

THE FUTURE OF THE FUEL TAX

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WHY TRB COMMITTEE WAS ESTABLISHED

- Concern about future revenue yield of fuel tax because of
 - Improved fuel economy
 - Secular increases in oil prices
 - More stringent fuel efficiency standards
 - Inflation

Improved fuel efficiency

- Is a gradual process because of slow turnover of fleet
- Offset by demands for more power

More stringent fuel standards

- It could be more of issue with Democratic Congress.
- Has powerful opponents.

Secular increases in oil prices

- Experts testified that there were plenty of reserves.
- Problem is that they become progressively more difficult to extract as we move from liquid to tar sand to shale, etc.
- Price increases would be very gradual if economics of extraction only consideration.
- But it isn't. Geopolitical forces and surges in demand play a large role.
- How much does demand respond to price increases?

Inflation

- Implications of a unit tax.
- Erosion of real value offset historically by periodic increases.
- Can that be expected in current anti-tax environment?
- Not tested because
 - Unusually low inflation recently.
 - Revenues captured for highways by diverting 1993 increase from deficit reduction and by changing financing of ethanol subsidy.

Conclusions

- Threats to revenue yield of fuel tax much exaggerated. Real revenue per vehicle mile remarkably constant through history.
- If there are political barriers to increasing tax, they afflict all taxes and there is nothing inherent in the structure of the fuel tax that makes it harder to raise.
- Fuel tax will not provide enough revenues to greatly improve quality of highways, but sufficient to maintain current condition, including level of congestion.

BUT

- Fuel tax may be a viable source of revenue, but not the best source.
- Per mile charges much superior.
 - Can be varied with type of road and level of congestion.
 - Can improve allocation of highway investments.

Tolling

- With current technologies.
- In future with GPS technology.

Overcoming the challenges

- Choosing the right technology and dealing with transition problems.
- Distributional issues. (The Lexus Lane problem.)
- Privacy.