

## Raise the Gas Tax

A Revenue-Neutral Way to Treat Our Oil Addiction

By Richard G. Lugar

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Reality is stark: Nearly every major foreign policy challenge we face is aggravated by our continued addiction to oil. Recent developments in Europe, the Middle East and Africa only underscore this fact. But a new president and changed economic conditions offer the chance to take a bold step toward freeing our nation from the grip of foreign petroleum.

In March 2006, I characterized America's excessive reliance on oil as "[the albatross of national security](#)." When oil prices soared to a peak of nearly \$150 a barrel last summer, oil riches emboldened authoritarian rulers from Venezuela to Iran to the genocidal regime in Sudan. Poor countries struggling to grow were crushed by the weight of oil import expenses. Allies in Europe have gone cold this winter as Russia wielded its near-monopoly on gas supplies as a political weapon. And our own economic woes were exacerbated as we shipped billions of dollars overseas to pay our oil bills.

Yet the huge external costs of our oil addiction -- in terms of national security, economic vulnerability and environmental damage -- are not accounted for in the price Americans pay at the pump. Classic economics identifies two basic options to intercede where Adam Smith's invisible hand fails: Governments can regulate to force, or prevent, certain actions. The government also can impose targeted taxes, which are almost always the most efficient, least invasive and most transparent remedy for market failure.

In the Jan. 5 edition of the Weekly Standard, conservative writer (and Post columnist) [Charles Krauthammer](#) made a strong case for a "[net-zero gas tax](#)" proposal that would match, dollar for dollar, an increase in the federal gas tax with a decrease in payroll tax, which is paid by every working American. Because it represents no net tax hike, it would bring the benefits of reduced consumption while putting money into the hands of Americans.

A gasoline tax is transparent, easy to administer and targeted at the one sector that burns most of our oil. We know it would cut imports. When gasoline prices topped \$4 a gallon last year, Americans chose to use less, leading to a major drop in gasoline consumption. The gains from accurately priced gasoline would grow as Americans demanded more fuel-efficient vehicles, chose non-petroleum alternatives to power them and found public transit options that work. Pricing gasoline to reflect its true cost to the nation would help spur a vast market in which oil alternatives such as advanced biofuels would become competitive and innovation would flourish.

The auto industry would benefit from knowing that it could invest aggressively in high-mileage technology without worrying that consumers might turn back to inefficient gas

guzzlers. We would cut our greenhouse gas emissions, 30 percent of which come from transportation. Adjusting Americans' tax burden to put more spending power into their own hands makes sense when household budgets are squeezed. A revenue-neutral oil security tax would take every penny collected at the pump and put it right back into the pockets of consumers.

Options for doing so include cutting the payroll tax, which disproportionately affects the lowest-paid employees, so workers would see extra money every payday. Alternatively, the government could regularly send a check to everyone over 18. I am prepared to work with the Obama administration and colleagues in Congress to devise the most efficient way to return the revenue to the American people, even as we advocate the general policy of a gas tax to promote better cars and alternative fuels.

Americans sent nearly \$430 billion to other countries in 2008 for the cost of imported oil -- an amount equal to almost half of President Obama's stimulus package. Those hundreds of billions should be spent to build a new energy economy here, not shipped to dangerous regimes overseas.

No tax is perfect, and some special provisions may be necessary for individuals and groups disproportionately affected. But we as a nation are already suffering every day from our oil dependence, and decisive measures are needed. The alternative to a net-zero gas tax is ever-greater regulation, with more bureaucracy and the inevitable temptations for lobbyists to exploit regulatory loopholes. Krauthammer's net-zero gas tax proposal identifies common ground for fiscal conservatives, security hawks, environmentalists and America's lowest-paid workers. New York Times columnist Thomas Friedman has argued for similar steps. Whether it is a \$1-a-gallon tax or some greater amount commensurate with the true cost of oil, a net-zero gas tax is the type of transformational policy that we could implement quickly and that would have immediate impact.

One of the simplest and most effective means available for strengthening U.S. national security is to dramatically reduce our oil dependence. A gas tax that returns money to Americans would take us a long way toward that goal.

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