WORLD BUSINESS ACADEMY
*Sharing the Vision... Building the Network... Healing the Planet*

# PERSPECTIVES


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## Windfall Profits Tax

*Give it back!*

Just what is a "Windfall" or "Excess Profits Tax"? The words "windfall profits" is your first clue. Wikipedia defines an excess profits tax as "a tax on any profit above a certain amount." The definition clarifies that his fiscal instrument is typically used in a wartime setting and is designed to capture the upside profits that occur in wartime compared to peacetime to "prevent the perverse incentives for manufacturers to engage in war profiteering and warmongering." War profiteering. Doesn't that sound a lot like what the oil companies have done since just before the Ukrainian invasion, by outrageously jacking up gasoline prices at the pump? It sure does to many neutral parties who have looked at it. Clearly, prices at the pump have been only going up over the last 5 months and are continuing their wild rise even as this column is being written.

The profits being earned by those same oil companies are proving to be egregious. USA Today reported that, through just March of this year, "Shell's adjusted earnings rose to $9.1 billion from $3.2 billion in the same period last year—that's 284 percent higher." Guess what, the second quarter ending this month will undoubtedly show an even higher number! BP also posted astronomical profits in the first quarter rising from $2.6 to $6.2 billion – yes "billion" with a "b"—or 238 percent over last year's first quarter. Exxon experienced similar windfall revenues in the same period as profits rose by153 percent, from $59.15 billion to $90.5 billion; and, Chevron, not to be outdone by the other thieves on this list, saw its quarterly profits rise from $1.4 billion to $6.2 billion, a whopping 447 percent!

Yes, that is thievery. No legitimate company operating in a free market can earn that much extra so rapidly for any other reason than theft. Theft premised on the wartime demands of the civilian population. Their costs didn't go up exponentially—just their enormous revenues and profits did! To fully appreciate how oil companies are intentionally manipulating the public at the pump, let's look at other wartime actions, and as you do, keep the words "war profiteering" in mind.

After a brief experiment by the Confederate Congress and the State of Georgia in 1863, the US Congress first enacted an excess profits tax in 1917. This new tax had rates ranging from 20 to 60 percent on the profits of all businesses in excess of peacetime earnings. Congress was sending a message that war profiteering should not be allowed to go unchecked. In a similar World War II crisis, Congress passed four excess profits statutes between 1940 and 1943. The 1940 rates ranged from 25 to 50 percent, and the 1941 rates ranged from 35 to 60 percent. In 1942, a flat rate of 90 percent was adopted, with a postwar refund of 10 percent. In 1943 the rate was increased to 95 percent, with a 10 percent refund at the end of the war. Profits in "excess of peacetime earnings" motivated the Congress to act in each instance and should signal all of us now. (Great Britain has had similar war profiteering excesses to deal with and so enacted its own excess profits tax, as have other nations from time to time.)

Huge additional profits, usually earned during wartime when certain goods become more scarce or are able to be manipulated more easily by pricing rises, should be taxed because those are not legitimate profits. In these cases, the public is owed a "refund" in the form of a windfall tax on those excess profits.

What do all these examples have in common? The following elements: 1) an actual war (like the current one in Ukraine) created an artificial scarcity that certain unscrupulous companies (like oil companies) took advantage of; 2) the levels of profit created by this artificial market manipulation at the cost of a suffering civilian populace were dramatically higher than the immediately preceding peacetime profit levels of those same companies in those same industries; and 3) the only way to balance the needs of society with the rapacious greed of these companies was to tax the excess profits and return that money to the treasury. In this sense, a windfall or excess profit tax is: "an extra tax levied on business profits or income above a specified acceptable rate of profit." Often, these exceptional profits are synonymous with "war profiteering." If you don't think that "fits" with what we are witnessing today, look closer and you may be surprised to find out that, yes, history does repeat itself. During times of war, some companies do take advantage of us. And some industries have a particularly bad record of doing so, over and over again.

Three questions arise: 1) How should we calculate a windfall profits tax today in the U.S.A.? 2) How would we collect it and use it these proceeds? and 3) Would doing so bring prices at the pump and the grocery store down immediately?

The first answer is mathematically fair and easy: take the average profit earned each quarter by quarter over the last 10 years by the same companies that will be paying the excess profit tax and assume everything above that average is a war profiteering windfall gain (because it is). The answer to the second question is similarly straightforward: pass a tax equal to 90 percent of all the windfall gains each quarter (retroactive to the beginning of the Ukrainian invasion) and have the IRS collect it. Then, return every penny of those proceeds to the public at large, on a quarterly basis just the way the State of Alaska sends an oil royalty to every citizen each year based on the amount of oil extracted from Alaska each year. The third question is particularly fun to answer: you bet it would bring prices at the pump down almost immediately because the incentive to continue stealing from customers will evaporate, and the oil companies will seek to stop getting horrible public relations for virtually no economic gain to pass on to their shareholders. Better yet, since nearly everything we eat relies on trucking to reach our shelves, the decrease in diesel prices will bring food prices down too!

The solution to pain at the pump and the supermarket from excess oil industry profits during this oil "crisis" is as elegant as it is simple: Give It Back!

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