EXAMINING THE IMPACT OF THE 1993 TAX INCREASE ON TRANSPORTATION FUELS

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

MAY 8, 1996

Serial 104–61

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

37–172 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-054165-4

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EXAMINING THE IMPACT OF THE 1993 TAX INCREASE ON TRANSPORTATION FUELS

WEDNESDAY, MAY 8, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:09 a.m., in room 1100, Longworth House Office Building, Hon. Bill Archer (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225-1721
May 1, 1996
No. FC-16

Archer Announces Hearing to Examine the Impact of the 1993 Tax Increase on Transportation Fuels

Congressman Bill Archer (R-TX), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing to examine the effects of the 4.3 cents per gallon tax on transportation fuels imposed by the Omnibus Budget Reconciliation Act of 1993. **The hearing will take place on Wednesday, May 8, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony for this hearing will be heard from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Omnibus Budget Reconciliation Act of 1993 imposed a 4.3 cents per gallon tax on gasoline and other transportation fuels. Revenues from this tax are deposited in the General Fund of the U.S. Treasury rather than dedicated to the Highway Trust Fund or similar trust funds.

In announcing the hearing, Chairman Archer stated, "The recent increase in gasoline prices has renewed public attention to the 1993 tax on transportation fuels. This regressive tax increase hit American families directly in their pocketbooks. Accordingly, the Committee should examine the impact of this tax increase and explore its repeal."

FOCUS:

The focus of this hearing will be to examine the effects of the 4.3 cents per gallon tax on transportation fuels on American families and businesses.

DETAILS FOR SUBMISSIONS OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Wednesday, May 15, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 300 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

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Chairman ARCHER. The Committee will come to order as soon as everyone has taken seats and we can discourage extraneous audible conversation. The Committee will begin its hearing.

Today's hearing has been called to examine the impact of the 1993 tax increase on gasoline and transportation fuels. This $4.8 billion annual gas tax increase was passed as part of a bill that raised taxes by $268 billion over 5 years. That tax bill, which passed without a single Republican vote, was the largest tax increase in the history of this country.

The issue of taxes, particularly the gas tax, is a very important one for our Nation. Some believe that it was, and still is, important to raise taxes to reduce the deficit. Others, myself included, believe that when politicians raise taxes, they do not save money, they spend it, and 1992 is a good example.

The year prior to the gas tax increase, the Federal Government spent $1.38 trillion. According to the President's budget request, the government this year will spend $1.57 trillion, an increase in government spending of over $190 billion.

Let us take welfare as a specific example. In 1992 the Federal Government spent $208 billion on welfare. In 1993 Congress raised taxes. By 1995 welfare spending has increased to $262 billion, a jump of $54 billion.

The more taxes go up, the more spending goes up, and that is the heart of the problem. That is why we, as Republicans, believe very strongly that it is better to cut spending to reduce the deficit. We should not raise taxes, especially gas taxes, that hit lower and middle-income Americans the most, adding to the middle-class squeeze that we are experiencing.

I am pleased to note there is a growing bipartisan support for this position. Speaking to a group of his campaign contributors in my hometown last October, President Clinton said that he "raised taxes too much." I could not agree with the President more. He did raise taxes too much and we can help him by beginning to roll back those tax increases, starting with the gas tax. We would like to make this a bipartisan effort, and the President's wise words in Houston may help show us the way.

Beyond the gas tax, we should continue to roll back the 1993 tax increases by providing middle-income Americans with a $500 per child tax credit; and we can create more high-paying jobs by reducing the tax rate on capital gains. I hope the President will join us in this effort and make this bipartisan.

Today, we will hear testimony of several experts who will discuss the impact of the gasoline tax increase. I look forward to hearing their thoughts about this tax hike, and I now yield to the gentleman from Florida for any statement that he might like to make. Prior to yielding to him, without objection, all Members will have the opportunity to insert any written statements in the record.

[The opening statement of Mr. Christensen follows:]

JON CHRISTENSEN
2D DISTRICT, NEBRASKA
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SUBCOMMITTEES:
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ON LEGAL REFORM

MARK FAHLESON
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BILL PROTEXTER
DISTRICT DIRECTOR

Congress of the United States
House of Representatives
Washington, DC 20515–2702

OPENING STATEMENT
BY
REP. JON CHRISTENSEN

On
Repealing the Clinton Gas Tax Increase

Before the Committee on Ways and Means
May 8, 1996

Today we are once again keeping our promise to give tax relief to American families.

As you know, the 1993 Clinton budget levied an additional 4.3 cents-per-gallon tax on gasoline and other motor fuels. Not a single Republican voted for the package -- the largest tax increase in American history. Now gas prices are going up, and it's clear again how painful the Clinton tax hike is. The gas tax is one of the most regressive we have, hitting middle- and lower-class working families especially hard. In fact, the poorest 20 percent of families spend *four times* as much of their income on gasoline than the richest 20 percent.

The gas tax is especially burdensome on the people I represent in Nebraska. State and federal gas taxes in Nebraska add up to a dizzying 44 cents-per-gallon, giving the Cornhusker State the fourth highest total gas tax in the country. That means the average Nebraska family pays the government $6.60 for an average tank of gas, money that could instead be invested in their family's future.

It is interesting to note that traditionally federal gas tax revenue has been used for the construction and maintenance of roads and highways. But the $4.8 billion-a-year Clinton gas tax hike instead is being funneled into more big government social programs, proving that Washington is the world's worst gas-guzzler.

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I'm excited that we are holding hearings and hopefully will soon vote on the immediate repeal of the 4.3 cents-per-gallon gas tax hike through the end of 1996. This repeal would benefit 175 million Americans and will provide those who earn less than $10,000 a year with a 3.6 percent tax cut. That's a good way to help our working families who are struggling to make ends meet.

Also, I hope that we can seize this opportunity to address the inequity the 1993 Clinton tax hike placed on railroads, forcing the railroads to pay 1.25 cents-per-gallon <u>more</u> than other modes of transportation. This additional tax increases the cost of all products shipped via rail, eventually raising the cost for American consumers.

Working to reduce our nation's tax burden is a long, long road. I'm glad we've come this far. I applaud Chairman Archer and Senator Dole for their leadership on this issue and hope to work with them as we once again keep our promise to give tax relief to hard-working Americans.

Thank you.

Chairman ARCHER. Mr. Gibbons.

Mr. RANGEL. Parliamentary inquiry, Mr. Chairman.

Chairman ARCHER. Mr. Rangel.

Mr. RANGEL. In the interest of promoting bipartisanship on this tax bill, on the witness list, did the Republican leadership provide any witnesses that oppose the repeal of this tax? I cannot tell by the names, but it would not——

Chairman ARCHER. I would say to the gentleman that that is not a parliamentary inquiry.

Mr. RANGEL. This has to do with the hearing.

Chairman ARCHER. This does not relate to the procedure under which this Committee operates.

Mr. RANGEL. I am terribly sorry. I apologize. I will withdraw the question.

Chairman ARCHER. Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman, I guess that we ought to be grateful we only have Presidential elections once every 4 years in this country. I do not think the country could afford it if we had them more often than that. Maybe we ought to have just a 1-year term limit on Presidents to cut out some of the political pandering that is going on here.

If anybody believes that the consumer will get any benefit out of this gas tax reduction, I have to say that, based upon my experience, they are dreaming. The big seven oil companies and their cohorts will find ways in which the consumer will never see a penny of this gas tax. Believe me, I have dealt with them for 35 years and I know them. They are good business people and they are doing what all business people do and should do. They are always trying to raise prices, and any excuse they get to raise prices, they will raise prices. So the consumer is not going to see this money.

Second, the runup in gas prices is perfectly explainable by the actions we have taken. We have had a cold winter, nothing any of us could do anything about, but in cold winters, the refineries have always run long on fuel oil and that means short on gasoline in the summertime.

Gasoline prices for all of my life have always raised in the summertime because there is more driving and they respond to the marketplace.

In California, where Mr. Royce comes from, the State of California changed their clean air laws and required modification of their refineries with a concomitant runup in cost that was going to happen to gasoline prices.

But it is an election year and we expect politicians to at least pay attention to the voters' wills and needs, but pander to them, my gosh, this is the worst pandering I have seen in my 76 years at election time.

If anybody thinks the infrastructure of this country is overbuilt, they have not traveled on most of it. I know that this portion of the gas tax does not, for political reasons, go into the infrastructure trust fund, but it should, and at the appropriate time, I hope to present an amendment to the legislation that will put this gasoline tax and all future gasoline taxes in the infrastructure trust fund.

We, I guess, ought to get on with our business. I do not believe the money is going to be passed through to the consumer. I think the only way you could do that is put on a windfall profits tax, and I know that would be very difficult and very unpopular and probably not very productive, but at least it would have guaranteed the consumer got the benefit of this tax break.

That is all I have to add at this time, Mr. Chairman.

Mr. MATSUI. Mr. Chairman, may I make a parliamentary inquiry?

Chairman ARCHER. Mr. Matsui.

Mr. MATSUI. I do not know if this is appropriate at this time, but in view of the fact we are going to be questioning witnesses today, perhaps we can know the structure of the legislation we may adopt tomorrow, because when we take this matter to the floor, we will need a revenue offset on the $2.8 billion. I know there will be an attempt to do that. Does the Chairman believe that will come from this Committee?

Chairman ARCHER. The gentleman, I assume, was not here, during my preliminary comments.

Mr. MATSUI. I apologize.

Chairman ARCHER. I stated that the offsets will not come through this Committee and whatever the "pay fors" are, therefore, really are not an appropriate subject for deliberation in our hearings today.

Mr. MATSUI. Thank you.

Chairman ARCHER. Our first witness is Congressman Edward Royce of California, a State that has been especially hard hit by an increase in gasoline prices. We are glad to have you with us today.

Mr. Royce, your entire statement can be printed and entered into the record without objection. We hope that you will summarize in your oral testimony, and you may proceed.

STATEMENT OF HON. ED ROYCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ROYCE. I appreciate that, Mr. Chairman, and I will do so. I want to thank you, Mr. Chairman, for holding this hearing.

I do want to point out that in California last month, the price of gasoline did reach, in some parts of the State, $2 a gallon. The price increase is the result of many factors. There is some question about what we will be doing about these increases, but there is one factor I think this Congress is partially responsible for, and I think government is partially responsible for, and the American public understand, and that is the cost in taxation.

On a gallon of gas in California right now, it is 47.4 cents on the gallon. I think that is something the American people understand we could do something about if we wanted to, and that is exactly what this bill of mine, H.R. 3375, does. It repeals the 4.3-cent-per-gallon Federal gasoline tax imposed by this administration and by the prior Congress on the American public.

At a time when we in Congress are trying to put money back into the pockets of American families and recharge the Nation's economy, gasoline excise taxes are at an all-time high. In the last 10 years, the Federal gasoline tax more than doubled, from 9 cents to 18.3 cents per gallon, and the same happened at the State level.

I have shared with you California's figures, 47.4 cents on every gallon. According to the Tax Foundation, that tax burden works out for the American family to $422 out of their household budget every year, and Mr. Chairman, that is a significant amount of money for most families.

I think it is also important to clarify the 4.3 cents per gallon is actually closer to 4.7 cents at the pump because State sales tax is levied on top of the 4.3-cent pump increase.

It is important for the American people to understand this tax is not a user fee, unlike the other taxes levied on gasoline. This does not go into the transportation fund to pay for Federal highway repairs. It is a tax, pure and simple, and it goes into the general Treasury.

