

The Heritage Foundation **Backgrounder**

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UPDATE

WHY A GAS TAX IS NO BETTER THAN THE BTU TAX

(Updating *Backgrounder* No. 943, "Taxing America's Energy and Vitality," May 25, 1993, and *Backgrounder* No. 934, "The Flaws in Clinton's Energy Tax," March 18, 1993.)

"I was able to sell the Btu tax...on the basis that it was fair and balanced and was not solely based on the transportation sector. That reason is now gone."

Transportation Secretary Federico Pena,
The Washington Post, June 11, 1993.

"A gasoline tax... would tend to hit rural areas harder."

Office of Management and Budget Director Leon Panetta,
The Los Angeles Times, June 7, 1993.

"There is not regional balance in a gas tax. In some parts of the country, it becomes quite punitive. That's particularly true of those states that have substantial rural areas or don't have extensive mass transit."

Treasury Secretary Lloyd Bentsen,
The Dallas Morning News, June 7, 1993.

In an effort to salvage President Clinton's tax package in the Senate, members of the Senate Finance Committee are working hard to replace the much criticized \$71.5 billion Btu tax in the President's budget deficit reduction plan. Already passed in the House, the Btu tax met with stiff resistance from some Finance Committee members, and possibly would have led to the defeat of the package in the Senate. Finance Committee Senators are expected to replace a portion of the divisive Btu tax with a transportation fuels tax, known outside the Washington Beltway as a gas tax. Senator John Breaux, the Louisiana Democrat, had proposed a 7.3 cent per gallon tax, which would raise \$40 billion over five years. But as of June 17, the consensus in the Finance Committee appears to be that the tax increase probably will be 4.3 cents.

This revised proposal would harm America almost as much as the Btu tax that the Senate plans to jettison. Specifically, it would:

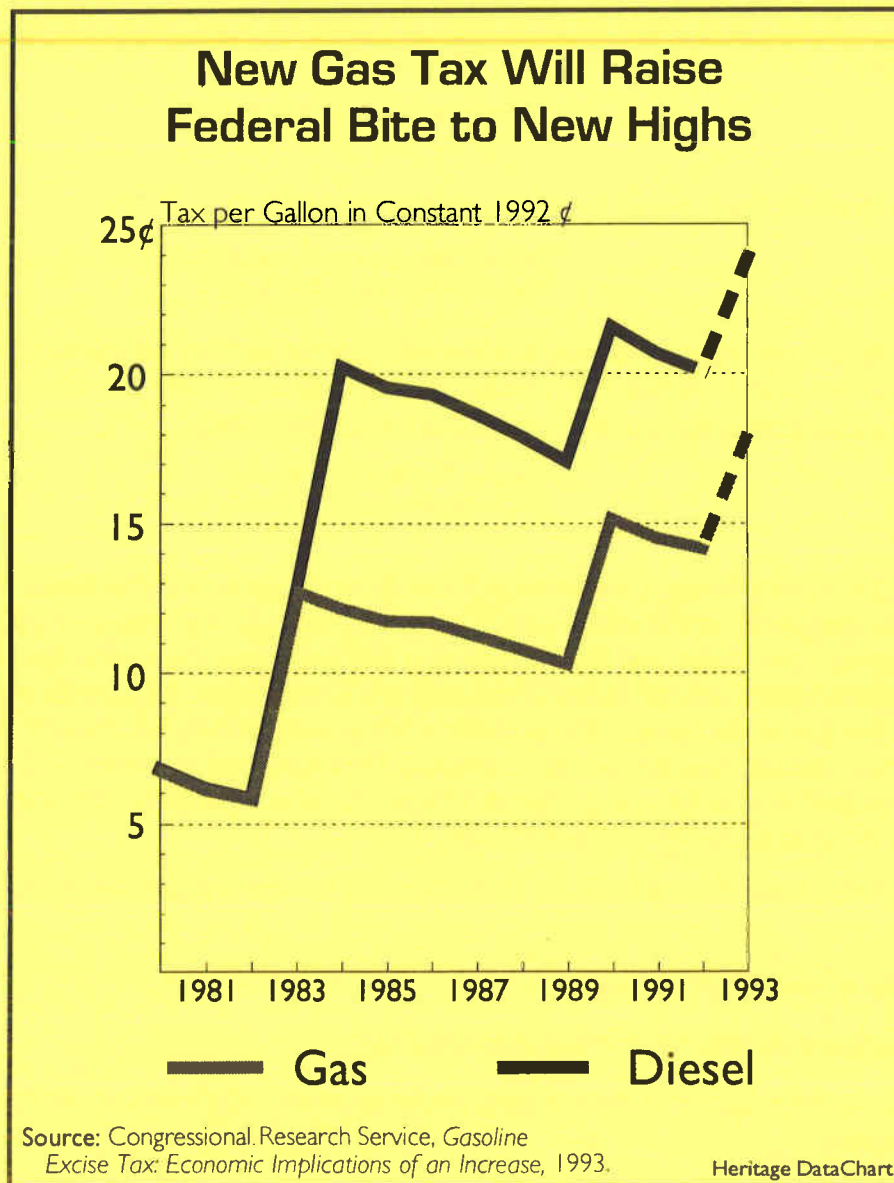
- ✓ raise the costs of driving for all families;
- ✓ burden rural and lower-income families disproportionately;
- ✓ burden the transportation sector of the economy, imposing an especially severe burden on the ailing airline industry;

