

IOWA ECONOMIC SCORECARD

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The “Drill Nothing” Congress and Bubbling Crude

by Deborah D. Thornton

“Up through the ground came a bubbling crude, Oil, that is, Black Gold, Texas Tea...”¹ The idea that the oil which made Jed Clampett rich on the 1960’s TV show, *The Beverly Hillbillies*, just “bubbled” up from the ground, with no help from humans, is not far from reality. According to data from the National Research Council, the number one source of crude oil pollution off the coasts of the United States is “Mother Nature.”² Oil pollution is caused by natural seepage 60 percent of the time, not by oil companies. In addition, improvements in management and technology have reduced accidental spillage from offshore drilling rigs to one percent in North America, and three percent worldwide. This is with about 8,300 offshore platforms.³ Oil spills from transport ships are also down significantly, by nearly two-thirds from 1990 to 1999. On an annual basis, only 17 million gallons are spilled worldwide and only 2.5 million gallons in U.S. waters, which is less than 4 percent of the total shipped.⁴ This is while the number of ships has increased to 7,270, carrying a large portion of the almost 12 million tons (3.5 billions of gallons) of oil “bubbling up.”⁵

As Congressman Ted Poe (R), from Beaumont, Texas, said recently, “we should not be punishing America by refusing to drill offshore. We should drill offshore because we can do so safely.”⁶ He further stated that it is not the nations of OPEC or the dictator of Venezuela, Hugo Chavez, who are holding Americans hostage to high gas prices and potential economic recessions, but the “Drill Nothing” Congress.⁷ For example, when Speaker of the House of Representatives Nancy Pelosi and the Democrat-controlled Congress took office in January 2007, the average price per gallon of gasoline was \$2.17. Since then it has risen by 89 percent.⁸ On July 4, the anniversary of our nation’s founding, the national average price per gallon was \$4.10.⁹ In Iowa, the regular grade average price was slightly lower at \$3.97.¹⁰ These facts have given rise to Congressman Poe’s comments, and the charge of the “Pelosi Premium” on gas. Congressman Roy Blunt (R-Missouri) notes that the historical voting record shows that Democrats have consistently opposed developing American oil and gas resources, voting against development legislation from 78 to 91 percent of the time over the past 14 years. This includes drilling in the Arctic National Wildlife Refuge (ANWR), developing the Outer Continental Shelf, and increasing refinery capacity.¹¹

An editorial in the *Investor’s Business Daily* on July 3, 2008 concisely outlines facts and fallacies about the oil situation. Currently the U.S. produces only 8 million barrels of oil per day. However, there are some 39 billion barrels of oil in conventional U.S. deposits, some 89 billion offshore, and 10 billion or more in ANWR. The increase in production from these untapped sources could be 3 to 4 million barrels per day. This 50 percent increase in domestic production would impact prices.¹² According to some experts, this could bring prices down by at least \$1.95.¹³ We have oil on our own land and in our own waters. Yet the Democrat-controlled Congress refuses to allow drilling. According to Rasmussen Report poll numbers Congress currently has a 9 percent approval rating, the lowest in history.¹⁴

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Some argue that even if we start drilling today, the oil will not be available for 10 years. However, history shows that just the announcement of increased drilling significantly affects prices. For example, President Reagan removed domestic oil controls shortly after he was inaugurated, and prices fell from \$34 per barrel to \$11 within 5 years.¹⁵ In contrast, President Clinton first refused to allow ANWR drilling in 1995, and Congress rebuffed President Bush in 2002 when he tried to remove the prohibition. Six years later, prices are hovering at \$140 per barrel and Congress has a 9 percent approval rating.¹⁶

The price of gasoline is clearly affecting driver behavior, as Americans drove 4.4 billion fewer miles in April 2008 than in April 2007. This was the sixth month in a row in which miles driven decreased, when compared to the same month in the prior year, and a total of over 20 billion fewer miles driven since January 2008.¹⁷ In Iowa, the April 2008 miles driven went down even more, by 3.8 percent, to 2.5 billion in 2008 from 2.6 billion in 2007. This followed a 1.8 percent decrease in March.¹⁸

Using basic economic and free market principles, if the price is too high, consumers will use less of the product. If at the same time producers increase supply, the price will go down. American consumers understand this fact and are doing their part by being more efficient and driving less. Oil and gasoline producers are doing their part by drilling and shipping safely, both protecting the environment and providing a needed product in a timely manner. Unfortunately the "Drill Nothing" Congress does not understand these facts. Fortunately, the American voters will soon have the opportunity to enlighten them, if a 9 percent approval rating isn't enlightenment enough. Meanwhile, the "bubbling crude" is waiting.