While 4.3 cents may not seem like a lot to those in DOE, the Department of Energy, I think you will agree, this proposal will provide real relief to real people trying to make ends meet in a stagnant California economy. The tax has a significant impact on the national economy.

I will just share with you, the cost to the State of California out of this tax is $550 million a year. While the administration's gas tax increase hits all Americans hard, it is especially harmful to lower income families. According to the Joint Economic Committee, the lowest income families in America pay four times as much of their disposable income on gasoline than the highest 20 percent of income earners.

Further, the tax is costing our economy jobs. According to the Tax Foundation, the 1993 tax is responsible for the loss of 8,000 jobs in California and the loss of 69,000 jobs nationwide. By repealing the tax, this legislation will help restore those jobs and restore the economy, both in California and nationwide.

Recognizing that the fuel tax will result in a loss of revenue of approximately $30 billion over 7 years, I propose to offset this loss by reducing funds for the Department of Energy. This legislation is based on the work of a House Task Force on Energy, findings of the General Accounting Office, former Energy Department officials, including two Energy Secretaries.

Specifically, the bill cuts the annual budget of the Department of Energy by about 30 percent. As you know, the Department of Energy was created by President Carter following the Arab oil embargo to solve the fossil fuel energy shortage. They have not solved the problem. The problem is still with us and so is the Department of Energy.

The Department has grown into a massive $15 billion bureaucracy with multiple missions and questionable priorities. Once the energy crisis of the seventies passed, the Department was without a clear mission. As a result, it began a 15-year empire-building process in which its mission has changed several times. I am going to share with you the General Accounting Office's criticism. They called upon Congress to reevaluate the Department.

In February 1995 the GAO stated that the DOE "has a long history of management problems" and that the DOE "is not an effective or successful cabinet department." The GAO cites the following problems: Inability of the Department of Energy to overcome management weaknesses, lack of any credibility, eroding public support, and a diminishing sense of purpose.

For these reasons, Mr. Chairman, I am proposing the termination of unnecessary programs, the consolidation of programs duplicative of other departments or agencies, the transfer of programs serving a valid purpose, and the privatization of programs that could be better performed outside the government.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Representative Ed Royce

Statement on Repealing the Fuel Tax

Before the House Committee on Ways and Means

May 8, 1996

Thank you. I would like to thank you Mr. Chairman for holding this hearing on an issue of great importance to all Americans. Whether or not one owns or operates a motor vehicle, each and every consumer is affected by the skyrocketing gasoline prices that are literally stopping traffic on our nation's highways. Last month, the price of a gallon of gasoline in my home state of California reached $2.00 in some areas. This price is the result of a market shortage of crude oil, new state regulations on formulation of gasoline - and higher gasoline taxes. While we may not be able to control all of these factors, we can provide consumers with some immediate relief from the burdensome transportation taxes levied on them by the Federal government. For this reason, last week I introduced legislation, H.R. 3375, to repeal the 4.3 cents-per-gallon federal gasoline tax imposed by the Administration in 1993.

At a time when we in Congress are trying to put money back in the pockets of American families and recharge the nation's economy, gasoline excise taxes are at an all-time high. In the last ten years the federal gasoline tax more than doubled from 9 cents to 18.4 cents per gallon. In California, the total gasoline tax has increased to 47.4 cents per gallon. According the Tax Foundation, this tax burden takes $422 out of the average American family's household budget per year -- $422. Mr. Chairman, that is a significant amount of money to most families.

So, the question is, what can we in Congress do to provide some relief to these families? And the answer is simple -- we can repeal some of these taxes. And that is what my legislation does.

I think it is important, at this point, to clarify the nature of this 4.3 cent tax, which is actually closer to 4.7 cents at the pump because state sales tax is levied on top of this 4.3 increase. It is important for the American people to understand that this tax is NOT a user fee. Unlike the other taxes levied on gasoline and diesel fuels, this 4.3 cent per gallon tax does not go into the transportation trust fund to pay for federal highway repairs and improvements. IT IS A TAX, pure and simple, that goes into the general Treasury. The revenues from this tax go directly into the general Treasury, just as income taxes do.

While 4.3 cents may not seem like a lot to those in the Department of Energy, I think you will agree this proposal will provide real relief to real people trying to make ends meet in a stagnant California economy. This tax has a significant impact on the national economy -- with my home state of California bearing the brunt of this tax. The total cost of the Administration's gas tax increase to Californians is $550 million a year.

While the Administration's gas tax increase hits all Americans hard, it is especially harmful to lower income families. According to the Joint Economic Committee, the lowest income families in America pay four times as much of their disposable income on gasoline than the highest twenty percent of income earners. Further, this 4.3 cent tax is costing our economy jobs. According to the Tax Foundation, the '93 tax is responsible for the loss of 8,000 jobs in California alone, and 69,000 jobs nationwide. By repealing the 4.3 cents per gallon tax, my legislation will help to restore these jobs and restore the economy both in California and nationwide.

Recognizing that repealing the fuel tax will result in a loss of revenue of approximately $28 billion over seven years, I propose to offset this loss by reducing funds for the Department of Energy. This legislation is based on the work of a House Task Force on Energy, findings of the General Accounting Office, former Energy Department officials, and industry representatives.

Specifically, H.R. 3375 cuts the annual budget of the Department of Energy by about 30 percent. As you know, the Department of Energy was created by President Jimmy Carter following the Arab oil embargo to solve the fossil fuel energy shortage. They have not solved the problem....it is still with us, and so is the Department of Energy.

The Department of Energy has grown into a massive $15 billion bureaucracy with multiple missions and questionable priorities. Once the "energy crisis" of the 1970's passed, the Department was without a clear mission. As a result, it began a fifteen year empire-building process, in which it's mission changed several times. The General Accounting Office has criticized the Department of Energy, and called upon Congress to reevaluate the Department and its mission. In a February, 1995 report, the GAO stated that the DOE "has a long history of management problems." Specifically, the GAO concluded that the "DOE is not an effective or successful Cabinet department." The GAO cites a number of problems, including the inability of DOE to overcome management weaknesses, lack of any credibility, eroding public support, and a diminishing sense of purpose.

For these reasons, I am proposing the termination of unnecessary programs, the consolidation of programs duplicative of other departments or agencies, the transfer of programs serving a valid purpose, and the privatization of programs that could be better performed outside the government.

Chairman ARCHER. Thank you, Mr. Royce.
Are there questions from the Members?
Mr. Gibbons.
Mr. GIBBONS. Mr. Royce, you say the California gasoline tax is 29.1 cents per gallon, something like that?
Mr. ROYCE. State and sales, yes.
Mr. GIBBONS. The State gasoline tax. Have you done anything to try to get California to reduce its gasoline tax?
Mr. ROYCE. Yes, I have, Mr. Chairman. As a matter of fact, I talked with the new speaker of our State assembly and he has introduced a bill in the State legislature to try to roll back a recent increase in the California State tax, as well, yes.
Mr. GIBBONS. At least you are consistent. Do you really think the oil companies are going to pass this savings through to the consumer?
Mr. ROYCE. Mr. Chairman, I had a conversation with a constituent of mine the other day and he said, "You know, I remember when gasoline prices were 50 cents a gallon," he said, "but I guess it is going to be pretty difficult to get prices down that low again if the price we are paying in Federal and State taxes is 47.5 cents a gallon."
What I want to focus on here, and what I want to remind you——
Mr. GIBBONS. Your constituent gave that information to you?
Mr. ROYCE [continuing]. Is the total assessment that the Federal Government is taking out of the pockets of taxpayers with respect to how high these taxes really are.
Mr. GIBBONS. No, the gasoline tax has always been considered to be a user fee to help finance the infrastructure of this country. Unfortunately, the last time the gasoline tax was raised—and the gasoline tax is inflation adjusted, probably about where it was in the thirties when I used to pump gas—we had to put it in the general revenue fund.
I want to put it back in the trust fund. That is where it should have been 2 years ago. That is where it ought to be now. Anybody that thinks the infrastructure of this country is overbuilt, as I say, just has not been using it. Do you have too much infrastructure in California, too many highways, too few potholes, too few crumbling bridges?
Mr. ROYCE. But I am just pointing out, Mr. Chairman, the increase I am trying to reduce here, the tax from 1993 does not go into solving any of those problems. It goes into the general fund.
Mr. GIBBONS. It ought to be put in the trust fund, and I am going to have an amendment before this Committee to put it in there.
Mr. ROYCE. I am pointing out, Mr. Chairman, if you look at the increases in our Department of Energy, if you look at the General Accounting Office report, I think it is very credible that we look at reducing that agency, that government agency, to pay, so that the American people will have this reduction at the pump.
Mr. GIBBONS. I am not going to argue with you about the Department of Energy. I am not an expert on it and do not pretend to be. But I do know the infrastructure of this country is falling apart all around us. It is costing us a lot of money because it is falling apart.

Mr. ROYCE. Yes, sir.

Mr. GIBBONS. The transportation is a very important part of the well-functioning economic system this country has or should have. We cannot neglect it any further. We have neglected it far enough. The Airway Trust Fund which finances the safety and everything else on the airlines and the airports has been expired here for, what, 4 months, and we have not lifted a finger to do anything about that.

We are letting this country fall apart, all pandering so we can tell the consumers the oil companies are gratuitously going to give them this tax when we repeal it. That is just a bunch of wishful thinking, Mr. Royce.

Thank you.

Mr. SHAW. Mr. Chairman.

Chairman ARCHER. Mr. Shaw.

Mr. SHAW. Mr. Chairman, I would like to remind my friend from Florida that the argument he has just made is a very good argument and I wish he had made it or listened to it back in 1993. We were making that exact argument back when this tax was put on. This was breaking precedent with the past, that the taxes were all going to the construction of infrastructure. It was a user tax, and that is the way it should be.

What we are trying to do here is right a wrong. It was wrong in 1993 to make this a revenue raiser for the general fund. We are simply going to reverse that and go back to pre-1993 law, which did precisely what the gentleman has been arguing.

I would hope you would join with us in supporting this and then, at a later date, if it is necessary to go back and talk about raising taxes for the construction of infrastructure, that we do that. But this should not be a way of raising revenue for the Federal Government. I totally agree with the gentleman's argument and support him on it.

However, what we are doing now is reversing a serious error that originated in this Committee without one single vote from the Republican side. We are coming back, now that we are in the majority, and reversing that very, very bad decision that was made by this Committee.

I yield back.

Chairman ARCHER. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

Mr. Royce, do you know what the price of gasoline has risen to in California? How high has it gone in the last couple months from what it was per gallon?

Mr. ROYCE. It has gone up significantly.

Mr. CARDIN. How much per gallon, do you have any idea?

Mr. ROYCE. At my local station, I would say it has gone up over 20 cents a gallon.

Mr. CARDIN. Over 20 cents? You indicated that the 4-cent increase cost California 8,000 jobs?

Mr. ROYCE. Yes, that is correct, the 4.3-cent increase did.

Mr. CARDIN. So is it fair to say that in the last month or so, you have found there has been another, what, four times that, 30,000 lost jobs because of the price increase?

Mr. ROYCE. There is definitely going to be a job loss due to the higher energy costs. When energy costs go up, yes, Americans are laid off.

Mr. CARDIN. So in the last month or so, we have lost four or five times as many jobs as what your analysis of what happened in 1993 shows?

Mr. ROYCE. Job loss will occur as energy costs go up, that is true.

