



August 27, 2007

Questions to Ask Before Raising the Federal Gas Tax

Fiscal Fact No. 99

Two proposals have recently been put forth by members of Congress to raise the federal excise tax on gasoline. Rep. John Dingell (D-MI) has proposed one, along with a carbon tax, in order to reduce greenhouse gas emissions. Rep. Jim Oberstar (D-MN) has proposed a different plan to increase the tax in order to raise money for infrastructure, in light of the Minneapolis bridge collapse. In this *Fiscal Fact*, we present questions that elected officials in Washington should ask before choosing to raise the gas tax.

Are our current spending priorities out of whack?

In short, yes.

Ideally, every possible expenditure on transportation would be ordered and evaluated based on its value to society. If transportation spending appropriation was done this way, it would be obvious at what level the gas tax should be set: when the benefits from the next most valuable project were not worth the additional gas taxes that would be necessary to fund the project.

Unfortunately, in today's political climate, such an order is not even close to the reality. It is not utopian, however, to think that repairing decaying bridges would naturally be considered more important than building visitors centers, planting flowers or renaming highways.

When the priorities are totally out of whack, why should the public support a gas tax increase? It may be true that the next item on the agenda is worth a gas tax hike. However, it may also be the case that an item we are currently spending money on is not worth the gas taxes being paid to fund it. Unfortunately, many policymakers care too much about ribbon-cutting and playing politics than doing what is in the best public interest.

What is the proper role of the federal government in transportation today?

The interstate highway system developed last century was built by the federal government for a variety of purposes (including defense at first). But despite current maintenance and various extensions or loops that are being constructed, according to most accounts, for all intents and purposes, the interstate highway system is a completed, federally-designed project.

However, merely because we have always done something one way in the past (i.e. federal control) does not necessarily make it the best path forward. There is little reason for a county road in Nebraska to be funded by taxpayers across the entire country as it is of no concern to the 99.999 percent of the nation who will never drive on the road. Bridges from one state to the next may need some federal government involvement, as well as general planning of new interstate routes and U.S. highways, but how many more new interstates will there be? Even with bridges that connect two states, the states involved can likely come to a financial agreement with one another that would merely be enforced by the federal government.

Some argue that such a policy would leave some states with too few roads due to sparse populations. However, taking a position that rural states should receive more funding due to size even though their roads and bridges serve far fewer people is an extreme violation of the entire benefit principle of gas taxes funding transportation. Why should a person driving in an urban location be forced to subsidize the transportation of those driving in rural locations? If the answer is that they shouldn't, then local control should be the priority, and the role of the federal government in transportation should be minimal.

This would call for the funding mechanism (ideally tolls or a gas tax) to be established at the state and local level, as well as the level of spending. And such spending should adhere to the basic cost-benefit approach. Is the value to drivers worth the higher gas tax or toll? If yes, then fund it. If no, then don't fund it.

Either way, we find that the benefits associated with more local control over transportation exceed the costs of less federal government control. Transportation Committee politics on Capitol Hill would best be taken out of the process, and members of Congress could focus on matters more pressing to the nation than new ribbon-cutting ceremonies in the members' districts. The money that is currently being funded through the federal gas tax could be returned to the states, which would then decide their own priorities. Under such a model, drivers in Arizona, for example, would not be at the mercy of the politics of members of Congress from Massachusetts, Alaska, or any other state - but only their own duly elected representatives.

How good a proxy is the gas tax today for the benefits of transportation spending?

Many have argued that the gas tax is no longer a good proxy for road usage due to the existence of more fuel-efficient cars. Therefore, when people have wide-ranging MPG levels on otherwise similar automobiles, those with less fuel efficiency would be paying more for the privilege of using the road. However, at the same time, many in Washington are trying to encourage more fuel efficiency among consumers, and some have even suggested raising the gas tax in order to reduce gasoline consumption and greenhouse gas emissions. Also, we must remember that since those vehicles with high MPG levels also tend to weigh less, their marginal cost to the roads is small compared to larger vehicles that push transportation repair costs higher.

In summary, the concern that more fuel-efficient cars could lead to budgetary problems in transportation or an end to the benefit principle of gas taxation is minimized by the fact that Congress has also signaled a priority to lower greenhouse gas emissions, as well as the fact that smaller cars tend to put less strain on transportation infrastructure.

Conclusion

In the wake of the Minneapolis bridge collapse, there have been calls for the federal government to increase its gas tax in order to fund transportation infrastructure. Before Congress goes down that path, it needs to ask itself a few questions:

- Should the current transportation funding priorities be changed?
- What is the federal government's role in transportation today, and why are these new transportation initiatives necessarily the role of the federal government instead of the state or local governments?
- And finally, what exactly is the goal of Congress in terms of funding transportation while also taking aim at energy usage through environmental taxes?

Only after careful consideration and debate of these questions can the Congress really know whether a gas tax is necessary, proper and prudent.

© 2007 Tax Foundation

Tax Foundation
2001 L Street NW, Suite 1050
Washington, DC 20036
Ph: (202) 464-6200
Fax: (202) 464-6201
www.taxfoundation.org