

Should Big Oil pay extra taxes on record-setting profits?

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What's happening

President Biden on Monday raised the possibility of [levying a new tax](#) on oil company profits unless they ramp up production to bring down the price of gasoline.

“It’s time for these companies to stop war profiteering, meet their responsibilities to this country, give the American people a break and still do very well,” he said.

Major oil companies have enjoyed record profits over the past six months amid persistently high gas prices, which have remained stubbornly high thanks to inflation and to supply shortages caused by sanctions imposed on Russia’s oil industry, after Russia’s invasion of Ukraine. The president also rebuked the companies for [spending as much as \\$100 billion](#) on dividends and stock buybacks aimed at boosting returns for shareholders, rather than using that money to increase production.

Unless they change their behavior, Biden suggested big oil companies should “pay a higher tax on their excess profits.” This idea is the core of what’s commonly called a windfall tax. Though details vary, windfall taxes typically impose extra charges on companies that are enjoying a major surge in profits — often due to external circumstances that are outside their control.

Windfall taxes were used in the U.S. during both world wars to increase funding for the war effort from industries that were profiting from the huge increase in manufacturing at the time. A similar tax was imposed on oil companies during the gas crisis in 1980 and lasted for eight years. It was repealed after prices had stabilized.

Many progressive Democrats have been [pushing for a windfall tax](#) on oil profits for months, but proposals introduced in Congress earlier this year failed to gain momentum. Recently, [several European countries](#), along with the [European Union](#) itself, have imposed windfall taxes on energy companies as the continent contends with a massive spike in energy costs after cutting off imports from Russia.

Why there's debate

Proponents of a windfall tax say the greed of fossil fuel companies, as much as any other economic factor, is what’s keeping gas prices so punishingly high. “This is just rank price gouging,” [California Gov. Gavin Newsom](#), a Democrat, who has proposed a statewide windfall tax, told reporters earlier this month. Others argue that a windfall tax would encourage oil companies to invest in increasing drilling capacity, rather than spending billions on enriching their stockholders, which would increase supplies and drive down prices at the pump.

Critics of the idea say punishing companies for making money is anti-competitive and likely to cause gas prices to increase, not decline. They argue that companies are unlikely to invest in new energy projects if they know that they’ll have to surrender a large share of the money they make if that investment pays off. Less investment, they argue, will reduce the supply and ultimately inflate prices. Others say Biden’s proposal is a purely political move aimed at trying to deflect blame for sky-high inflation, which polls show is the one of the [most important issues](#) for voters heading into next week’s midterms.

What's next

Only Congress has the power to create new taxes. Most political experts say that there probably aren't enough votes to pass a windfall tax right now and that the idea will be all but dead if Republicans take control of one or both chambers of Congress after the midterms. The proposal may have stronger odds in deep-blue California. The state legislature is scheduled to hold a special session on the issue next month.

Perspectives

Supporters

Oil companies are exploiting a crisis to enrich themselves at consumers' expense

"Big oil companies could absorb the higher costs of crude oil. The reason they're not is because they're so big they don't have to. ... It's the same old story in this country: when crisis strikes, the poor and working class are on the frontlines, while the biggest corporations and their investors and top brass rake it in. What to do? Hit big oil with a windfall profits tax." — Robert Reich, [Guardian](#)

A windfall tax would reverse incentives that reward oil companies for keeping prices high

"Currently, oil companies earn more money when the prices they can charge rise. But if the tax rate of oil companies went up along with the price of oil, the windfall would be recaptured and could then be returned to American consumers." — Patrick Gaspard, [CNN](#)

Concerns that the tax would cause prices to rise are unfounded

"Only the excess profits from oil company manipulation would get taxed, so not a dime would be passed to drivers. Setting a permanent cap on oil refiners' per-gallon profits is the only thing that will rein in the gouging." — Jamie Court, [Mercury News](#)

Big Oil did nothing to deserve the massive profits that are currently pouring in

"Oil companies have reported huge profits, not due to anything meritorious on their part but due to an increase in demand for oil as the world economy revived and because of the Ukraine-Russian conflict." — Alan Gin, economist, to [San Diego Union-Tribune](#)

Windfall taxes only work in extreme circumstances. The current situation may qualify.

"Even those who think that taxing extraordinary profits generated by current crisis conditions is a worthy goal should realize that historically, such levies seem to work mainly during short-term crisis moments, such as the one we may be witnessing today. Their long-term longevity is hardly guaranteed." — Ajay Mehrotra, [Washington Post](#)

Opponents

A windfall tax would backfire, causing even more pain at the pump

"In practice, imposing a tax on the earnings of energy companies likely would backfire, leading to less — not more — oil and gas production." — Bernard L. Weinstein, [The Hill](#)

The government shouldn't be allowed to decide how much profit counts as 'too much'

"The idea is one of the worst concepts imaginable. It lets government determine the proper level of profits that a company may earn, and then hammers them with a tax designed to punish them if they earn too much. It's an abuse of power, and it won't reduce gas prices." — Steven Greenhut, [Orange County Register](#)

American oil companies don't decide the price of oil in the first place

"Crude oil is globally traded. American crudes are purchased by foreigners, and foreign crudes are purchased by Americans. If American oil companies were working alone to hold up their prices, it would fail immediately because every other country's oil would undercut them." — Dominic Pino, [National Review](#)

U.S. energy policy needs long-term thinking, not drastic reactions to short-term problems

"We ignore this issue entirely, until there's a big price spike. And then everybody runs around yelling about how outrageous this is, instead of actually having a serious policy discussion of what's the right way to deal with this." — Severin Borenstein, energy economist, to [CalMatters](#)

It's silly to view the economy through a moral lens

"If they're able to profit from the unusual market situation, it's because they invested in the past in equipment, technology and know-how to be ready. When they made those decisions, they knew that the 'lucky' scenarios might never pan out. But they took that risk in the hope of a reward — and on the assumption that governments wouldn't seize that reward arbitrarily. Trying to assign moral grades to such investments leads nowhere." — Andreas Kluth, [Bloomberg](#)