Mr. CARDIN. I am trying to figure this nationwide. I guess it is 300,000, 400,000, 500,000 jobs have been lost in the last 30 to 60 days as a result of energy. I wonder if you have any documentation that we have lost between 300,000 and 500,000 jobs in this country during the last month. Gasoline prices do fluctuate a little bit. I do not really recall a big jump in gas prices in 1993. I must tell you, I am not aware of any impact on our economy, on jobs, in 1993 with the gas tax.

But you refer to the Tax Foundation, and I guess we will be getting the information from them. I am just curious as to what your analysis would be. Should we try to control the price of gas in order to stabilize jobs in our community? Is that what you are suggesting?

Mr. ROYCE. I am suggesting we not do things which obviously will boost the price of gas, and increasing taxes the way we have boosts prices. I know we would like to get away from that fact, but the reality is that when you tax a gallon of gas at 47.4 cents on the gallon, you are increasing prices significantly. That is going to translate through the market.

Mr. CARDIN. I would appreciate if you could try to respond to the question. If, in fact, we reduced this tax by 4.3 cents, and if, in fact, there is no reduction at the pump, then I take it, as you are suggesting, it will have no positive impact in your analysis on job growth. I am curious as to whether you would support an amendment to this legislation to guarantee that the consumer gets a 4.3-cent reduction in the price of gasoline. Would you support an amendment to this legislation so that we are at least assured it does not go to the oil companies, that it goes to the consumers?

Mr. ROYCE. I would be happy to talk with you about an amendment.

Mr. CARDIN. Good.

Mr. ROYCE. But the reality is, and the point I want to make is that I think those of us in government at times try to get away from the fact that as we raise taxes, those taxes are going to be passed on to the American public. The reality is that tax increases are passed on when you tax goods and services. But no, I would be happy to talk with you about that amendment.

Mr. CARDIN. You have said that before. We have been told many times that tax reductions to companies are not necessarily passed on to consumers. That point has also been made by economists and groups before, that there is not the same passthrough necessarily of a tax reduction.

What you are suggesting is that the consumer is going to feel and understand a 4-cent increase in a gasoline price and act accordingly, and I must tell you, I find that very difficult to believe, because as I drive down the streets in Baltimore, there is more than a 4-cent differential between one gas station across the street from the other on the same quality of gasoline. So I am not so sure a 4-cent reduction is going to have any impact on consumers, and I am concerned about whether this cut will really get to the consumer, whether they will really feel it.

I appreciate your willingness to work with us to make sure the consumer gets the benefit of it, and I hope the Committee will follow that suggestion and will make sure that any reduction that we make in the gasoline tax, the consumer actually gets the benefits, because I doubt it will happen.

Mr. ENGLISH. Mr. Chairman.

Chairman ARCHER. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Royce, you have made a very powerful argument here today for the repeal and I want to thank you for it. I think you have been one of the most consistent advocates of rolling back fuel taxes in Congress.

Let me ask you, in your research, and specific to California, which sectors of the economy have you found have been most sensitive to fuel taxes, and is small business disproportionately affected by these increases?

Mr. ROYCE. I think small business and I think, basically, the motoring public is the most impacted. I have shared with you that $422 is paid in taxes, gas taxes alone, by the average family, by the average motorist. So when they fill up the tank, this additional tax which we are trying to repeal, that alone is 75 cents every time they fill up at the pump.

Mr. ENGLISH. In your study of it, particularly in your area, what do you find are the distributional effects of these fuel taxes? Do they fall disproportionately on lower income families, on middle-class families?

Mr. ROYCE. I think the studies show that there is four times—in terms of the budget, the household budget, it weighs very heavily on lower income families, disproportionately. In terms of the impact on low-income households, it is a 4-to-1 ratio.

Mrs. KENNELLY. Would the gentleman yield?

Mr. ENGLISH. Certainly.

Mrs. KENNELLY. Thank you, Phil.

We have two issues in front of us. One is the minimum wage and the other one is the gas tax. In my readings on the minimum wage, it shows your low-income worker who earns the minimum wage, the gas tax savings will only be $17.

Mr. ENGLISH. I would be very interested. Reclaiming my time, I know that that factor which my distinguished colleague from Connecticut referenced also varies considerably based on geography.

Mr. Royce, do you represent a suburban district, rural district, or a mix of both?

Mr. ROYCE. The 39th District is suburban, Mr. English.

Mr. ENGLISH. Do you find that particularly people who have limited access to mass transit and people in rural areas and places like California tend to pay the tax more than people who are of a comparable income in an urban area?

Mr. ROYCE. Our particular area is a commuter area. Southern California, as you know, has that reputation, and it is, indeed, true that Californians drive more than people in New England. So yes, it has a disproportionate effect on the west coast.

Mr. ENGLISH. Thank you very much, Mr. Royce. Again, we appreciate your coming before the Committee and sharing your obvious expertise in this area. It has been most helpful to us.

Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Levin.

Mr. LEVIN. Mr. Royce, welcome. You mentioned that the Federal tax went up in the last decade from 9 cents, I think, to 18.3 cents?

Mr. ROYCE. That is correct.

Mr. LEVIN. Could you tell me why you stop at 4.3? Why do you not then move to strike the rest of the Federal increase, if we are really concerned about the consumer?

Mr. ROYCE. Congressman, this particular latest increase in the gasoline tax does not go as a user fee. It goes into the general fund. It in no way is used for highway maintenance or road repair or anything connected with the use and the expenditure of that tax by the motorist. So I think it logical that we begin with a tax recently imposed, imposed by the last Congress and by this administration, on the American people, and I think this is something that is doable.

Mr. LEVIN. Let me ask you, what was the increase, the Federal gas tax increase before the 1993 increase?

Mr. ROYCE. I was not here prior to that time as a Member of this institution.

Mr. LEVIN. But you are an alleged expert on this. You do not know when——

Mr. ROYCE. I have shared with you the increase.

Mr. LEVIN. No, how about before 1993? When was the previous one, do you know, before 1993?

Mr. ROYCE. I would be happy to have a consultant with the Committee give us the year, if you would like.

Mr. LEVIN. To give us what?

Mr. ROYCE. The year. I would be happy to do that.

Mr. LEVIN. I think it was 1990. There was a gas tax increase in 1990. Did all of that go to the trust fund?

Mr. ROYCE. As I have shared with you, Congressman, I was not a Member of either this Committee or this House prior to that point in time.

Mr. LEVIN. Let me ask you this, then. If any of the 1990 gas tax increase went for deficit reduction, would you favor its repeal?

Mr. ROYCE. I have looked at the figures for what has been raised, Congressman, in terms of revenues from gasoline taxes and what has been expended, and you are familiar, as well, I know, with the debate about whether or not we have raised more or spent more on transportation up until this latest increase in the gasoline tax, if we have raised more or spent more in the trust fund. We hear arguments from both sides.

Mr. LEVIN. Maybe my question was not clear. If any part of the previous tax increase, gas tax increase, did not go into the trust fund, would you favor its repeal, and would you add it to the 4.3 cents?

Mr. ROYCE. I think, Congressman, I put together a bill which is logical, which reduces the bureaucracy of the Department of Energy to pay for a recent tax increase that you and I both agree goes not into paying for maintenance of the highways but instead goes into the general fund.

Mr. LEVIN. I understand that.

Mr. ROYCE. So I think, in concept, we have a good bill here.

Mr. LEVIN. By the way, Mr. Chairman, when we were talking about the Energy Department, that is not within our jurisdiction. We are not supposed to be talking about that.

I am asking you if any part of the gas tax increases before 1993 did not go for highway maintenance, would you favor adding that to the 4.3 cents?

Mr. ROYCE. I think the sensible thing to do is to move this bill as it stands.

Mr. LEVIN. I do not know why you will not answer. It may be because the Majority Leader in 1990 supported an increase in the gas tax. I think we had better go back and check whether all of that went for highway maintenance and see if there is any consistency on your side here or whether this is a political ploy without any assurance that the consumer will benefit.

So I will finish by asking you this. You said you would support an amendment that would assure the consumer benefited from this repeal. Do you have any idea how we might do that?

Mr. ROYCE. No, I do not.

Mr. LEVIN. So why do you support something if you have no idea the consumer will benefit?

Mr. ROYCE. Could I share with you, Congressman, that I would be happy to work with you or to try to work out such an amendment, but I think the point here, to go back to the point you are making, is that none of this tax increase went into maintenance of the highways in any way, and therefore I think it very clear why there should not be an increase paid by the motoring public that does not end up in any way benefiting them through use on the highways.

So to try to answer both your questions, I think it very clear this tax should be repealed and I would be happy to work with you.

Mr. LEVIN. Let us see if we can find a way. You do not have one at the moment that would assure the consumer would benefit, so you are just kind of poking in the dark.

Thank you.

Chairman ARCHER. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I very much appreciate, Mr. Royce, your making these points on behalf of the consumer. I agree with you that if we can get rid of the 4.3-cent gas increase that came from the 1993 Clinton budget, that we will benefit employers, job holders, and consumers in general.

You talked about folks who own cars, motorcycles, or trucks being relieved of a burden that was put on the cost of gasoline in 1993, but I think we also have to consider some other very important costs that through support of your bill would be given back to the taxpayer and those are the indirect costs.

I live in a State that is very trade oriented, and so this cost of fuel is paid by truckowners and the aviation industry and is paid by every consumer who purchases an item that has been made in some out-of-area spot and brought into the district, the community, and these consumers' homes. So we in Washington State get apples from eastern Washington or wheat or corn and we get goods from the central part of the United States and those are all trucked to us or flown to us. Every single dollar that is spent as a result of an increase in the fuels tax affects every consumer, and this would be a great relief along that line.

I will also tell you that because I come from a district that contains the highest number of Boeing workers in the Nation, for example, there is a direct cost to jobs. The aviation industry on October 1 began paying the jet fuels tax of 4.3 cents per gallon. Everybody who flies is now paying that, but because it is very tough and there is very little elasticity right now in the aviation industry, this is costing the aviation industry a great deal that they are having to absorb on their own.

What that translates to for me and for the folks who work for Boeing in my district is there is not as much money left to the aviation industry to buy Boeing jets. My folks are the ones that build those jets.

So I thank you, Mr. Royce, for bringing this issue to us, for giving us an item, a 4.3-cent gas tax cut that may be symbolic in the sense that it is the tip of the iceberg, but I think it projects what our team wants to do in terms of taxes generally, so that is much to your credit.

Thank you, Mr. Chairman.

Mr. RANGEL. Mr. Chairman.

Chairman ARCHER. Mr. Rangel.

Mr. RANGEL. I do not know when I am going to go wrong here, but I assume that there has been a dramatic increase in demand of petroleum. This is a result of winter being over and people getting ready to get their cars out of the garage and to make these trips. Then politically, we see a dramatic increase in gasoline prices at the pump. Politically, this disturbs everybody who is up for reelection, whether they are Republican or Democrat. We have to do something about it.

So while there is some question about how and why, at one time, we saw that dramatic increase. There is no question in my mind that the political solution appears to be to dramatically remove the 4-cent excise tax on gasoline.

I thought I heard you say, and this is basically my first question, that if you reduce the tax on gasoline, then you reduce the price of gasoline. Did you say that?

Mr. ROYCE. I think what I said was, and I was sharing an observation by a constituent of mine, he said, it is hard to figure out how we are going to get back to gas at 50 cents a gallon if 47.4 cents a gallon is what is paid in taxes to the government, and that was his point.