- ✓ mean pink slips for workers, particularly for those working in auto or oil-related industries, because of a contraction in the economy;
- ✓ raise the prices of goods shipped to market; and
- ✓ hurt international competitiveness.

A gas tax is not a benign alternative to the ill-fated Btu tax. It is a heavy tax that simply would hurt the economy in different, but just as severe, ways as the Btu tax. And searching for one tax after another is not the solution to the deficit. The problem is spending. That should be the focus of Capitol Hill's efforts to get the deficit under control.

HURTING RURAL AMERICANS AND LOWER-INCOME FAMILIES

The brunt of the proposed gas tax would fall squarely on American families and businesses most dependent on transportation. In all, about 80 percent of the tax would be raised on highway gasoline and diesel fuel (which includes the trucking industry). Thus the current gasoline rate, which is just over 14 cents per gallon, would be raised by 30 percent. Similarly, diesel fuel, which currently is taxed at just over 20 cents per gallon, would be raised by 21 percent.



The families and businesses hit most heavily would be those living in rural areas. In a letter to then-President-elect Clinton, Robert Barrow, President of the National Grange, a family-oriented rural farm organization, explained that members of the average household in non-urban areas drive more than forty miles each day. Urban households, by contrast, put an average of only 25 miles each day on the odometer. Thus, rural families, particularly those in the West and South, would pay far more under a gas tax scheme than would urban drivers. In fact, drivers in Mountain and North-West Central states will pay 54 percent more in taxes than drivers in Mid-Atlantic states.¹

RURAL VS. URBAN: WHO LOSES THE MOST

Arizona

Take the example of a family living in Green Valley. The father commutes to Tuscon, 45 miles away, to work at an engineering firm. The mother works part time as a checkout clerk at the grocery store a few miles away. Their teenage daughter commutes as a day student at the University of Arizona three days a week. Their son drives to high school and to his job at a fast food restaurant.

Yearly Tax Increase at 4.3 Cents / Gallon = \$124.60

New York

An upper-income couple living in Westchester. Both husband and wife take the train every day into Manhattan, where he is a banker and she is a tax attorney. They use the car only to run errands and go on occasional weekend excursions. Their son takes the train to prep school for the week and occasionally drives to the Berkshires to ski.

Yearly Tax Increase at 4.3 Cents / Gallon = \$35.10

Barrow also stresses that the tax would be burdensome to the working poor, citing Census Bureau data indicating that over three-quarters of those Americans earning less than \$10,000 commute to work in privately owned autos. This conclusion is supported by the work of Heritage Foundation scholar Robert Rector, who notes that 62 percent of poor families own a car, and that 14 percent own two cars. Moreover, numerous studies, and data collected by government agencies, show that poorer families spend a disproportionate share of their expenditures on gasoline.