(Endnotes)

¹ Theme Song, *The Beverly Hillbillies*, September 26, 1962, <www.tv.com/beverly-hillbillies/show/1370/summary.html> (July 2, 2008).

² *Oil in the Sea III, Inputs, Fates, and Effects*, National Research Council, 2002, p. 2.

³ Ibid.

⁴ Nancy Rabalais, "Oil in the Sea," *Issues in Science and Technology*, The University of Texas at Dallas, October 3, 2003, p. 3.

⁵ Rabalais, p. 6 and Oil, p. 2.

⁶ "Lesson for Today: Drill Offshore," Congressman Ted Poe, Washington, DC, June 24, 2008 <<http://poe.house.gov/News/DocumentSingle.aspx?DocumentID=95407>> (July 2, 2008).

⁷ "Drill Nothing Congress," Congressman Ted Poe, Washington, DC, June 18, 2008 <<http://poe.house.gov/News/DocumentSingle.aspx?DocumentID=94708>> (July 2, 2008).

⁸ Retail Gasoline Historical Prices, U.S. Department of Energy, <http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html> (July 7, 2008).

⁹ AAA Daily Fuel Gauge Report, <<http://www.fuelgaugereport.com/index.asp>> (July 7, 2008).

¹⁰ AAA Current State Averages, <<http://www.fuelgaugereport.com/sbsavg.asp>> (July 7, 2008).

¹¹ Paul M. Weyrich, *Oil Drilling Revolt?*, The American Conservative Union Foundation, July 10, 2008.

¹² “Energy Myths,” *Investors Business Daily*, July 3, 2008. <<http://www.ibdeditorials.com/IBDArticles.aspx?id=299988702247481>> (July 7, 2008).

¹³ Congressman Roy Blunt, “Gas Chart,” <<http://republicanwhip.house.gov/UploadedFiles/GasChart.pdf>> (July 10, 2008).

¹⁴ *Congressional Performance*, Rasmussen Reports, July 8, 2008, <http://www.rasmussenreports.com/public_content/politics/mood_of_america/congressional_performance/congressional_performance> (July 8, 2008).

¹⁵ Energy.

¹⁶ “Oil drops sharply as Mideast fears subside, Americans pay \$1 billion more for gas per day than they did five years ago,” Associated Press, MSNBC, July 7, 2008. <www.msn.com/id/12400801/> (July 7, 2008).

¹⁷ Traffic Volume Trends Report, U.S. Department of Transportation, Federal Highway Administration, Office of Highway Policy Information, April 2008, p. 3.

¹⁸ *Ibid*, p. 6.

“The Greatest Story Never Told”: Today’s Economy in Perspective

Excerpts from a speech given by Patrick Toomey, President of Club for Growth, and a former Congressman from Pennsylvania, at Hillsdale College, Michigan on January 29, 2008.

THERE IS a debate going on today over whether our economy is in recession. Polls show sagging public confidence. Some perspective is sorely needed. The fact of the matter is that we in the United States have just lived through—and continue to live in—the greatest period of prosperity in human history. Over the last 25 years, more wealth has been created, more people have been lifted out of poverty, standards of living have been elevated more dramatically, and the quality and length of life have improved, more than ever before in recorded history. We need to start telling the story, and also to think about its causes.

First, average economic growth in the U.S. has not only been positive for almost the entire last quarter century, but for much of this period the rate of growth has accelerated. Our nation’s total economic output in 1982 was \$5.1 trillion; in 2007 it was \$11.3 trillion (real 2000 dollars). Per capita economic output in 1982 was \$22,400; in 2007 it was \$37,807 (real 2000 dollars). The average unemployment rate in the 1970s was nearly seven percent; it has been declining, on average, every decade since, and has remained below five percent since 2003. The service sector of our economy has grown from \$1 trillion in 1982 to \$5.5 trillion in 2006.

This expanding economy has, of course, resulted in huge gains in wealth. For example, the Dow Jones Industrial Average began the 1980s at 825; today, it remains above 12,000, a 1,400 percent increase. In 1983, 19 percent of American households owned stocks; in 2005, 50 percent were investors. In 1989, the median family net worth was \$69,000; in 2004, it was \$93,000.