Mr. RANGEL. Congressman, I need your thoughts because I cannot bring my constituents' thoughts here, because the Chair would be embarrassed. But notwithstanding that, my President supports, I think, what you are saying, and I want to support my President. So my question to you is, Did you say that if you decrease the taxes, reduce the taxes, that the consumers will see a decrease in prices? That is all I am asking. Do you believe that?

Mr. ROYCE. What I indicated is that when government—and I think these were my words—when government increases taxes on a product or on a service, it is logical to believe the costs to the consumer are going to go up, and especially when government has imposed taxes to the tune of 47.5 cents a gallon, it is going to have an effect.

Mr. RANGEL. Forget what you said then. Let me ask a question of you now.

Mr. ROYCE. All right.

Mr. RANGEL. Do you believe if we knock off 4 cents a gallon of taxes right now, the consumer would receive any decrease in the cost of gasoline at the pump? Do you believe that will happen?

Mr. ROYCE. I think it will help drive down the costs if we help drive down the taxes.

Mr. RANGEL. I do not know what you mean by "help," but do you expect as a result of this repeal, this nonpartisan Republican Majority-Presidential agreement, that political year type of thing. Do you believe that once that is done, we should have reason to believe or do we believe that the consumer is going to pay less than he is paying today?

Mr. ROYCE. We have reason to believe that lowering taxes on a product will lower the cost to the consumer.

Mr. RANGEL. Would you support mandating the price at the pump be decreased by the same amount as we are decreasing the tax on gasoline? Would you support that we mandate it? Since we are all guessing and we want to please the consumer, we would not want anyone just to increase their profits by this and say that something else increased or we did not know about this or the President put too much.

Would you support the concept that, and if we cannot do it by law, we can certainly get language in here that we can expect this repeal be passed through to the consumer? This is election year type of talk, and I am prepared to join with you in a bipartisan way, that with any decrease we have in taxes, the cost at the pump be decreased by that amount.

Mr. ROYCE. Yes, I am happy to work with you on an amendment, to try to work out an amendment.

Mr. HANCOCK. Would the gentleman yield?

Mr. RANGEL. I will yield.

Mr. HANCOCK. Are you advocating price controls?

Mr. RANGEL. I am advocating reducing the price of gasoline at the pump to the American consumer as they get ready to embark on their spring and summer vacations.

Mr. HANCOCK. Are you advocating telling the oil companies that this is the price you are going to have to charge?

Mr. RANGEL. Between now and election, Mel, I want to reduce the price of gasoline at the pump and I want to do it any way that we can, and I do not want people to guess. I would hate to see that as we——

Mr. HANCOCK. You do not think that the marketplace will have any bearing on it?

Mr. RANGEL. Mel, please. I would hate to see——

Mr. HANCOCK. Thank you.

Mr. RANGEL. You are welcome—that we move forward and reduce the taxes and find some kind of way that we are embarrassed—not all, but those who support it—an increase in taxes at the pump. We do not want that, and I hope that we can agree we are going to mandate that if we reduce the taxes, they will reduce the price.

Thank you, Mr. Chairman.

Chairman ARCHER. The gentleman's time has expired.

Mrs. Kennelly for a parliamentary inquiry.

Mrs. KENNELLY. Mr. Chairman, it is more of a procedural question. You mentioned to Mr. Matsui, I guess in your opening remarks, that we were not going to address a "pay for" for the repeal.

Chairman ARCHER. They are not expected to come out of this Committee's jurisdiction.

Mrs. KENNELLY. So may I ask the question, Mr. Chairman, tomorrow, or if it is not tomorrow, the day that we mark up, Will we be asked to vote for repeal without knowing how it was going to be paid for?

Chairman ARCHER. The gentlelady can rest assured that the Budget Act will be complied with and that whatever we do will be revenue neutral. But the offset will not come from this Committee.

Mrs. KENNELLY. Mr. Chairman, I just would like to remind you, twice during the organization meeting this year, I tried to have the traditional way, as when we pass a tax reduction, we have to pay for it in this Committee, and we did not get that rule passed. But I just wonder how we can possibly vote for repeal, not knowing how it is going to be paid for. I hope that does not happen.

Chairman ARCHER. I would simply say to the gentlelady that the same argument was made, as you recall, last year when we got into the Contract With America and assurances were given both to the Members of this Committee and to the public at large that whatever we did would be paid for and it was paid for because the Budget Act requires that.

Mrs. KENNELLY. Is there a possibility——

Chairman ARCHER. I would give the same assurances to the gentlelady this year that were given last year, and the proof of it is that it did occur, and before the bill is voted on the floor of the House, it will be joined with a "pay for" so that the Budget Act will be complied with.

Mrs. KENNELLY. Mr. Chairman, that is my concern. Will we be asked to vote in Committee for the repeal before we know what the "pay for" is?

Chairman ARCHER. Yes, because you would not have any opportunity to change the "pay for" in this Committee, irrespective of what it is. It is not within the jurisdiction of this Committee, and any effort to change it would be nongermane.

Mr. NUSSLE. Mr. Chairman.

Chairman ARCHER. Mr. Nussle.

Mrs. KENNELLY. It is like voting for a pig in the poke, Mr. Chairman.

Chairman ARCHER. Mr. Nussle.

Mr. NUSSLE. Thank you, Mr. Chairman.

It is just remarkable to listen to the defenders of big government squirm and get all excited about this here today. In fact, listening to the gentleman from Michigan, I thought we were on the "Jeopardy" program and pretty soon he was going to ask for "Tax Increases for $500, please, Alex." That is not what happened, luckily, because if it did, we would have had to go into the history of this tax increase a little bit, so let me do that briefly, and then I have a question for you, Mr. Royce.

My understanding of how we got to this point is that the Democrats in 1993, as their way to "solve the deficit," was to increase taxes a lot, increase spending quite a bit but maybe not as much as they increased taxes, and as a result, they were going to solve the deficit. The righteous indignation we hear today about how this either worked or went to the solution does not recognize that, in fact, that solution in 1993 did fail and, in fact, it did not bring down the deficit. There have been deficits proposed and projected for years as a result of that 1993 deal.

Now they are running from their vote. The gentleman from Florida suggested that. He sure wanted that to go to the trust fund and he did not have any control over it. Of course, he was a Member of this Committee and in the leadership, but he did not have any control over that fact. Now, of course, they want to rewrite history and have amendments so that it goes toward the trust fund. But, in fact, it did not go to the trust fund. It went to fund bigger government.

Now Mr. Royce comes forward today with what I think is a reasonable proposal, one that suggests a way to pay for this by reducing the size of government. Maybe it means Hazel O'Leary is going to have to park her plane in the airport a little bit more than she is used to, and that is probably a good thing for all of us. But it means the cost of government is going to go down, and that is really the issue here today.

The President himself indicated he raised taxes too much and he did a mea culpa down in Texas about 1 year ago, suggesting and apologizing to the American people that he raised taxes too much. This is our opportunity to help him out by, whether it is Mr. Royce's proposal or another proposal, reducing the size of government so that we can, in fact, give back to the people, the American people, a little bit of what they earn, and that is really what this is all about.

There are some that suggest this is pandering. Obviously, they have never heard of the minimum wage. This is pandering? You have never heard of the minimum wage, obviously.

This is not pandering. It is putting back in the pockets of the American people that which they earned so they can spend it more wisely. They say there is no impact. Obviously, they have not talked to working families, maybe somebody who has their very first job, maybe on minimum wage, who have to pay more in taxes in order to get to work.

They say there is no impact on seniors that are living on a fixed income. They have forgotten about seniors now, all of a sudden. There is no impact, they say. They say, let us just continue this tax and let us just fund more government. Their answer is price controls. I do not think that is the answer.

Mr. Royce, what I would like to know from you, and this comes up quite often and I think Republicans are painted this way and it is really not true, I know I am not antigovernment. I know I am not antitaxes. I just believe that government ought to be at the right level, that taxes ought to be at a reasonable level to fund the right level of government, and that is at the local level. I do not think increasing taxes and increasing spending at the same time is going to solve our problems.

We brought to the table in 1993 the solution of cut spending first. That was almost a battle cry to my constituents. What do your constituents say? Is this really about gas tax, the 4.3 cents? There are some that say this has no impact. Or is this a bigger issue about bigger government and more taxes?

Mr. ROYCE. In terms of the impact to California, the impact is $550 million a year as a result of this tax. But in terms of what the thrust of this legislation is, we look at a Department of Energy that has grown to some $16 billion a year in its costs. The cost of repeal of this tax increase is about $5 billion a year. So what we are saying is, let us look at a government agency where the General Accounting Office has already told us they cannot overcome their management weaknesses, it has a lack of credibility, eroding public support, a diminishing sense of purpose. Let us cut that back. Let us do that instead of imposing the fees on the American people.

Chairman ARCHER. The gentleman's time has expired.

Mr. Kleczka.

Mr. KLECZKA. Thank you, Mr. Chairman.

Mr. Chairman, it has been very instructive listening to all the chatter this morning, but let me start by responding to my good friend, Mr. Nussle, when he talks about senior citizens and the gas tax. I checked my mail before coming down here and I have yet to receive any correspondence from seniors in my district, and I have a very large population. However, I have bags full of letters decrying your Medicare cuts, so maybe you should check your mail to see what the seniors in your district are writing about.

Mr. Nussle indicates that in 1993, there were some tax increases. The bulk went to those who could afford to pay more. But like Paul Harvey says, And now the rest of the story. That same bill in 1993 did provide over $250 million in tax cuts. We find that the annual deficit when this President came to office was some $290 billion. That has been reduced today to about $140 billion, a decrease of almost one-half. So if you are going to start portraying what happened in 1993, I think it is incumbent to tell the whole story and not just one-half of the story.

My good friend, Mr. English, indicated to Mr. Royce that he has made a powerful argument, but I say to you, after looking at the statistics as to where California is as far as a State gasoline tax versus where the Federal Government is, I think, Mr. Royce, your argument today should be made in Sacramento, California, imploring Governor Wilson to join with you in helping your consumers out by radically decreasing the gas tax in California.

Again, let me state, the gas tax in California, the State tax in California on gas is 30 cents a gallon versus 18 cents on the Federal level. So you are taking more—and you served in the State Senate for 10 years—you are taking more in the State from your consumers than the Federal levy is.

Mr. Chairman, I think we all know what is going on around here today. What you are attempting to do, and your colleagues, is to jump start the Dole campaign. If, in fact, the consumers are going to benefit while you do that, I will be supportive. But I have to join my colleagues in voicing a lot of apprehension that the consumers are not going to benefit at all from our action.

In fact, over the next few weeks, I will be watching very closely select stations not only in my district but out here to see whether or not even 1 cent went into the consumers' pocket. I do not think it is going to happen. I think what we are going to see a few months from now is the tax changes from our action will go to the pockets of the oil refineries and the consumers be damned. As I look over the last 1½ years, the consumers have not benefited at all by any of the Republican Congress action. All of a sudden, it is 6 weeks before the campaign or the election and now consumers have catapulted to the top of your list.

Let me ask, Mr. Royce, clearly, this has been identified as a 4-cent Clinton gas tax. Let me ask you, sir, if you would join me in increasing this tax decrease to the tune of 14 cents, the other 10-cent reduction reflecting the Senator Dole gas tax increase. I think if it is good for the goose, it should be good for the gander, and if you are so concerned about consumers, I think a 14-cent reduction in the gas tax is a lot more beneficial than 4 cents, so I will give you the 4-cent Clinton tax if you join with me and help me to repeal the 10-cent Dole tax. I think that is a fair proposal. Would you join me in that, sir?