INCREASED TRANSPORTATION COSTS

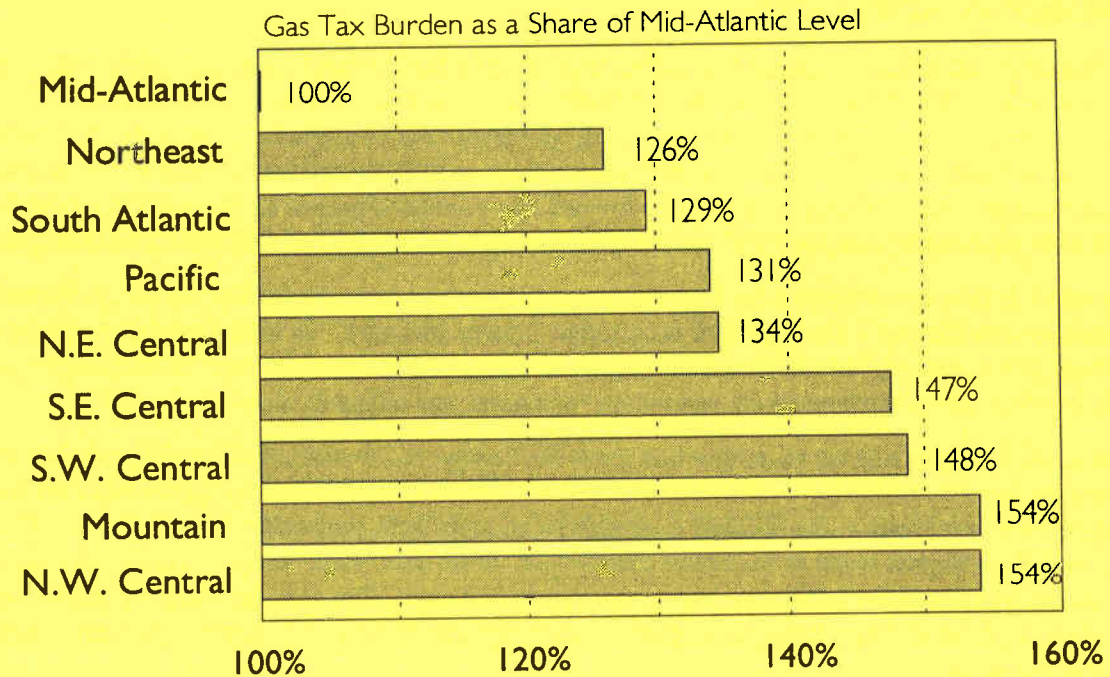
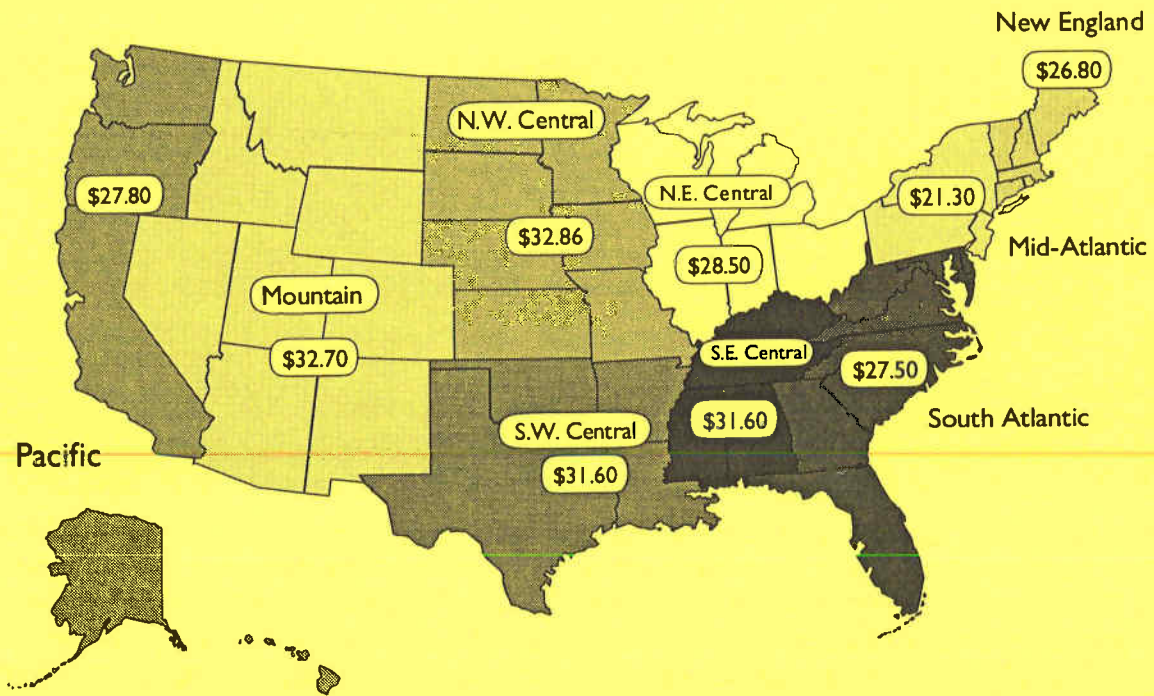
The ostensible reason for a transportation tax, rather than the Btu tax, is that fewer industries would be saddled with the tax. The Btu tax would have hit, among other targets, farmers, the aluminum industry, the timber industry, fisheries, the natural gas industry, state and local governments, non-profit organizations, and users of home heating oil. But the gas tax will simply burden other major industries and users, such as the airline industry, the merchant marine, and the trucking industry. According to Chris Chiames of the Air Transport Association, the tax will cost financially strapped airlines \$855 million per year based on last year's consumption.