These gains in income and wealth have resulted directly in a better standard of living for virtually every segment of American society—including the poor. Among families living below the official poverty line in the early 1970s, less than 40 percent had a car, almost none had color televisions, and air conditioning was virtually unheard of; in 2004, 46 percent owned their own homes, almost 75 percent owned a car (indeed, 30 percent owned two or more cars), 97 percent had color TVs, and 67 percent had air conditioning. The poor in the U.S. have an average of 721 square feet of living space per person, compared with 430 in Sweden and 92 in Mexico. There were 9.8 million cable TV subscribers in 1975, and 65 million in 2006; 2.1 million personal computers in 1985, and 243 million in 2007; 340 cell phone subscribers in 1985, and 243 million in 2007.

Health indicators track similarly. Infant mortality dropped from 20 deaths per 1,000 people in 1970 to seven deaths per 1,000 people in 2002. In 1980, American life expectancy was less than 74 years. Today it is 78.

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Iowa's Monthly State Revenue:

Iowa's monthly state revenue for Fiscal Year 2008 stands at \$6,718.3 million in June 2008. For the fiscal year to date total gross cash receipts increased \$580 million (9.4 percent) compared to Fiscal Year 2007. Revenues collected in all tax receipts categories except Cigarette and Beer taxes increased.

Iowa's Estimated Net Yearly Revenue:

The Revenue Estimating Conference does not meet in July. The next report will be October 2008. Total revenues for 2008 were \$39.9 million above the FY 2008 estimate.

Source: Legislative Fiscal Bureau, "Monthly Revenue Memo," Revenue Estimating Conference Report

Iowa's Unemployment:

The U.S. unemployment rate in June was 5.5 percent. Iowa workers fared better with a rate of only 4.0 percent. This is up slightly from 3.8 percent in June 2007. Iowa's Workforce Development reported that total employment in June fell to 1,605,400 from 1,614,300 in May. However, this is 8,000 more people working than June of 2007. The number of workers on unemployment was 67,000, up 4,400. This increase was attributed to the extraordinary flooding during June. Education and health services area had the most job growth.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate" News."

Consumer Confidence Index:

As of the June 2008 report, the Consumer Confidence Index (CCI) has continued to drop to a 16 year low of 50.4 nationally. Consumers in the Iowa region, however, have more confidence in the economy, increasing the ranking from 55.1 in May to 68.5 in June. Nationally the CCI has dropped by over half, by 54.9 points from June 2007 to June 2008. The Conference Board reported that the "expectation index" has fallen to an all time low of 41.0.

Source: Conference Board, "Consumer Confidence Survey."

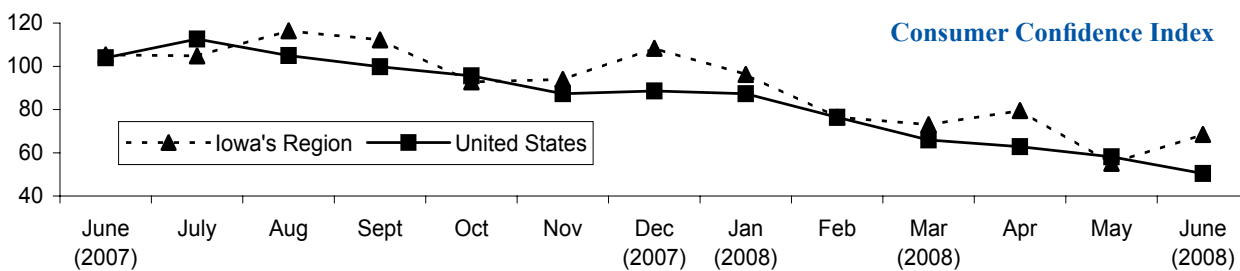
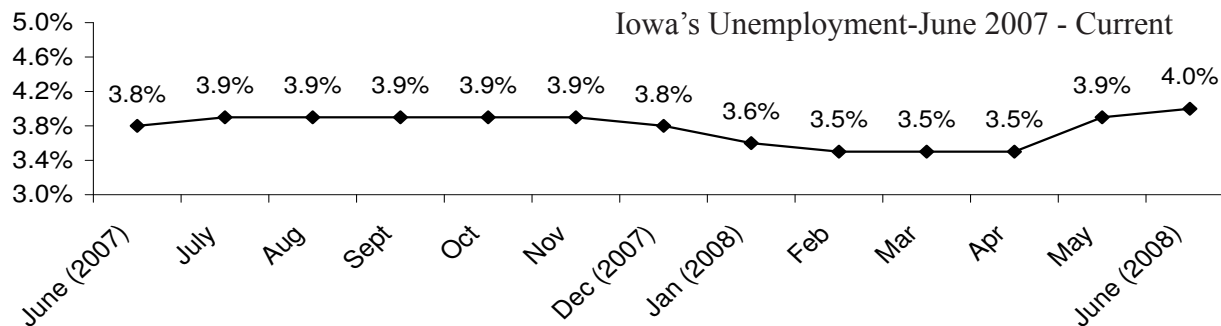
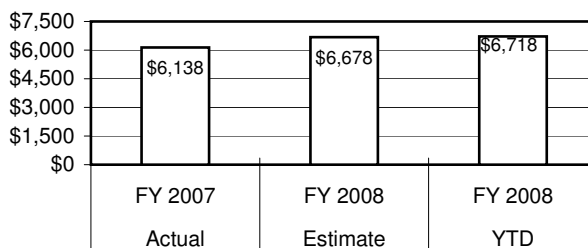
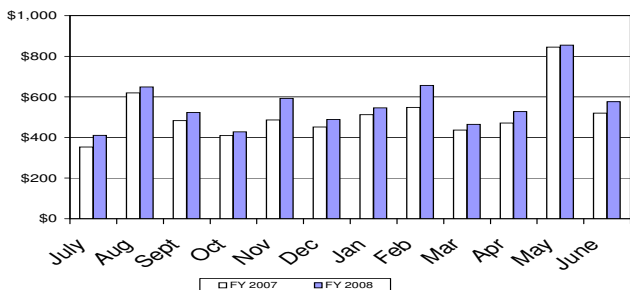
Consumer Price Index, Monthly Change:

The seasonally adjusted Consumer Price Index for urban consumers increased 1.0 percent in June 2008, driven sharply by the energy index, which increased by 6.6 percent. This accounted for around two-thirds of the total increase. In May prices had increased by 4.4 percent. For the second three months of the year the seasonally adjusted rate was 7.9 percent, compared to 4.1 percent for all of 2007. In the Midwest the increase was greatest in the non-metropolitan (less than 50,000 people) areas, at 5.5 percent from June 2007 to current.

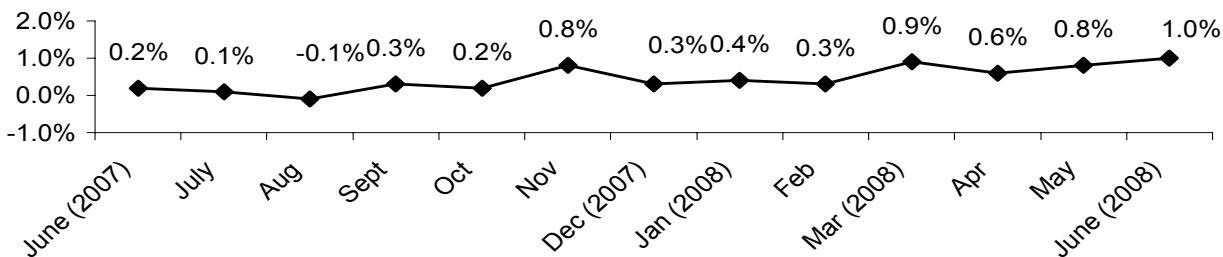
Source: U.S. Department of Labor, Bureau of Labor Statistics

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Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Consumer Price Index, Monthly Change



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Keys to Prosperity

This long period of sustained economic growth and the huge quality-of-life improvements it made possible didn't happen by accident. They were a result of a major expansion in economic freedom. This expansion took many forms, but three of the most important were a dramatic reduction in marginal tax rates, a series of major deregulations, and a broad expansion of trade. After decades of top marginal tax rates from the 70s into the 90 percents, President Reagan signed the Economic Recovery Tax Act of 1981. The top marginal rate was reduced from 70 to 50 percent, then down to 28 percent. The top corporate tax rate was reduced from 34 to 28 percent, individual tax brackets were indexed for inflation, and the devastatingly high top marginal tax rates were gone. The current President Bush lowered taxes very effectively in 2003. The effect was to lower marginal tax rates, phase out the death tax, offer marriage penalty relief, and lower taxes on capital gains and dividends.