Mr. ROYCE. What we are trying to do is get a bill through this Committee——

Mr. KLECZKA. No, no, no. Just answer the question.

Mr. ROYCE [continuing]. And onto the President's desk and signed. We are discussing——

Mr. KLECZKA. Reclaiming my time——

Mr. ROYCE. Could I just answer?

Mr. KLECZKA. If you are stating before the Committee that you are proconsumer, you have to agree that a 14-cent cut in the gas tax is a lot better than 4 cents, so let us join hands in a bipartisan way and let us go and repeal the 4-cent Clinton tax and the 10-cent Dole tax and I think we will have a deal then.

Thank you very much, Mr. Chairman.

Mr. ROYCE. Can I respond, Mr. Chairman? I would like the opportunity, if I could.

Mr. KLECZKA. Please do.

Mr. ROYCE. First of all, I am happy to support rolling back taxes. There is a time when I get a little suspicious as to the agenda——

Mr. KLECZKA. If a 4-cent Clinton tax is bad, then a——

Mr. ROYCE. I am going to try to respond, if I can.

Mr. CHRISTENSEN. Mr. Chairman, regular order.

Chairman ARCHER. The gentleman will suspend.

Mr. ROYCE. We have here a tax increase——

Chairman ARCHER. The gentleman will suspend.

Mr. KLECZKA. OK, Mr. Chairman.

Chairman ARCHER. I would like to give you the opportunity to respond, but the time is under the control of the gentleman from

Wisconsin. I believe he has yielded back the balance of his time, is that correct?

Mr. KLECZKA. No, Mr. Chairman, I think I ran out of time, but I would ask unanimous consent——

Chairman ARCHER. You are out of time now, so we will move on to the next questioner, Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

I would like to inform the gentleman from California, my colleague, that I will allow him a chance to respond. I found it a bit humorous, listening to the previous discussion. It was humorous because of the points that were made. We heard something about a Medicare cut. I do not know if the gentleman from Wisconsin was referring to the increase that we had in our budget from $4,800 per Medicare recipient to $7,200. Is that the cut that the gentleman was referring to?

The gentleman from California also mentioned he does not hear anything from his district. Mr. Royce, we are in the same State. My district is about 500 miles north of yours and very different than yours. You are in an urban district. I am in a very rural, agricultural district. Some of our major industries are wood products, paper and wood production. The area of my district is larger than the 10 smallest States geographically, larger than the 5 smallest States combined, and we do not have mass transit. We do not have the choice of not driving to work. We must drive. It is not a luxury to use an automobile, it is an absolute necessity.

You mentioned that the cost of the Clinton tax was $422 per person. President Clintons' tax increase was the largest tax increase in our Nation's history. Let us take this particular 4.3 cents, and let us put this in perspective. As you mentioned, it is not a user fee. It goes directly into a growing government bureaucracy here in Washington. I want to commend my colleague, the gentleman from California, Mr. Royce, for attempting to roll this back. It is about time.

I think we need to make sure we do not get lost in the rhetoric of the big Democrat lie of saying there are cuts when there are no cuts. We need to know what is really going on. We need to get down to the point that we are talking about which is real people and real families, Mr. Kleczka. I do not know if anyone has said anything to you or if people are telling you——

Mr. KLECZKA. Would the gentleman yield?

Mr. HERGER. No, I will not yield now, but I want to mention to you——

Mr. KLECZKA. Since you mentioned my name, it would be kind to yield.

Mr. HERGER. Maybe they do not care in Wisconsin that their taxes are going up so dramatically, but I can tell you——

Mr. KLECZKA. Wally, your State tax is 30 cents.

Mr. HERGER. All I hear——

Mr. KLECZKA. Your State tax is 30 cents, Wally. What have you done?

Mr. CHRISTENSEN. Mr. Chairman, regular order.

Chairman ARCHER. The gentleman from Wisconsin is out of order and he knows it. The time belongs to the gentleman from California.

Mr. HERGER. I have been home every weekend for the last 5 weeks and all I hear is the fact that our gasoline prices are going up. That is all I am hearing, so this is a major problem. I do not know if it is a major problem everywhere, but it certainly is in my district.

Again, I want to commend the gentleman for his legislation. I certainly support it very strongly, and everyone I talk to supports it. We are also in the process—my own State legislators are in the process—of rolling back some taxes there in California and changing the Air Resource Board, which is another environmental problem we have there.

Mr. ROYCE. That is a point. The California prices are over 18 cents, the State excise tax, and on top of that there are sales taxes in California. I have spoken to the new speaker of the California legislature and he is attempting to reduce those State taxes in California. As a matter of fact, he introduced a bill to do that, Mr. Herger.

Mr. HERGER. Thank you. I yield back the remainder of my time.

Chairman ARCHER. Mr. Stark.

Mr. STARK. I will yield to Mr. Matsui, Mr. Chairman, if I may.

Mr. MATSUI. Thank you, Mr. Stark. I appreciate it.

Thank you, Mr. Chairman.

Ed, could you tell me, when did you introduce your bill?

Mr. ROYCE. I introduced this bill 1 week ago.

Mr. MATSUI. During the energy increase? I thought maybe you had introduced it before. Could you tell me why you believe the price of gasoline, in some cases, as you say, has gone up 20 cents? I have seen it go up 30 cents in some areas in the Washington area. Perhaps you can give me your rationale as to why this price increase has occurred over the last 30 days or so.

Mr. ROYCE. I think there are a number of factors and I do not have the answer, but I do know one component that is a major part of the price of gas, and as I have shared with you, it is the government taxes on gasoline, 47.5 cents. So that is something we can do something about. I think we should do what we can about the other factors. I agree with you on that.

Mr. MATSUI. But do you know what these other factors are?

Mr. ROYCE. I have read the same stories and I have been in the same briefings, I think, you have been in. This has been shared with us.

Mr. MATSUI. Would you like to relate them to us? I think that is why we are all here today.

Mr. ROYCE. We have discussed the different aspects. Admittedly, we have a couple refineries down in California. We do have some problems with expectation that we could have oil coming on the market out of Iraq. That did not happen. We have questions about what is happening in the gross margin at the refineries. We have questions about what is happening with the oil situation in Russia coming on the market.

Mr. MATSUI. Maybe you could break it down.

Mr. ROYCE. There are a lot of factors.

Mr. MATSUI. I will give 4.3 cents out of the 30 cents, so we are down to 26, 25.7 cents. Where does the 25.7-cent increase come from over the last 30 days? Can you break it up for me? We are trying to make a deliberative decision here. Obviously, we have to make the same case on the floor and I would like some help. You are coming here as a Member who introduced a bill to reduce the gas tax and perhaps you can help us understand how we can bring the consumer back to what it was 30, 40, 50, or 60 days ago when it was $1.30 instead of $1.60.

Mr. ROYCE. And we are in the process——

Mr. MATSUI. If you could give us your rationale, that would help.

Mr. ROYCE [continuing]. We are in the process here of discussing some of the market forces which are being debated, are being investigated. The Air Resources Board in California is looking into this now.

Mr. MATSUI. But what about Washington? They do not have an Air Resources Board. Explain to me how that——

Mr. ROYCE. As you know, in California, one of the issues is we went over to a new type of fuel, a new type of petroleum.

Mr. MATSUI. But what about Washington?

Mr. ROYCE. That is somewhere close to 8 cents, or around 8 cents, I guess, a gallon. We have a situation with a couple of refineries in California that have been down.

Mr. MATSUI. So that affected the entire Nation, those two refineries?

Mr. ROYCE. And we have a refinery, I guess, down in Louisiana. We have a question on the gross margin on the refineries. We have a question in terms of expectation that we are going to have arrangements with Iraq that we are going to bring oil on the market. In the meanwhile, supposedly, everyone depleted their reserves. There are all these different factors that are being pointed to.

My point, though, is that there is one factor we directly influence and control and that is the cost of taxation on a gallon of gas.

Mr. MATSUI. Who are the experts you are talking to, because I would like to talk to them, too. Are you talking to any individual experts on this theory?

Mr. ROYCE. I think we are getting our information both out of the newspaper and——

Mr. MATSUI. Is that where you are getting yours out of?

Mr. ROYCE. That is where we are getting a lot of our information, and from our consultants on the Committees, yes.

Mr. MATSUI. I really appreciate this. This expertise that you are providing us on why the gas prices have gone up 30 cents a gallon has been very, very helpful, and I appreciate this.

I yield back my time.

Chairman ARCHER. Mr. Thomas. It was Mr. Stark's time. Does Mr. Stark yield back his time? I assume he does.

Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

I tell the gentleman from California, I have only been on this Committee 13 years now, so I do not have a long history of what has gone on, but it is a pleasure to announce to you that you probably have been asked more questions based upon your testimony than any other Member of Congress that has appeared before this Committee. I do not know what talent you possess, but you certainly have the ability to engage the attention of the Members of this Committee.

I want to thank you, one, for your legislation. I was somewhat amused by the gentleman from Wisconsin's reference to the rest of the story. Frankly, I did not think any Democrat would want to engage in the rest of the story dealing with the 1993 tax increase. This is only one aspect of the grab bag approach to try and find revenue to claim that they are beginning to reduce the deficit. Even the President said he raised taxes too much.

I am not going to focus on how much, because, clearly, it was too much, but rather on where they got it. This tax is an example of how they tried to piecemeal together the money to make it look good. They went after the seniors, increasing tax on Social Security above a stated income from 50 to 85 percent, the first ever shift from those sources of funds to try to cover up the continuing hemorrhaging in the trust fund in Medicare.

Even more ironic than that, where there was a cap on the amount of payroll subject to the hospital insurance tax increase, the Democrats in 1993 blew the lid off of that cap, arguing that that change would then provide sufficient revenue to protect the trust fund all the way into the middle of the first decade of the 21st century. And lo and behold, last week, CBO said the President's Board of Trustees in 1995 said, in 2002, we will be in the black by $5 billion on the Medicare Trust Fund. It turns out CBO is now telling us we will be $86 billion in the red.

The point is, on that tax, which they tried to gimmick to fix a problem, they are hemorrhaging. On taking money from the seniors, it was outrageous. And on the gimmick in terms of the tax on gasoline to make them look good as a response to the deficit, it was not a good idea, either.

I, frankly, am pleased that whatever the causes, the multiple causes of the need to focus on this kind of gimmickry has occurred, allows us to take a look at the way in which the Democrats said they fixed the problem, compare their attempt to fix the problem in 1993 with gimmicks like this to the current Majority, and the Chairman of this Committee's honest beginning of a fundamental assessment of the revenue that this government needs and how it is going to be extracted from its people.

I just want to tell my friend and colleague from California, this is not normal. You are the focal point for a number of frustrations because I think you are the one that has focused on the unraveling of this carefully knit political sweater that the Democrats did in 1993. You are the focal point; you are not the cause. If my colleagues spend more time than usual either trying to get you to claim you are an expert, and we have several panels to follow who certainly will provide us with far more expert opinion, you are an expert on your constituents. Your constituents are concerned and upset.

There are a number of other levels where there is taxation on gasoline. We hope those other levels address it. We are the Federal level. They did impose a 4.3-percent tax on gasoline. We can do something about that today, and I want to thank the gentleman for his legislation.

Mr. ROYCE. Thank you, Mr. Thomas.

