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Another Gas Tax Myth Exposed

Last summer, when Congress was getting serious about drafting and passing TEA-21 reauthorization legislation, some in Washington—not ARTBA—argued the federal motor fuels excise could not be raised a nickel and then indexed to inflation to finance the \$375 billion, needs-based highway and transit improvement program proposed by the bipartisan leadership of the House Transportation & Infrastructure Committee because it would hurt the economy and cost jobs.

We said that notion was nonsense then, and now, a year later, we have solid empirical proof we were right.

The average national retail price of gasoline as reported by the U.S. Department of Energy has increased far more than a nickel in the past year, as the graph below shows. Last July, the national average price was \$1.53 per gallon. Today, now down from a high of almost \$2.10 per gallon in June, it is \$1.93. That's an increase of 40 cents per gallon over 12 months—eight times the proposed increase in the federal highway user fee!

Over this period, the U.S. economy has performed quite well:

- Between the 2nd quarter of 2003 and the 2nd quarter of 2004, it grew 4.8 percent, according to the latest Gross Domestic

Product (GDP) figures from the Bureau of Economic Analysis of the U.S. Department of Commerce. Over this time frame in the three previous years—when gasoline prices were steady or even falling—real GDP only grew 0.6 percent, 1.5 percent and 2.3 percent respectively.

- Job creation has also taken off since the price of gasoline started to rise a year ago. Between July 2003 and July 2004, 1.5 million jobs have been added to American company payrolls, according to the Bureau of Labor Statistics. In each of the three previous years, with stable or falling gasoline prices, the U.S. economy lost jobs.

- The higher price of gasoline also has not dampened the enthusiasm of Americans to get in their cars and go. Since last summer, Americans have racked up 2,401.8 billion miles on their cars and light trucks, according to the Federal Highway Administration. This is 2.2 percent more than the 2,351.0 billion miles we traveled in the same period a year ago.

- And it hasn't discouraged Americans from buying SUVs and light trucks, which get fewer miles per gallon than cars. In the 12 months ending June 2004 (the period of rising gas prices), Americans purchased 9.3 million SUVs and light trucks, according to the Bureau of Economic Analysis, up from 8.7 million the previous twelve months. By contrast, the number of new cars purchased fell from 7.9 to 7.6 million.

There you have it. The “nickel gas tax increase will hurt the economy” argument is exposed for what it really is—empty rhetoric to divert attention from political timidity.

The fact is, of course, there are many factors that affect the economy, consumer spending and saving behavior and business investment decisions. The price of gasoline represents only 3.2 percent of the Consumer Price Index.

So far, the White House and the Congress have missed the opportunity to use the federal highway and transit program in a big way to serve as the robust economic engine that history proves it is—a solid jobs generator and producer of capital assets crucial to U.S. business productivity and competitiveness.

All over a nickel per gallon.

There is still time for them to see the light and do the right thing for America. ○