According to one Clinton appointee on the President's panel on the struggling airline industry, formally called the Commission to Ensure a Strong and Competitive Airline Industry, "It seems totally perverse that the Congress and President created a blue ribbon commission to assist airlines and airplane manufacturers out of their plight and that they are now hunting for new ways to punish [the airlines] with a fuel tax."

The gas tax also will raise prices on all goods that must be transported to market. This will reduce Americans' purchasing power by transferring their wealth-building private sector expenditures to inefficient and wasteful governmental agencies. It will also give foreign competitors an edge both domestically and abroad. The reason: American firms will face higher costs in the home market and when exporting products sent by truck, rail, and ship, since the prices of goods will reflect increased transportation costs. But foreign competitors will not see their shipments to U.S. coastal cities increase in price. So foreign products will become relatively more attractive to stretched consumers.

¹ Letter from Robert E. Barrow, President, National Grange, to President-Elect Clinton, December 23, 1992.

Disparate Impact of 4.3¢ Gas Tax By Region: Mountain and Plains States Hit Hardest



Source: Heritage calculations, based on Highway Users Federation data, 1992.

Heritage DataChart

HOW THE TAX WILL COST JOBS

As with the Btu tax, a transportation tax will cost American jobs. The Congressional Research Service (CRS) finds that some of the cost will be absorbed by the ailing refining industry, as well as by gas stations, and the oil industry. This will lead to significant job losses.² One analysis estimates 120,000 job losses from a 15 cent gas tax, and it can be inferred that 8,000 auto and related industry jobs alone would be lost for every penny of higher gas taxes.³ The Institute for Research on the Economics of Taxation estimates that the originally proposed 7.3 cent tax would cost roughly 200,000 to 225,000 job losses.⁴

THE TAX WOULD MEAN HIGHER INFLATION

Job losses, unfortunately, will not be the only pain inflicted by a gas tax. According to the CRS, inflation also will accelerate, and the growth rate of gross domestic product will decrease.⁵ IRET concludes that the 7.3 cent tax would reduce gross national product by \$25 billion to \$26 billion.⁶

The CRS estimates that gross revenues from federal excise taxes will rise by \$1 billion to \$1.2 billion per year for every penny of tax per gallon of fuel. It is important to remember, however, that net revenues to the federal Treasury would be much lower than this figure. Even the Treasury Department admits that net revenues will be 25 percent lower than gross revenue, because of job losses and other wage reductions caused by the tax. Thus, at most, the government will raise 75 cents for every dollar in taxes paid by its citizens.