Chairman ARCHER. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Chairman, first of all, I would like to respond to my good friend, Mr. Nussle. I notice he is not here right now, but you should understand this tax was enacted into law in 1993 to help reduce the Federal deficit. This effort reduced the deficit by more than $500 billion. Republicans have passed into law no legislation to reduce our long-term national deficit. Now they want to pass a law whose effect will be to increase our deficit by more than $30 billion. Will the Republicans enact any laws that reduce the deficit or only ones that increase it? That is the question facing this Committee and all of us today.

Mr. Royce, let me ask you, sir, you know and I know that 1996, this year is an election year and that is why we are holding this hearing. I think my good friend and colleague from Wisconsin is right. This is an attempt, a deliberate, open, blatant attempt to start a stranded, delayed Dole campaign. If this was not an election year, this Committee would have the common sense not to consider a bill that will repeal a tax for 7 months. Do you really think in your heart it is wise to repeal a tax for 7 months?

Mr. ROYCE. I came here in 1992 and I watched as this tax was increased on the House floor. I did not vote for the increase. Neither did my colleagues on my side of the aisle. My point is that when we repeal this tax, we should do it by what should have been our focus then in 1993, cutting excessive government bureaucracies and agencies that have grown at a horrendous, horrendous pace. We look at the Department of Energy and the growth rate there and the comments by the General Accounting Office, it is time to pare back some of these agencies.

No, there is no effect if we offset this tax reduction on the American people with a reduction in government expenses for bloated Federal bureaucracies like the Department of Energy. Then there is no impact, and Congressman Lewis, that is the approach I want to take in this legislation.

Mr. LEWIS. Let me ask you, do you think it would make more economic sense to repeal the tax until the first week of November, until after the election is over?

Mr. ROYCE. Pardon.

Mr. LEWIS. Do you think it would make more economic sense to repeal the tax until the first week in November, just until the first week in November, just until November 5?

Mr. ROYCE. No. It makes the most sense to cut the Department of Energy now and reduce the taxes now. That is what makes the most sense to me, and that is what I propose to do in this bill. I do not want to delay this. I want to implement it and I want to get some reductions over there in the Department of Energy.

Mr. LEWIS. I know you are from the State of California. I come from the State of Georgia. I have environmental concerns about repealing the gas tax. Unfortunately, there are no environmental groups here today to testify. My home district, the city of Atlanta, is a nonattainment area for ozone and other pollutants under the Clean Air Act.

Congestion and urban sprawl are two of the greatest problems facing our city and our landscape today, and we are so dependent on cars because gasoline is so cheap. The taxes we place on gasoline do not pay for the roads, the bridges that the government builds, the problems caused by pollution, health problems. I must tell you I am somewhat disappointed that as a Congress and as a Committee, this body is taking such a short-sided approach to our Nation's transportation policy.

Let me ask you the question, sir, Do you think reducing the price of gasoline undermines our efforts to encourage mass transit, reduce gridlock, and improve the health and environment of our Nation? What type of Nation are we going to leave for our unborn generation if we do not do something about urban sprawl and congestion?

Mr. ROYCE. Let me share with you, the taxes imposed by government on a gallon of gas across the United States are already over 40 cents a gallon. So, I think what we are doing by reducing this latest levy on the taxpayers is just making it more affordable for them, putting dollars back in their pockets that should have been left in their pockets to begin with.

I think a most important aspect of this is that when we look at what we have spent on the Department of Energy since President Carter created that agency, we look at the $15 billion a year we spend there, is it not time that we left more money with the taxpayer and got a rein on the costs of increase in the government agencies?

Mr. LEWIS. Mr. Royce, I do not think you are really dealing with the question I am trying to ask here. Do you think by reducing——

Chairman ARCHER. The gentleman's time has expired.

Mr. ROYCE. No, I do not. I really do not. I think it is a good move for the American consumer.

Mr. LEWIS. Do you not have some concern about the environment, about the future?

Mr. ROYCE. I do, and I——

Mr. LEWIS. Do you not think we should lose the love affair with the automobile?

Mr. ROYCE. We should lose the automobile?

Chairman ARCHER. The gentleman's time has expired.

Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman. I knew the day would come when I also wanted to thank you for helping me to get on this Committee.

I am not going to embroil myself in any of the political observations about the 1996 election because I think it is too important. Instead, I will talk about 1993. I was a Member of the Democratic party. I was a member of one of six or so Democrats who voted against the 1993 tax increase.

If there are those in this room who are bemoaning the difficulties they are now seeing from citizens who are not happy with the increase in gas prices, I now understand, because, my goodness, if they had passed that BTU tax that was the original proposal of Mr. Gore, they would not have to worry about calls and letters. They would have to worry about drive-by shootings. If you combine what happened in the Northeast this winter with the irate level of public concern, you would be sitting here today hoping you had enough National Guardsmen to surround this hearing.

I also understand now for the first time why Al Gore proposed a BTU tax. It was an environmental concern, and the gentleman from Georgia has expressed it. In other words, if you can find a way to make energy costs so high that no one can travel anywhere, you can force them to sit in cities they do not otherwise want to have to live in because their tax structure has become so incredibly high that it has forced business out. It is tax versus tax, and instead of considering lowering a tax, you figure out how to make one so incredibly high that just a high tax looks attractive in comparison.

Mr. LEWIS. Will the gentleman from Louisiana yield?

Mr. HAYES. No. I am just getting started. This is great.

Mr. LEWIS. You are a candidate for the Senate, that is why.

Mr. HAYES. First of all, if we will go back and take a look, in other words, it does not matter that over one-half of our oil products come from other countries. It does not matter they are imported here, that we now depend upon countries in the Middle East to give us products. It does not matter that our refining capacity has diminished over the last decade. It does not matter that we have environmental practices, many of which, John, I agree with you, are very good. But it does not matter that they exist. We are not willing to say they are going to have a cost impact. It does not matter. All of this is the result of pure politics, if you want to believe the opponents.

You had a harsh winter that nobody could do politically. You have refining capacity down that is not a political decision. You are lucky you ducked the bullet of the BTU tax, and instead, what you ought to do is what you can do.

Our solution in this Committee is to repeal a tax that should have never been passed, a tax that was coupled with 56 to 58 billion dollars' worth of giveaway programs to entice people to vote for the tax that passed by a single vote. And finally, the only alternative we have from the executive branch is to take an oldtime reservoir created in Elk Hills with about 30 minutes' worth of gasoline after it is produced and say, that, instead, is our alternative.

I know it is awfully hard to lower a tax, especially if you are in the Democratic party. It is extremely difficult to lower one, because then you start having to explain how it got raised there in the first place.

If old Isaac Newton was on our next panel, he would be absolutely astonished by some of the physics and economics he has heard here today. What we have heard is when a tax goes up, it is good. When it comes down, it does untold damage. Newton's third law of motion would apply. It applies to politics, too. For every action, there is an opposite and equal reaction. President Clinton was right when he said he made a mistake raising this tax. We should support him now and repeal it, because the opposite and equal reaction is from an irate group of American citizens who have been taxed to death.

Thanks, Mr. Chairman. I knew I would like serving here.

Chairman ARCHER. Mr. Matsui, do you still claim some time for yourself?

Mr. MATSUI. No.

Chairman ARCHER. Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman.

Mr. Lewis, being from Michigan, I would vote no on losing our love affair with the automobile.

This $268 billion tax increase which was passed in 1993, of which my colleague correctly pointed out initially there was going to be a BTU tax, and then a 7.5-percent tax increase, and fortunately, the Senate lowered that. It is still a bad tax, but those were tax increases on the rich. Of course, the rhetoric at the time ignored the gas tax increase and ignored the Social Security benefit tax increases. But economic studies have shown that that whole tax package has resulted in $2,600 less personal disposable income for every U.S. household. That is significant.

There has been a lot of discussion about how this tax decrease would affect consumers. I wish that same sensitivity on the other side had been shown when the tax increases were being debated. But as those who argued this was a tax increase on the rich, it does not surprise me they question whether the tax decreases would get to consumers because they underestimated the devastating impact these tax increases would have on every single American, $2,600 in lost disposable income per household.

Of course, the average growth rate in this country is at about 1.7 percent for the last two quarters. That is far too low. Last month, the economy only created 2,000 jobs. We should not be satisfied with that. We should be doing better, and we can be doing better. The reason we are not experiencing greater economic growth is because of this whole tax package, of which the gas tax is a part.

Higher incomes and more jobs would occur had the higher tax rates not been imposed, and this particular gas tax falls disproportionately on those at lower incomes.

I yield back the balance of my time.

Chairman ARCHER. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank Congressman Royce for coming here this morning. He gave us an opportunity for opening statements.

But Mr. Royce, I would just like to mention you have had a good deal of time before the Committee and two questions are still unanswered. One is how we pay for this repeal, and the other one is, I do not think—I may be wrong, but I do not think you gave us a way to assure that the tax goes back to the consumer so that they would notice.

Mr. ROYCE. I shared with you that the legislation would pay for the reduction of this tax by reducing the budget of the Department of Energy, and second, I shared with you a willingness to work with you in terms of that language.

Mrs. KENNELLY. I thank you for that. I have been working on it for some time, trying to give it back to the consumer, which is all our objective. It is almost impossible. But if you find a way, let me know.

Mr. ROYCE. Thank you, Congresswoman.

Chairman ARCHER. Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman.

Mr. Royce, I was interested in your last paragraph, when you say, “For these reasons, I am proposing the termination of unnecessary programs." I am assuming that you are talking about in the Department of Energy?

Mr. ROYCE. Right.

Mr. HANCOCK. Could you give me a necessary program that they have implemented?

Mr. ROYCE. Let me just share with you that over the last few decades, approximately $90 billion has been poured into energy research and development, $50 billion for nuclear energy, $19 billion for coal, $10 billion for solar, $5 billion for oil, $3 billion for natural gas, $2 billion for geothermal energy, $1 billion for hydropower, and given the dramatic sums invested in energy R&D over the last few decades, the government has little to show for its effort.

Although a small success here and there can obviously be demonstrated, the commercial returns on those investments do not even come close to matching the sums allocated. If Federal energy R&D programs were operated by a single business, that business would have gone bankrupt long ago.

My point is that as we look at the Department of Energy, we can make reductions there and this bill targets 30 percent reductions.

Mr. HANCOCK. I notice that the estimate of what we are spending on the Department of Energy is $16 billion a year. Is that correct?

Mr. ROYCE. Approximately.

Mr. HANCOCK. We are talking about a reduction in the tax of roughly $5 billion?

Mr. ROYCE. That is correct.

Mr. HANCOCK. Under those circumstances, would you advocate privatizing and turning these programs over on a competitive grant basis just completely for the necessary energy research, the R&D, and completely closing the Department of Energy?

Mr. ROYCE. What I have targeted are specific proposals that have been made by former Secretaries of the Department, proposals made by the General Accounting Office, and they total a sum of about 30 percent of the agency budget.

So that has been my recommendation at this time, because there is a connection between reducing the gas price, reducing the tax assessment for the American public, and the growth of this Department ostensibly created during the Carter administration to do something about energy prices in this country. Now, as we look at the cost to this country of close to $16 billion a year for this Department, it is clear that we should look at downsizing and cutting back some of those costs.

Mr. HANCOCK. Thank you. I think if we could move more in that direction in a lot of departments in government, we would be a lot better off.

Thank you, Mr. Chairman.

Chairman ARCHER. Are there any other Members who have not inquired who would like to inquire?