Major deregulation was another part of the expansion of economic freedom that has enabled 25 years of strong growth. President Carter signed the Airline Deregulation Act of 1978, lifting controls that had forced higher prices on consumers. This resulted in ten to 18 percent lower fares, saving travelers \$5-\$10 billion a year. Carter also signed the 1980 Motor Carrier Act, deregulating an industry that had been closely controlled by the government since 1935. Prices for truckload-size shipments fell 25 percent by 1982. President Reagan eased or eliminated price controls on oil and natural gas, cable television, long-distance telephone service, interstate bus service, and ocean shipping.












More recently, economic freedom has expanded in the form of freer international trade. In 1993, NAFTA eliminated a majority of tariffs on products traded among the U.S., Canada, and Mexico. In 2004, CAFTA eliminated tariffs immediately on more than 80 percent of U.S exports of consumer and industrial goods to Central America. Since 1985, we've had bilateral or multilateral trade agreements with 16 countries. International trade is freer today than it has been at any time in the last 100 years.




Why Turn Back?

This "greatest story never told" is indeed a tremendous story. It's the story of the fastest-growing period of prosperity—and the most dramatic mass elevation from poverty—in the history of the world. And it's all been possible because the U.S. and other countries have been moving toward greater economic freedom. In light of this story—which, to repeat, is ongoing, it is utterly perplexing that so much of the election year rhetoric of late is aimed at reversing our economic course. For instance, it's hard to find a domestic policy that can be proven to be as successful as the Bush tax cuts. It's simply a matter of fact that these tax cuts shifted the tax burden substantially to higher income earners and took millions of lower income workers off the tax rolls altogether. The economy took off and ran for at least five years after implementation, and the federal deficit shrank dramatically after the tax cuts were enacted. Yet calls to reverse these tax cuts abound.

For the Democrat Party, of course, there are other reasons for rolling back economic freedom. One is the powerful special interest groups within its coalition—organized labor in particular—which rely on government for special treatment and benefits they could never obtain in free and fair market-based negotiations. But if we can expect Democrats to resist economic freedom, how do we explain the timidity on the Republican side to defend the economic ideas that have fueled recent advances in prosperity? The answer is that most politicians are ultimately motivated by their perceptions of public opinion. And despite the evidence, the public doesn't seem to realize the period of unprecedented progress we are in.

CURRENT IOWA ECONOMIC INDICATORS

Latest Economic Indicators	Updated as of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	5/28/2008	40,191	+0.1%	Y-T-D Apr 07-Apr 08
 Housing Permits	7/18/2008	3,098	-28.3%	Y-T-D May 07-May 08
 Existing Home Sales	05/21/08	57,600	-5.3%	4th Qtr 07 - 1st Qtr 08
 Total Resident Jobs	7/18/2008	1,605,400	-8,900	May-June 2008
 Non-farm Employment	7/18/2008	1,522,100	-3,400	May-June 2008
 Factory Jobs	7/18/2008	228,500	-1,300	May-June 2008
 Initial Unemployment Claims	7/18/2008	24,775	+65.8%	May-June 2008
 Jobless Rate	7/18/2008	67,000	+0.1%	May-June 2008
 Personal Income per Capita	3/27/2008	\$35,023	+7.0%	2006-2007
 Exports of Goods	7/15/2008	\$2,899,340	+27.7%	1st Qtr 07 - 1st Qtr 08
 Farmland Values	6/6/2008	\$4,000	+17.0%	Apr 07 - Apr 08

-  Change is Insignificant
-  Change is Negative
-  Change is Positive

There is no July 2008 Revenue Estimating Conference Report. The next Report will be issued in October 2008.

Data from the Iowa Economy, Iowa Workforce Development News and Trends, <<http://www.iowaworkforce.org>> (July 18, 2008).

As a side note, the increasing lack of opposition to higher income taxes should not be surprising when an increasingly progressive tax code means ever fewer Americans are paying any taxes at all: In 2005, the top one percent of earners in the U.S. paid 39 percent of all income taxes, while the bottom 50 percent of earners paid just three percent. Over time, if half of the population believes that it is entitled to have someone else pay for government, we should not be surprised if public support for economic freedom continues to erode.

But that doesn't absolve politicians of the moral obligation to present the principled and true argument.

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Question of the Quarter:

Should the U.S. Congress act to allow more oil drilling offshore and in ANWR?

Send your thoughts on this issue to us at public.interest.institute@limitedgovernment.org.

Jeff and Karen Elliott from Burlington responded to our May question of the quarter on how they would use their economic stimulus check, saying: We will save our stimulus check. There is no doubt in our mind that with the election of any of the current Presidential candidates, we will have to send it all back and probably more.

We thank them for their response.



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