

Let's Tax DC Windfall Gains

Windfall: an unexpected, unearned, or sudden gain or advantage.

Every so often, when oil and gasoline prices spike higher, US oil companies make a boatload of money. Given their size – in terms of both revenue and assets – and given the cost of exploration and the volatility of the commodity they work with, this ought to be no big deal.

But it always is. When oil companies make a lot of money, populist politicians get angry and often demand “windfall” profits tax on “Big Oil.”

We have never understood this because when these oil companies make big profits (that they hope for when drilling for oil), they pay big taxes. So when oil prices go up the real windfall goes to the government.

The reason this comes to mind is that recently the oil companies haven't been doing so well. Their profits are way down from where they were a year ago. In fact, earnings for just about every kind of private economic activity are way down. Some regions of the country, like Michigan with the auto industry or Nevada, Arizona, or Florida because of housing, are hurting even more than the average.

This has hurt tax revenues and you would think that this would hurt the government. But when borrowing dries up for the rest of the country, Washington DC starts taking out loans like they grow on trees. It doesn't matter that tax revenues are down. Government is bucking the trend and booming anyway. Washington DC gets to make its own windfall.

It's amazing, but 15% of what the federal government spends is spent in the Washington, DC area. No wonder that the unemployment rate in the DC-area is only 6.2%, the lowest of any metropolitan area in the country. Or that in the past decade, home prices in the DC-area are up more than in any other metro-area in the country, save New York City, which – given the power shift away from Wall Street – doesn't look like it will be able to keep pace with DC in the next ten years. In fact, DC home prices were up in April and May, while New York City home prices fell.

So, why not impose a windfall profits tax on the place that really earns a windfall profit: Washington, DC? No other region or industry in the country has the ability to command the resources of every other region and industry at a whim. If there was such an entity, Washington politicians would have put an end to it long ago, probably with a windfall profits tax.

Even better. Why not use the money generated by an extra levy on the DC-area to assist other sectors that are down? Only last year, oil was trading at \$120 per barrel; now it's roughly \$70/barrel. If the government is going to threaten a windfall profits tax in good times, why not give them a subsidy when times are relatively tough?

Just think, next year, if nationalized healthcare gets enacted and DC amasses even more power, a windfall profits tax on the DC area could help subsidize those awful pharmaceutical and insurance companies who will finally be getting what they deserve.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------------|-------------------------------|-----------|-------------------|--------|------------|
| 8-3 / 9:00 am | ISM Index - Jul | 46.5 | 49.0 | 48.9 | 44.8 |
| 9:00 am | Construction Spending - Jun | -0.5% | -0.1% | +0.3% | -0.9% |
| <i>sometime</i> | Domestic Auto Sales - Jul | 3.3 Mil | 3.4 Mil | | 3.3 Mil |
| <i>during the day</i> | Domestic Truck Sales - Jul | 3.9 Mil | 4.0 Mil | | 3.8 Mil |
| 8-4 / 7:30 am | Personal Income - Jun | -1.0% | -1.5% | | +1.4% |
| 7:30 am | Personal Spending - Jun | +0.3% | +0.6% | | +0.3% |
| 8-5 / 9:00 am | Factory Orders - Jun | -0.9% | -0.5% | | +1.0% |
| 9:00 am | ISM Non-Man. - Jul | 48.0 | 49.0 | | 47.0 |
| 8-6 / 7:30 am | Initial Claims - Aug 1 | 580K | 570K | | 584K |
| 8-7 / 7:30 am | Non-Farm Payrolls - Jul | -325K | -190K | | -467K |
| 7:30 am | Manufacturing Payrolls - Jul | -100K | -100K | | -136K |
| 7:30 am | Unemployment Rate - Jul | 9.6% | 9.6% | | 9.5% |
| 7:30 am | Average Hourly Earnings - Jul | +0.1% | +0.1% | | 0.0% |
| 7:30 am | Average Weekly Hours - Jul | 33.0 | 33.1 | | 33.0 |
| 2:00 pm | Consumer Credit - Jun | -4.7 Bil | -\$5.3 Bil | | -\$3.2 Bil |