Mr. ROYCE. Mr. Chairman, I would like to thank you and I would like to thank the Members of the Committee.

Chairman ARCHER. Congressman Royce, thank you for taking the time to appear before the Committee and to respond to questions. We appreciate your input. You are excused.

Chairman ARCHER. The Chair would invite our first panel, Mr. Fleenor, Mr. Keating, Mr. Verleger, and Mr. Sherbert, to come to the witness table.

Gentlemen, welcome to the Ways and Means Committee. Our standard rules of procedure are that, without objection, your entire statement can be entered into the record in writing. We would ask that you limit your oral testimony to 5 minutes. There are three lights in front of you: green, yellow, and red. When the yellow light is turned on, it means you have 1 minute left. We hope that we can get your cooperation to summarize within that 5-minute limit.

Under those suggestions, Mr. Fleenor, would you please identify yourself for the record and then you may proceed.

STATEMENT OF PATRICK W. FLEENOR, ECONOMIST, TAX FOUNDATION

Mr. FLEENOR. Mr. Chairman, Members of the Committee, my name is Patrick Fleenor and I am an economist at the Tax Foundation. It is an honor for me to appear before your Committee today on behalf of the Tax Foundation to discuss proposed repeal of the 4.3-cent-per-gallon gasoline tax.

The Tax Foundation is a nonpartisan public policy research institute which has conducted analysis of tax policy since 1937. We do not take positions on specific pieces of legislation. Our goal is to explain as precisely as is possible the current state of fiscal policy and the consequence of particular legislation in light of established tax principles so that you, the policymakers, have the information you need to make informed decisions.

I have a prepared statement which I will submit for the record. I will summarize my statement.

The problem we find with the 4.3-cent-per-gallon gas tax has been discussed earlier. The initial concept of using the proceeds of excise taxes on motor fuels to fund transportation projects was a sound one. People using the Nation's transportation infrastructure are assessed a user fee via the excise taxes on motor fuels to fund highway construction, maintenance, and operation. The concept has long been recognized as a central tenet of public finance, known as the benefit principle.

The problem with the 4.3-cent-per-gallon gas tax is that it goes into the general fund and not into the Highway Trust Fund. This has undermined the integrity of the user fee concept that was initially envisioned for the Highway Trust Fund.

Repeal of the 4.3-cent-per-gallon gasoline tax would help to reestablish this principle. I would be happy to answer any questions.

[The prepared statement follows:]

Statement of

Patrick W. Fleenor
Economist
Tax Foundation

before the

COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

on

The Impact of the 1993 Tax Increase on Transportation Fuels

May 8, 1996

Mr. Chairman and Members of the Committee, my name is Patrick Fleenor and I am an economist at the Tax Foundation. It is an honor for me to appear before your committee today on behalf of the Tax Foundation to discuss the proposed repeal of the 4.3 cents per gallon gasoline tax.

The Tax Foundation is a non-profit, non-partisan research and public education organization that has monitored fiscal policy at all levels of government since 1937. The Tax Foundation is neither a trade association nor a lobbying organization. We do not take positions on specific legislation or legislative proposals. Our goal is to explain as precisely and as clearly as possible the current state of fiscal policy and the consequences of particular legislation in light of established tax principles, so that you, the policy makers, have the information to make informed decisions.

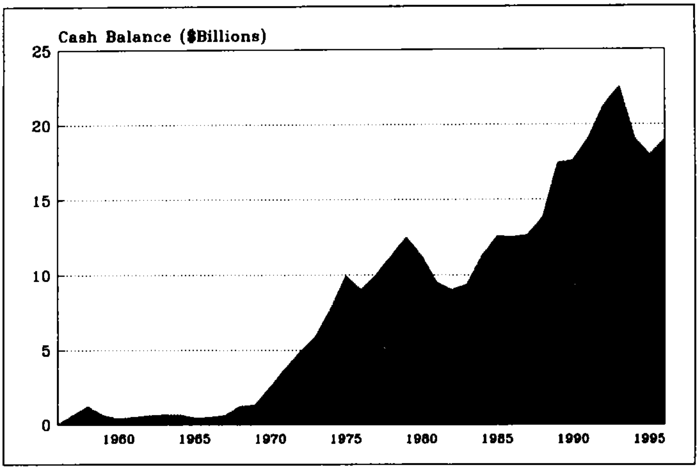
By abolishing the 4.3 cents per gallon gasoline tax, Congress would be acting in accordance with well established principles of public finance. If these principles had been applied over the past two decades, American households would face a federal gas tax that is substantially lower than the 18.3 cents per gallon tax imposed today. Application of sound principles would also have helped to maintain the Federal Highway Trust Fund as a user fee type system.

The Benefit Principle and the Federal Highway Trust Fund

An established tenet of public finance is the benefit principle. This idea dates back to Adam Smith and earlier scholars of public finance. It states that an equitable tax system is one in which the beneficiaries of a public service are taxed in accordance with their use of that service. Such a system creates a market-type mechanism which both forces users to conserve on their use of the service and provides it with a source of funding.

During the first 13 years of its life, the Federal Highway Trust Fund was an example of this type of arrangement. Users of the nation's transportation infrastructure were assessed a fee, via excise taxes on transportation fuels. These fees were then deposited into a trust fund and were withdrawn to pay for the construction, maintenance, and operation of transportation projects. Figure 1 illustrates that from the time of its creation in 1956 until 1969, virtually all of the revenue collected from excise taxes on transportation fuels and

Figure 1
Highway Trust Fund Cash Balance, 1956 - 1996
(Highway and Transit Accounts)



deposited into the Federal Highway Trust Fund was reinvested in the nation's transportation infrastructure.

The integrity of this user fee type system first began to break down in the early 1970s when the Federal Highway Trust Fund began to accumulate large balances. This was an indication that users of the nation's transportation infrastructure were being assessed a fee in excess of the benefit they were receiving. In accordance with the benefit principle, excise taxes on transportation should have been reduced at this time so as to maintain the equality between what users of the system were being required to pay and the actual costs of operating the system. Instead, excise taxes on transportation fuels have been consistently increased since this time and the Federal Highway Trust Fund has continued to maintain

huge surpluses. At the end of FY 1995, the latest data available, this surplus was $19.0 billion. Because the federal budget process allows these surpluses to be used as an offset against shortfalls in other parts of the budget, the revenues in this trust fund have, in effect, been used to finance other federal programs.

The integrity of this user fee type system was further undermined by passage of the Omnibus Budget Reconciliation Act of 1990. Like prior legislation, this act imposed a temporary 2.5 cents per gallon levy on all fuels used in highway and rail transportation. This temporary levy was set to expire on September 30, 1995. Unlike prior legislation, however, this legislation directed the proceeds of this tax hike into the General Fund rather than the Federal Highway Trust Fund. For the first time the tradition of using motor fuel taxes to fund transportation projects had been formally broken.

The Omnibus Budget Reconciliation Act of 1993 further dissolved this link by assessing a permanent 4.3 cents per gallon excise tax on motor fuels used in transportation. As was the case with the 1990 Act, all of the revenue collected from this tax was explicitly dedicated to the General Fund, not the Highway Trust Fund.

Repeal of the 4.3 Cents Per Gallon Gasoline Tax

The original concept of using the proceeds of motor fuel excise taxes to fund transportation projects was firmly rooted in the benefit principle. As stated above, however, the integrity of this system has been undermined by both the build-up of huge surpluses in the Federal Highway Trust Fund and the diversion of transportation fuel excise tax revenues into the General Fund. Repeal of the 4.3 cent per gallon gasoline tax would help to restore integrity to the system.

Mr. HERGER [presiding]. Thank you, Mr. Fleenor.

We will now hear from David Keating, executive vice president of the National Taxpayers Union.

Mr. Keating, your testimony, please.

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION

Mr. KEATING. Mr. Chairman, my name is David Keating. I am executive vice president of the 300,000-member National Taxpayers Union, and we appreciate the opportunity to appear before the Committee today in support of repealing the 4.3-cent-per-gallon gas tax increase adopted in 1993.

Repealing this tax will provide real and immediate tax relief to millions of working Americans. It will do so without the need to file any new forms to the U.S. Government, which I think is a great thing.

I recognize it is very difficult for those who favor big government to give up any revenue. For the past few days, we have heard news media accounts that repeal of the tax would mean little because it would mean savings of only some $40 or $50 per year for the average family. But we can and should do more to provide tax relief. This should be the beginning of a tax relief program.

I also remind you not to focus solely on averages. Recognize that averages do not give an honest picture of the help that repealing this tax would give to many Americans, including those who live outside metropolitan areas because they cannot afford high housing costs in the inner suburbs, those who do not have access to federally subsidized mass transit systems, and those who must use their cars to drive long distances to work or school.

A few months ago, I am sure many of you read the article in the Washington Post about how many workers must commute from the outer suburbs in many cities. There are people who commute from Winchester, Virginia, to Washington, DC. Obviously, repeal of this gas tax increase will greatly affect their pocketbooks. Remember, too, the commuters who must spend hours sitting on so-called freeways, burning up gasoline.

It is not simply the tax paid at the pump but the tax paid through higher prices at retail stores. Virtually everything bought in today's stores is delivered by trucks, and truckers must also pay higher motor fuel taxes from this 1993 tax hike.

Cutting this gas tax will not affect spending on infrastructure because the 1993 tax hike was simply a revenue raising device and none of the revenue was earmarked for highway repair or construction.

Please consider that the gasoline tax is not a true user fee, since its burdens bear little relationship to the actual use of or damage to the Nation's infrastructure. In fact, we could cut the gas tax even more if Congress were to reform expenditures from the Federal Highway Trust Fund or to move to a real user fee concept and reduce general gasoline taxes accordingly.

I think it is clear that cutting gas taxes would also increase our Nation's anemic economic growth rate. My written statement discusses some of the research that has been published on this subject.

Yesterday, according to the Tax Foundation, was Tax Freedom Day, the theoretical point at which we stop paying our taxes and begin earning money for ourselves. Tax Freedom Day came a day later this year, and it has been coming later in recent years. Our citizens expect and deserve significant relief from this crushing tax load. Working until May of each year is far too much for the average person. Much more needs to be done to provide tax relief, but decreasing the gas tax would provide the average American with an immediate, visible, and measurable reduction in the severity of the tax bite.

Mr. Chairman and Members of the Committee, you have an opportunity to provide real tax relief to Americans squeezed by high taxes by repealing this burdensome tax.

Thank you.

[The prepared statement follows:]

NATIONAL TAXPAYERS UNION

Statement of
David L. Keating
Executive Vice President,
National Taxpayers Union
before the
Committee on Ways and Means
U.S. House of Representatives
on the
Proposed Reduction of the Gasoline Tax
May 8, 1996

Mr. Chairman and members of the Committee, thank you for this opportunity to appear today in support of the proposal to repeal the 4.3 cents-per-gallon motor fuels tax increase that was imposed by the 1993 tax act.

The repeal of this tax is the best available means that the Federal government has to provide real and immediate tax relief to millions of working Americans who are faced with higher gas prices when driving to work and meet family needs.

I recognize that it is very difficult for those who favor big government to give up any revenue that could be used to support their objectives. For the past few days, we have seen their misleading claims in the media that repeal of the tax would mean little to most people because it would mean a savings of *only* some forty or fifty dollars per year for the *average family*.

