

Gas Tax Bacon's Rebellion

©James V. Koch

Senate Majority Leader Richard Saslaw has offered a proposal to increase the Commonwealth's gasoline tax, which last was raised in 1986. Senator Saslaw would increase Virginia's gas tax by a penny per gallon each year for five years. Alas, even if Saslaw's proposal passes the Senate, it appears to be destined for defeat in the House. Even so, it's a good proposal and is superior to current approaches. Let's see why.

First, Virginia's tax on gasoline is 17.5 cents per gallon. Since 1986, the consumer price index (CPI) for urban consumers has increased 91 percent. This means that the "real," after inflation spending value of these 17.5 cents has fallen to about 9.5 cents. Putting it differently, if Virginia spent \$500 million on road construction and repair in 1986, then the same amount of money will purchase the equivalent of only \$272 million of road construction and repair today. Whatever we thought we were accomplishing with our gas taxes in 1986, we're now accomplishing much less of that in 2008.

Yes, it's true that the General Assembly approved a \$1.1 billion per year transportation package this past year; however, that tax package contained a grab bag of taxes and charges, including the notorious anticipated \$65 million of abusive driver's fees. The economic impact of this unappetizing stew is mixed and even somewhat unpredictable. Further, this package backed away from our traditional position that it should be the Commonwealth that fund's Virginia's highway needs.

Instead, the package placed heavy reliance on regionally approved tax initiatives in Northern Virginia and Hampton Roads. Both regional plans contain a potpourri of items reflecting tax-collecting convenience and momentary political considerations rather than sound, long-term transportation policy. In Hampton Roads, for example, the package includes additional taxes on rental cars and automobile repairs, plus a grantor's tax on real estate sales. This is not the smart way to run the proverbial railroad, though one must admit that these regional approaches were superior to doing nothing.

Further, neither the Northern Virginia nor the Hampton Roads regional tax initiatives conclusively deals with those regions' transportation problems. Taking Hampton Roads as the example once again, we see that this region's new taxes will only generate about \$170 million per year, while the major projects on its wish list (things such as third crossing and improving Route 460 to Richmond) cost \$9 billion at current prices (52 times as much). Can this wish list be pared down? Of course, but even if it is cut in half, the funding mismatch still is apparent.

Senator Saslaw's proposal has the merit of raising \$250 million in additional funds annually to deal with the needs of the entire Commonwealth, not simply Northern Virginia and Hampton Roads. There are, after all, significant road funding needs elsewhere in Virginia, as anyone who drives I-81 can verify.

But, we shouldn't forget that an increase in the gas tax will generate other desirable effects. Higher gas prices will encourage the use of public transportation, inspire car pooling and cyber commuting, and of course stimulate the purchase of more fuel efficient automobiles. When all is said and done, current Virginians are likely to drive fewer miles. This will moderate highway congestion, reduce highway deaths, and even dampen carbon dioxide emissions. Not such a bad combination.

Finally, there is elemental justice attached to an increase in the gasoline tax--- those who drive are those who pay the tax. It's a classic user tax that provides incentives for people to change their behavior even while it raises revenue. Sure, gas taxes don't have lots of political sex appeal, but then legitimate, long-term solutions to tough problems seldom do. Let's not kid ourselves that there exists an almost painless solution to our transportation challenges magically paid for by "someone else." Kudos to Senator Saslaw for focusing our attention where it should be---on the most economically sensible long-term approach.