related to energy consumption, and your compensation is not related to energy consumption, and whom like you, will be able to absorb any difference, and who will be able to buy new equipment, new furnaces, and new washing machines, and new automobiles. But this is not most of working America. And I really think that when people say, this is going to be very good for you to have high energy prices, it is people like Felix Rohatyn, and others, who live right upstairs over their damn subway."

## Impact on hydropower, industry

That the BTU tax would disproportionately affect hydropower was explained by Sen. Mark Hatfield (R-Ore.), who noted that the tax on hydropower would be computed from the average fossil fuel BTU equivalent required to generate the equivalent amount of electrical energy. But, he argued, generating 1 kilowatt-hour of electricity requires 10,300 BTUs of coal, but only 3,400 BTUs of falling water. Moreover, 10,300 BTUs of coal is converted to electricity at an efficiency of only 36%, while the efficiency of hydropower is 95%. The result is that the BTU tax hits hydropower three times harder than it hits fossil fuels. Hatfield declared that by adding that burden to the effects of a drought and environmental regulations that are already threatening to increase the cost of electricity up to 40% in the area served by the Bonneville Power Administration, "the economy of the Northwest would collapse."

In a startling allusion to the financial interests of the family of Vice President (and former senator) Al Gore, among others, Sen. Pete Domenici (R-N.M.) noted that crude oil will be taxed at more than twice the rate of coal. "Now, frankly, I don't understand that, excepting, it is said that we're too dependent on foreign oil. . . . [The BTU tax] makes the tax on domestic production of oil twice as high as coal. And the end product, believe it or not, is we are going to produce less oil at home. Coal is the major producer of the greenhouse gases. Now, why would we tax coal lower than products that have a less effect of greenhouse gases? I mean, I think, maybe, it's just intentionally a desire to tax coal less. You might know why, some of you around the table—I have some ideas, but I believe if we gave you a pad and pencil, you could figure that out—and the pad wouldn't have numbers on it either, would it? It'd have senators' names on it."

Sen. Don Nickles (R-Okla.) backed up Domenici's allusion by noting that because of a difference in heat content between coal from western and eastern states, "this tax would roughly double the price of the Wyoming coal, and increase the cost of Illinois coal by 25%."

The great inequities in the burden imposed on different states was discussed by Jerry Jasinowski, president of the National Association of Manufacturers, who showed that Louisiana, Wyoming, North Dakota, Texas, West Virginia, Alaska, Montana, Mississippi, Oklahoma, and Alabama will face BTU tax burdens two or three times greater than other states.

Jasinowski also noted that one-third of the BTU tax will fall on manufacturing industries. "For all manufacturing," he noted, "the average number is about 12,000 BTUs. If you were to pick just the chemical industry, not a particularly energy-intensive one, it's twice as great. If you go to something like the aluminum industry, it's three times as great. If you move up to something like steel mills, it's then four times as great."