



Will Colonel Jessup Please Stand Up?

Col. Nathan R. Jessup: You want answers?

Daniel Kaffee: I think I'm entitled.

Col. Nathan R. Jessup: You want answers?

Daniel Kaffee: I want the truth!

Col. Nathan R. Jessup: You can't handle the truth!

(From the movie, "A FEW GOOD MEN," with
Jack Nicholson (Jessup) and Tom Cruise (Kaffee))

The **State of the Union** revealed the core dilemma that faces this country regarding energy security and energy independence. **We can't handle the truth.** The truth is that to reduce our growing demand for crude oil prices have to **go up** and **stay up**. A corollary is that our politicians can rant and rave but they can't give this country the simple remedy it needs, because a rise in the price of fuel will cause pain. The President is guilty of fobbing off on the citizenry the myth that technology can painlessly resolve our oil dependence, but the Congress is equally guilty for not directly facing up to what needs to be done. Bluntly, taxes on fuel must go up...on every kind of fuel whether it is gasoline, diesel, jet or the other refinery streams that come from the processing of crude oil. Markets can work and work well to ration available supplies. If the U.S. wishes to cut its growing dependence on fuel derived from hydrocarbons (oil, natural gas, etc.), then fuel prices have to rise dramatically. The courage to tell the truth and to act on that truth is lacking at 1600 Pennsylvania Avenue, but it is lacking on the Hill as well.

The President's energy program perpetuates a costly delusion to the American public: namely, that we can achieve less dependence on oil through the encouragement of vast technical change. All we have to do is "speed up" technological advancement with more financial assistance from Washington. Wishing it won't make it so. Remember the saying, "If it is too good to be true, it isn't?" The subsidy course is a telling example. Wouldn't it be far better to enlarge the prize and make energy substitution more likely?

Nothing is more evident than the unwillingness of the Congress and the President to take that important first step: raise the price of fuels by taxation and continue raising it over time to keep the U.S. consumption of fuels constant over time. A cap on oil consumption requires each of us to stand the pain of withdrawal! A simple truth that is avoided at all cost in Washington, where pain is what you deliver to your opponents, but not to your voters!

There is any number of devices to accomplish this and perhaps to bring about some other necessary reforms such as reducing high taxes on labor that cost jobs, particularly to those far down on the employment skill ladder. One proposal, which we have always liked, and is now endorsed, conveniently, by no less than Al Gore, is to raise fuel taxes and reduce employment taxes so as to be revenue neutral. One might think that such a proposal would draw the attention of conservatives who have always disliked factor income taxes (on labor and on capital), but raising taxes on fuel seems like the third rail of American politics. There is non-partisan aversion to such a policy. Strange it is that we can bear having the oil price being raised by foreign oil suppliers but we reject that outcome if we do it ourselves!

There are two principal obstacles to doing the right thing. First, Americans have an inalienable right to drive as much as they wish, where they wish, when they wish and with whatever monstrous construction that auto and truck designers can create to continue selling new vehicles. Second, once we walk down the road of raising



ECOMENTARY™

fuel taxes, taxes on other forms of hydrocarbon consumption will get into play. The fact that the Climate Change crowd will be made happy by a *de facto* carbon tax is perhaps not a welcomed consequence. Those who are agnostic on the current portrayal of “An Inconvenient Truth,” are more likely to oppose substantial fuel taxation because they don’t buy an anthropogenic explanation of global warming.

The argument to reduce our dependence on crude oil can easily rest on geopolitics and not be seen as a concealed anti-Climate Change policy. Destiny dictated that an overwhelming amount of the world’s crude oil lies in a highly unstable areas of the world. That has been obvious for the past 30 years. Doing something about our dependency and that geography is in the national interest.

Once down the path to consumption restraint, it will be possible for alternative energy sources to meet the fundamental market test--profitability. The current fantasy that we can subsidize our way to energy innovation needs to be set right. Subsidies have costs and outcomes that are not market tested are likely to be ephemeral or sustainable only by increasing the amount of the subsidy. The current fascination with ethanol has already wreaked havoc on the American cattle industry. Subsidizing ethanol production is a policy too good to be true. It is all too easy to give away tax revenues.

The fact that different parts of the same industry can have wildly different reactions to major changes in energy policy should not be lost on the public or on the talking heads and pundits that affect public opinion. If ethanol production is subsidized, corn growers are made better off. But other users of corn are made poorer! If cattle feeders face higher input costs, they will have to push down the price of feeder cattle. And so it goes. Four dollar corn is going to lead to some cow-herd liquidation as the price of feeder cattle falls. That might make some hamburger manufacturers happy, but it will be at the expense of other segments of the cattle industry.

The lesson that one draws from the fact that one man’s output is another’s input is that vote catching becomes a complicated game for legislators. Raising fuel taxes is going to make a number of people mad, even if it makes a few alternative energy suppliers happy. Politicians might be venal, but they are not stupid. They can count a losing hand and raising fuel prices is just that. Until the public sees the “gain,” it is not willingly going to endure the “pain.” But isn’t that what leadership is all about? Explaining national purpose and national resolve? This last State of the Union message fell short ---as the actions of the Congress on energy policy have fallen short for years. We are indeed frogs in a slowly warming pot. We will be boiled accordingly!

The nation needs a few good men (and women) who can handle the truth! Will the real Colonel Jessup stand up?