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Shale taxers disregard Bastiat's lesson

By Colin McNickle

It was 19th-century French economist Frederic Bastiat who reminded that "an act … gives birth not only to an effect, but to a series of effects."

"Of these effects, the first only is immediate; it manifests itself simultaneously with its cause -- it is seen," Bastiat wrote. "The others unfold in succession -- they are not seen: it is well for us if they are foreseen."

Unfortunately, those who again are pushing for a severance tax on shale natural gas in Pennsylvania have chronic poor foresight.

Democrat Gov. Tom Wolf's proposed Fiscal 2017-18 budget calls for a 6.5 percent shale gas extraction tax. (A tax credit would be offered to offset the existing impact fee.) His past two budgets sought a 5 percent severance tax, plus 4.7 cents per thousand cubic feet.

"While proponents of the severance tax are quick to point out that Pennsylvania is the only major gas producer without a tax on the value of gas produced, they fail to mention that the commonwealth is the only state with an impact fee," note Frank Gamrat and Jake Haulk, scholars at the Allegheny Institute for Public Policy (*in Policy Brief Vol. 17, No. 10*).

And they also fail to discuss the damaging effects of a new extraction tax.

"If the severance tax passes at the proposed rate, Pennsylvania would go from not having such a tax to having one of the highest rates in the nation," the Pittsburgh think tank researchers say.

And that would be a major disincentive to drill in Penn's Wood.

Furthermore, the tax will lead to lower mineral rights payments for property owners.

"Most royalty payments made by producers … contain deductions for a severance tax," Gamrat and Haulk remind, and that implies lower income tax revenue for the state.

Not to mention a disincentive for property owners to sell those mineral rights.

And even with offering producers a tax credit to offset the impact fee, Gamrat and Haulk say it will further underscore Pennsylvania's status as being unfriendly to business and lower not only the profitability of gas production in Pennsylvania but the incentives to produce gas in the Keystone State as more business-friendly states capture a larger share of expanding production.

"For example, Ohio and West Virginia have lower tax rates and also sit on Marcellus and Utica shale formations," the Allegheny Institute researchers note.

"At a time when the industry is just recovering from low prices and a subsequent reduction in its workforce and drilling activity, there needs to be encouragement for growth, not more disincentives as represented by a severance tax," Gamrat and Haulk stress.

Back to Bastiat.

The great French economist also reminded that "the sweeter the first fruit of a habit is, the more bitter are the consequences."

Consider it the malady of politicians who, blinded by a supposedly "easy" revenue source, inexplicably believe that the fundamental laws of economics don't apply to their business-retarding actions.

Bad economists, as with bad pols, promote a small, immediate good that invariably is followed by a larger and longer term evil. Good economists -- and good pols -- pursue and promote the greater good to come at the risk of a lesser present evil.

"Experience teaches effectually, but brutally," Bastiat warned. That the Wolf administration repeatedly cannot seem to learn this fundamental lesson indeed is troubling.

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