If the Senate really is serious about the deficit reduction, it should replace the proposed energy and gas tax revenues with spending cuts. The transportation fuels tax, like its predecessor, the Btu tax, is the wrong prescription for the deficit. The deficit exists because of spending. The solution is not a new tax. It is a reduction in spending.

John Shanahan
Policy Analyst

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- 2 Bernard Gelb and Salvatore Lazzari, "Gasoline Excise Tax: Economic Impacts of and Increase," Congressional Research Service *Issue Brief*, updated June 7, 1993.
 - 3 Marina V.N. Whitman, Letter to Federal Reserve Board Chairman Greenspan on impacts of a gasoline tax increase, March 8, 1988, in French, p. 14. The author estimated 120,000 job losses for a 15 cent gas tax; the figure in the text above simply apportions this projection. Thus, the 8,000 figure is predicated on the 120,000 projection being evenly distributed evenly and varying only according to tax size.
 - 4 Stephen J. Entin, "The Breaux Budget Proposal: A Smaller Dose of Poison," IRET Congressional Advisory No. 21, Institute for Research on the Economics of Taxation, Washington, D.C., June 11, 1993.
 - 5 Gelb and Lazzari, *op. cit.*. The CRS was specifically studying the effects of a 30 cent tax; while the scope of change will vary according to the size of the tax, the direction of the economic indicator does not change.
 - 6 Entin, *op. cit.*

COMPONENTS OF GAS TAX BURDEN PER-DRIVER

State	Added Annual Cost of 4.3¢/Gallon Gas Tax Per- Driver	Current Annual Cost of Federal Gas Tax Per- Driver	Current Annual Cost of State Gases Tax Per- Driver	Total per Gallon Federal & State Gas Tax Including 4.3¢	Total Annual Cost of All Gas Taxes Per Driver
SOUTH: SOUTH-EAST CENTRAL					
Kentucky	\$33.29	\$109.16	\$116.13	\$0.334	\$258.58
Tennessee	\$32.22	\$105.65	\$160.35	\$0.398	\$298.22
Alabama	\$31.05	\$101.80	\$129.96	\$0.364	\$262.81
Mississippi	\$28.78	\$94.36	\$120.46	\$0.364	\$243.59
Average	\$31.33	\$102.74	\$131.89	\$0.365	\$265.80
SOUTH: SOUTH-ATLANTIC					
Georgia	\$33.31	\$109.22	\$58.10	\$0.259	\$200.62
South Carolina	\$32.96	\$108.06	\$122.62	\$0.344	\$263.64
North Carolina	\$31.20	\$102.31	\$158.91	\$0.403	\$292.42
Delaware	\$28.96	\$94.96	\$127.97	\$0.374	\$251.89
Maryland	\$27.98	\$91.76	\$152.94	\$0.419	\$272.69
Virginia	\$27.87	\$91.40	\$114.73	\$0.361	\$234.00
Florida	\$27.15	\$89.04	\$101.67	\$0.345	\$217.87
West Virginia	\$10.38	\$34.04	\$61.19	\$0.438	\$105.61
Average	\$27.48	\$90.10	\$117.46	\$0.368	\$229.84
SOUTH: SOUTH-WEST CENTRAL					
Texas	\$32.55	\$106.72	\$151.38	\$0.384	\$290.65
Oklahoma	\$31.84	\$104.40	\$125.87	\$0.354	\$262.10
Arkansas	\$31.42	\$103.04	\$135.20	\$0.369	\$269.67
Louisiana	\$30.48	\$99.95	\$141.78	\$0.384	\$272.22
Average	\$31.57	\$103.53	\$138.59	\$0.373	\$273.66
WEST: MOUNTAIN					
Wyoming	\$39.13	\$128.31	\$81.90	\$0.274	\$249.34
New Mexico	\$33.17	\$108.75	\$124.95	\$0.346	\$266.87
Montana	\$33.07	\$108.43	\$153.80	\$0.384	\$295.30
Colorado	\$32.10	\$105.24	\$164.21	\$0.404	\$301.55
Nevada	\$31.51	\$103.34	\$175.90	\$0.424	\$310.75
Utah	\$31.19	\$102.27	\$137.81	\$0.374	\$271.26
Arizona	\$31.15	\$102.15	\$130.41	\$0.364	\$263.72
Idaho	\$30.27	\$99.25	\$147.82	\$0.394	\$277.34
Average	\$32.70	\$107.22	\$141.82	\$0.371	\$279.51
WEST: PACIFIC					
Alaska	\$33.02	\$108.29	\$61.44	\$0.264	\$202.75
Washington	\$28.92	\$94.84	\$154.70	\$0.414	\$278.46
California	\$27.59	\$90.47	\$109.07	\$0.354	\$227.13
Oregon	\$24.91	\$81.70	\$139.06	\$0.424	\$245.67
Hawaii	\$24.60	\$80.65	\$91.52	\$0.344	\$196.77
Average	\$27.81	\$91.19	\$113.82	\$0.360	\$230.15

