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The House votes against production

Congressmen voted up a Carter tax that claims to target "windfall profits;" in fact, it will put independent oil producers out of business.

The so-called windfall profits tax, more properly, the Crude Oil Excise Tax of 1980, passed a House of Representatives vote 302-107 earlier this month. This week, the Senate is beginning debate on this bill, which may soon become the largest single piece of tax legislation in U.S. history.

It is astounding how little serious debate has focused on the central issue of this new tax. It is not, despite its popular name, a profits tax of any kind. It is a tax on production of oil at the wellhead. Reduced to essentials, the bill is designed to drive a significant percentage of independent producers out of business.

The reason is that the independent producer is just that, a producer, whereas the "oil majors" are marketing monopolies—whose high profits from foreign bases are specifically exempted from the tax. The bill is designed to drive oil supplies down, to drive prices up, and use the "choking" of industrial production that results to further a "controlled disintegration" economic policy for which this new tax is only a subsidiary item.

As with previous, disastrous Carter administration energy legislation, no attention has been focused on the economic philosophy *behind* the legislation. Many good, serious energy producers I talk with around the nation, hearing the bill is about to become law, now ask in stunned amazement, "What is this all about?" How did Carter administration strategists sell this disastrous bill? Part of the answer is the susceptibility of the oil industry, and in particular, the smaller but politically influential "independent producers" to Friedmanite "free enterprise" ideology. The producers were offered the carrot of price decontrol ("Higher energy prices will allow us to produce more"), in return for allowing the so-called windfall tax to take "excessive profits." With this two-part disguise, the administration simply reintroduced a policy that, undisguised, had been stopped dead only months before. At that time, when the bill was called the "Crude Oil Equalization Tax," James Schlesinger and Henry "Scoop" Jackson lost when Senate Finance Chairman Russell Long (D-La.) insisted that proceeds from a $100 billion oil tax be plowed back into energy production.

Malthusian Schlesinger dropped the tax rather than agree to anything that might increase production.

Yet today, under the title "windfall profits tax," Congress is on the verge of making into law a $227 billion tax on oil *production*, of which not a cent is likely to go anywhere useful.

The words of my friend, an independent oil and gas producer from the Rocky Mountain region, still echo in my mind: "I have come to the sad conclusion that the administration in Washington is a greater threat to our way of life than the Soviets ... And the Soviets I regard as a major threat."

The bill's background

Let's look at the background to the present tax bill. Recall last April, when our President went up on the mountain and summoned all the "wise men" in the nation to counsel him on the energy crisis. Robert O. Anderson of Atlantic Richfield went up on the mountain. He heads the Aspen Institute, a British-controlled zero-growth strategy center. Also present was Dr. John Sawhill, then president of New York University. He is also a key policymaker at Aspen's Energy Committee meetings, and sits on the Trilateral Commission and the New York Council on Foreign Relations, which drafted Carter's "controlled disintegration" policy. Sawhill personally helped draft that policy, and its provision to use energy as the "choke point" against economic growth. After the summit, Schlesinger left, and Sawhill became number two behind Charles Duncan at the DOE.

What sort of energy legislation did you expect from such "wise men?" Artificial shortages of gasoline created temporary line-ups at the pumps in selected locations around the nation at the inception of the "Iran crisis." Then came a "stick and carrot" proposal. First, the carrot: promised lifting by phases of the 1971 oil price controls on domestic crude production. To a credulous nation, Carter declared this would encourage domestic oil production. Hs was lying. Then the stick: money-hungry oil companies' profits would be curtailed through a windfall profits tax, to

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provide hundreds of billions for a domestic synthetic fuels industry.

This went through some changes in the ensuing congressional floor fights. By the time the House was ready to vote on a version this month, more than 60 percent of the revenues from production of decontrolled oil were to be allocated to permit a tax cut to households.

The economics of this, as Rep. Bill Archer (R-Tex.) correctly pointed out in floor debate, "threatens to cripple our production and drive our economy toward chaos. It isn't a plan to produce more oil." Archer added, "It will prevent the production of billions of barrels of oil." Archer led the floor fight to restore a 1,000 barrel/day exemption to independent producers. This failed.

C. John Miller, president of the largest association of independents, the Independent Petroleum Association of America told Congress that the huge tax, up to 70 percent of some categories of domestic wellhead production, is "disastrous tax policy because it will inhibit production which is vital and scatter billions in non-productive government 'giveaways' which will exacerbate an already intolerable inflation."

The House rejected by 232-180 an effort to include a plowback provision for a tax credit of up to 75 percent for producers to reinvest their profits in further oil exploration. Moreover, the administration insured this would fail. That, after all, would have defeated the point of the bill: controlled disintegration of the economy using energy as the "choke-point."

Instead, the Administration successfully divided and conquered. A unified opposition from both majors and independents was broken wide-open last winter when the majors, whose profits derive mainly from OPEC and foreign liftings—and that mainly from "downstream" refining and marketing, not actual production—were given a carrot. The administration agreed to exempt them from any tax on their foreign imports in return for their break with the 1,000-barrel exemption for independents. The majors, Exxon, Shell, Gulf, Texaco and the like, suddenly dropped opposition to the administration bill. Independent producers howled, "foul." And the CFR scenario moves closer to implementation.

A reorganized industry

A word about the domestic oil industry will help clarify this otherwise paradoxical move by the administration. Through a series of I.R.S. tax rulings and legislative moves beginning during the 1973-75 OPEC price hike period, a massive structural reorganization of the domestic oil industry was affected. Major oil companies shifted production into Saudi Arabia and other countries following their successful creation of OPEC. Independents, who tended historically to function as the vital adjunct of domestic majors in risk-taking and exploration for new oil, were left with an increasingly adverse situation. Although more than 50 percent of all oil we consume is produced domestically, and some 83 percent of all new domestic exploration and wildcats are drilled by these smaller partnerships, known as independent producers, every government action over recent years has had the express aim of driving them out of the business of producing energy. I am prepared to make the case that this has been entirely deliberate on the part of the policymakers in the major New York commercial banks and their cronies on the boards of Exxon, et al. Their profit picture is enhanced if they can limit production.

The ranks of independent producers has dwindled in recent years under these adverse legislative and administrative rulings from well over 40,000 to just over 10,000. Despite the promise of price decontrol, more will be forced to go under as the economy collapses under 20 percent interest rates and such disincentives as the latest Windfall Profits Tax.

I have talked with and personally met literally hundreds of independent producers over the months. I have developed a good deal of personal affection and respect for them as one of the hardest-working, most committed groups of entrepreneurs dedicated to production in the nation. Their patriotism is genuine an

But they will disappear, and our economic way of life along with it, unless we realize the larger strategy and deliberate intent of groups such as the Council on Foreign Relations and its subsidiaries such as the Trilateral Commission to destroy anyone committed to actual energy production. The same people who sit on the boards of Exxon, Atlantic Richfield, et al., conduit millions of dollars to fund anti-energy "environmentalist" operations which contribute to driving genuine energy producers out of business.

Next week, we will examine the "environmentalist" side of this controlled disintegration crowd more closely.