California's new Democratic supermajority will be sorely tempted to raise taxes and fees across the board, which I have earlier suggested is a bad idea politically. But that hardly means that it should reject new revenues altogether, and the easiest place to start would be an oil severance tax.

The oil severance tax works exactly like it sounds: it taxes producers based upon the barrels of oil they take out of the ground. California is one of the few oil producing states that lacks such a tax, mainly because of the 2/3 rule and nearly $100 million that the oil industry poured into defeating Proposition 87 on the 2006 ballot. California does have an "Oil and Gas Production Assessment," but that does not exist to raise revenue: it is calculated based upon the budget of the Department of Conservation's Division of Oil, Gas and Geothermal Resources, and is far smaller than a genuine assessment tax. By way of comparison, the state production assessment is roughly 8 cents a barrel: Sarah Palin's Alaska charges 25% per barrel, which goes into the Alaska Permanent Fund.

During the Proposition 87 fight, the oil industry charged that Proposition 87 would significantly increase gasoline prices — a nonsensical assertion, because oil is priced in the international market, not locally. The incidence of the tax, then, would fall heavily upon producers. (Proposition 87 also forbade producers from passing on the cost to consumers, a prohibition whose enforcement was not clear.).

That said, it is certainly plausible that a severance tax would in some way reduce private economic activity, because it would reduce producers' profit margin. That's why the UC Berkeley Center for Labor Research and Education included an assessment of the oil severance tax as part of a recent report on state finances. It concluded, using a legislative proposal as a baseline, that:

> An oil severance tax could raise $1.4 billion annually, based on Assembly analysis of AB 1604. We estimate such a tax would reduce economic output by $128 million, decrease state and local tax revenue by $9 million and result in the loss of 400 full-time equivalent jobs. California is the only major oil-producing state without a severance tax. The proposed severance tax rate of 10 percent in California compares to a rate of 25 percent in Alaska.

Note here that (as far as I can tell), the job loss is the cost based on the tax itself. So if the state uses those revenues to hire more teachers, or fire fighters, or home care workers, that number would be significantly reduced or even reversed. The question, then, turns on whether someone believes that public sector (or public-sector-supported) jobs are “real” jobs. I do, and obviously so do the majority of Californians, who voted for Proposition 30 on last week’s ballot.

Targeted taxes like an oil severance tax are extremely hard to pass through the initiative process, because those affected by it have an overwhelming incentive to fight them with everything they have. They are better accomplished by the Legislature. Now is the time.