COMPONENTS OF GAS TAX BURDEN PER-DRIVER

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MIDWEST: NORTH-EAST CENTRAL					
Indiana	\$33.07	\$108.43	\$115.35	\$0.334	\$256.85
Michigan	\$29.27	\$95.96	\$102.09	\$0.334	\$227.32
Ohio	\$27.32	\$89.58	\$133.41	\$0.394	\$250.31
Wisconsin	\$26.99	\$88.51	\$145.63	\$0.416	\$261.12
Illinois	\$26.15	\$85.76	\$115.56	\$0.374	\$227.47
Average	\$28.56	\$93.65	\$123.80	\$0.370	\$244.61
MIDWEST: NORTH-WEST CENTRAL					
North Dakota	\$35.79	\$117.37	\$141.51	\$0.354	\$294.67
Minnesota	\$35.49	\$116.38	\$165.08	\$0.384	\$316.95
South Dakota	\$34.14	\$111.95	\$142.92	\$0.364	\$289.02
Iowa	\$32.47	\$106.48	\$151.04	\$0.384	\$290.00
Missouri	\$31.80	\$104.27	\$96.14	\$0.314	\$232.20
Nebraska	\$30.91	\$101.36	\$163.19	\$0.411	\$295.47
Kansas	\$29.44	\$96.54	\$123.25	\$0.364	\$249.23
Average	\$32.86	\$107.77	\$140.52	\$0.368	\$281.08
NORTH EAST: MID-ATLANTIC					
New Jersey	\$26.79	\$87.86	\$65.43	\$0.289	\$180.08
Pennsylvania	\$25.30	\$82.96	\$70.61	\$0.304	\$178.87
New York	\$11.70	\$38.37	\$21.77	\$0.264	\$71.83
Average	\$21.26	\$69.73	\$50.28	\$0.286	\$143.59
NORTH EAST: NEW ENGLAND					
Vermont	\$30.48	\$99.95	\$106.34	\$0.334	\$236.77
Maine	\$29.42	\$96.46	\$129.98	\$0.374	\$255.85
Connecticut	\$26.51	\$86.93	\$172.62	\$0.464	\$286.06
New Hampshire	\$26.48	\$86.83	\$110.84	\$0.364	\$224.15
Massachusetts	\$24.02	\$78.75	\$117.29	\$0.394	\$220.05
Rhode Island	\$23.85	\$78.20	\$144.20	\$0.444	\$246.24
Average	\$26.79	\$87.85	\$131.88	\$0.396	\$244.85