Please do not focus solely on *averages*. Recognize, instead, that *averages* do not give an honest picture of the help that repealing the tax would give to those Americans who:

- live outside metropolitan areas because they cannot afford high housing costs;
- do not have access to modern mass transit systems, or must commute to or from areas not served by mass transit;
- must use their cars to drive long distances to work or school; or
- are in lower income levels where transportation costs use up a large share of their income and who often drive older, less efficient cars.

One recent news account reported the *average* savings per family from repeal of the 4.3 cents tax on motor fuels in D.C. ($30), Maryland ($46), Virginia ($52), and nationally ($48). The article did not illustrate the tax relief that repeal of the tax would give to the worker who lives in Frederick, Maryland or Winchester, Virginia who must commute 80 or 100 miles each day to Washington, or the worker in more rural parts of the country who commutes even further to work, or the workers who spend hours sitting in traffic jams on "freeways" in California.

Remember also that the tax that drivers pay at the gas pump is only a small part of the burden that is imposed on them by a motor fuels tax. A tax on motor fuels is also paid by those who produce, transport, and supply the goods and services upon which all of us depend. Thus, taxes on gasoline are reflected in the price we pay for our groceries, our clothing, our housing and other necessities. Again, those in low and middle income levels bear a heavy burden because a larger share of their income is used to pay for these necessities.

It is easy to see why many who live inside Washington's beltway or in other metropolitan areas favor a high gasoline tax. Those who live in the Washington area enjoy a modern mass transit system that has received massive construction and operating subsidies -- at the expense of taxpayers across the country -- while those taxpayers outside the area struggle to support their families and pay their taxes.

Opponents of reducing gasoline taxes have abjectly failed to make a rational political or economic case for their position.

Those who warn that cutting the gasoline tax will increase the deficit overlook current efforts by many in the House and Senate who support offsetting any projected revenue loss with reductions in wasteful or low-priority spending. Decreasing the federal rate by 4.3 cents would amount at most to a tiny fraction of one percent of all annual federal outlays. Congress could also examine any of a myriad of additional program reforms -- from power marketing subsidies to television spectrum giveaways -- that could easily provide billions more for tax relief.

Historical evidence shows that unrestrained spending, not restrained taxes, fuel deficits. Recent studies from the Joint Economic Committee have found that each dollar in new taxes has triggered over one and one-half dollars in new spending.

This lesson is not lost on the American people. They instinctively distrust politicians who tell them that enacting -- or preserving -- tax hikes are good for families because they reduce the deficit. A recent series of scientific polls of 1,000 registered or likely voters by Grassroots Research, an independent polling firm found that 78% of those surveyed believe that if taxes were raised for the stated purpose of reducing the deficit, the money would actually be used to fund other government programs. These results suggest that defending the current gas tax burden because of its impact on the deficit will not resonate with most Americans.

Cutting the gas tax will not affect spending for federal highways under the Highway Trust Fund. The 1993 gasoline tax increase was simply a revenue raising device, and the revenues are not earmarked for highway construction or repair.

The gasoline tax is not a true "user fee," since its burdens bear little relationship to the actual use of or damage to the nation's infrastructure. The gas tax could be cut even more if Congress were to reform expenditures from the federal Highway Trust Fund. Another way to provide more substantial tax relief would be to move to a real user fee and reduce general gasoline taxes accordingly. Most of the damage to the nation's highways comes from heavy trucks, and the motor fuels tax does not compensate for this damage.

Those who are concerned about the environmental impact of reducing gas taxes should re-examine how the present flawed structure already serves as a roadblock to more efficient environmental policy. The gas tax distorts the marketplace and hampers incentives for automobile and truck users to minimize highway congestion and associated environmental damage. Virtually every industry charges higher prices to avoid long waits or overuse in peak periods by customers. For example, it normally costs more to make a phone call during the day than it does at night. But the toll to cross the Lincoln tunnel in New York City is the same 24 hours a day.

Cutting gas taxes could also increase our nation's anemic economic growth rate. One analysis estimated that an average of 8,000 auto and related industry jobs alone would be lost for every penny of higher gas taxes. Another study from the Institute for Research on the Economics of Taxation found that a gas tax hike of 7.3 cents per gallon, originally proposed as a substitute for the ill-fated BTU tax, could have cost between 200,000 and 225,000 jobs.

IRET concluded that a tax hike of that magnitude could have reduced GNP by approximately $25 billion. As a result, a significant share -- as much as one-fourth -- of the proposed additional gas tax revenues would have been offset by lost revenues in income and other taxes.

Although the final gas tax increase to which Congress agreed in 1993 was 4.3 cents, the basic economic lessons from studies of the 7.3-cent increase still apply. Clearly, economic growth could have been more robust, and would be more robust in the coming years, if the increase was repealed.

At the beginning of this Congress, the Contract With America initially promised taxpayers $354 billion in tax relief. That promise eventually shrank to $245 billion, only to be vetoed in its entirety by President Clinton. It is sadly ironic that yesterday, taxpayers were able to "celebrate" Tax Freedom Day, the theoretical point at which they stop working to pay taxes and begin earning money for themselves. Tax Freedom Day came one day later this year.

Our citizens expect and deserve significant relief from this crushing tax load. We hope that the rest of the 1990 and 1993 tax increases will be repealed. While much more needs to be done, decreasing the gas tax would provide the average American with an immediate, visible, and measurable reduction in the severity of the tax bite. Congress and the President should not delay in providing this down payment on a less burdensome tax system.

Mr. Chairman and members of the Committee, you have an opportunity to provide real tax relief to Americans squeezed by high taxes. Repeal this burdensome tax.

Mr. HERGER. Thank you very much, Mr. Keating.

We will now hear from Philip Verleger, vice president of Charles River Associates.

Mr. Verleger.

STATEMENT OF PHILIP K. VERLEGER, JR., VICE PRESIDENT, CHARLES RIVER ASSOCIATES

Mr. VERLEGER. Thank you, Mr. Chairman. It is an honor to appear here today. I note that I received the invitation at about 5 o'clock yesterday afternoon, and so my testimony is very brief. I have attached a speech that I gave earlier this month to SIGMA, the Society of Independent Gasoline Marketers, explaining my interpretation of recent events in gasoline markets.

I should say I appear as an individual and the views I express are my own, not those of Charles River Associates, an economic consulting firm. I have also served in the past at the U.S. Treasury, and my primary business is as a petroleum economist and consultant to the petroleum industry.

I am here to comment solely on whether the consumer will receive any benefit from a reduction in the 4.3-cent-per-gallon gasoline tax. As I explained in the speech to the Society of Independent Gasoline Marketers, the increase in the price of gasoline is due to a series of facts, almost all entirely unrelated right now to the current gasoline tax.

The increases are caused by regulations imposed by the U.S. Environmental Protection Agency, which have almost criminalized the distribution of gasoline. The higher price of gasoline today is substantially due to EPA regulation.

The increases in price also stems from the fact that we have had a series of serious problems at U.S. refineries after a number of years of good luck.

The increase in gasoline prices recently is due to the fact that consumption has risen, in part, because consumers have shifted to much larger vehicles.

It is my conclusion that over the next 3 months, there is nothing Congress can do to affect the retail price of gasoline in most regions, because it can neither increase the supply of gasoline nor reduce its consumption. Had EPA not issued regulations that made it very difficult to import gasoline, we could import gasoline in larger volumes and that might bring down the price. But essentially, the supply now is inelastic.

I note that the chairman of Atlantic Richfield Co. said this week at the stockholder meeting that he was not sure a cut in the gasoline tax would be reflected in lower retail prices.

I am concerned the temporary cut in the gasoline tax would lead to uncertainty in financial markets due to the concern in their markets over the budget deficit. I can envision some increase in interest rates in the event of this particular tax cut.

Therefore, I conclude that the cut in the gasoline tax would probably not be reflected in retail prices or get to the consumer until after Labor Day. In the meantime, the cut could quite possibly increase voter cynicism about the actions that take place in this town. In my opinion, it is a bad idea, particularly on the proposed 7-month basis.

Thank you for inviting me to speak.

[The prepared statement and attachment follow:]

Testimony of Philip K. Verleger, Jr.
Vice President
Charles River Associates[1]

Before
Committee on Ways and Means
U.S. House of Representatives

May 8, 1996

The recent increase in gasoline prices has led to proposals to temporarily suspend the 4.3 cents per gallon tax on gasoline imposed as part of the 1993 Budget Reconciliation Process. I believe that such an action would be a drastic mistake for the following reasons.

First, as I explained in a speech given to SIGMA, the Society of Independent Gasoline Marketers of America, the increase in gasoline prices is the result of a number of factors. Among the most important of these are (1) regulations promulgated by EPA that limit the flexibility of the gasoline distribution system, (2) accidents at certain critical refineries, and (3) the increase in gasoline consumption that has resulted from higher speed limits and the purchase of less fuel-efficient cars. Suspension of the gasoline tax will do nothing to correct these factors.

Second, the increase in gasoline prices is the consequence of a limited supply of gasoline. Under these circumstances, the only two ways of bringing about a reduction in the price of gasoline are to (1) increase supply or (2) reduce consumption. Since the tax cut will affect neither supply nor demand, I conclude it will do nothing to affect retail prices.

Third, the decrease in the gasoline tax will have an adverse affect on government revenues and will cause an increase in the budget deficit. Further, I fear that a temporary cut in the gasoline tax will increase concerns in financial markets that the United States is losing its willingness to address the budget deficit. If this happens long-term interest rates could increase and economic activity could be adversely affected.

Fourth, I believe there is a real possibility that tightness in gasoline markets will prevent the benefit of the cut in the tax from reaching the consumer until the fall. If this happens the tax cut will serve only to increase voter cynicism.

Fifth, I strongly applaud efforts by both the majority and the minority parties to remove the federal government from micromanagement of the U.S. economy. We learned from a long and very difficult period in the seventies that government intervention in the economy often had perverse effects. Most economists credit much of the steady improvement in the economy since 1980 to the removal of government controls over energy regulation and other sectors of the economy. The proposed cut in the gasoline tax represents a return to the interventionist past.

For these reasons - and a host of others - I strongly oppose the proposal to cut the gasoline tax under the current circumstances.

[1] Affiliation shown for information purposes only. The opinions expressed in this paper are solely those of the author and do not necessarily reflect the views of Charles River Associates.

Market Chaos

A Speech to The
Society of Independent Gasoline Marketers of America

by

Philip K. Verleger, Jr.
Vice President

Charles River Associates
1001 Pennsylvania Avenue
Washington, DC 20008

April 28, 1996

Thank you for inviting me to appear at this annual meeting of the Society of Independent Gasoline Marketers. I am particularly grateful to Leo Liebowitz and Ken Doyle for the invitation. It is a special pleasure to be here in this lovely location.

These are not, however, lovely times for gasoline marketing business. Recent increases in prices of crude oil, heating oil futures, natural gas, natural gas futures, and gasoline futures, and in wholesale prices of heating oil and gasoline, have led a number of parties to question to the market's rationality. The phrase I hear every day is " what's going on?" Recent articles in *The Wall Street Journal* and hearings before the California Air Resources Board have created more smoke than light.

Why all the noise? Consider the following facts. Since December the price of natural gas has increased from $2 per mcf to $14 per mcf on spot markets. This winter some consumers of natural gas in Chicago paid $60/mcf for small supplies of natural gas — the equivalent of $360 per barrel for oil or $8.60 per gallon for gasoline. (Imagine how drivers of natural-gas-powered vehicles would have felt if they had been forced to pay such prices.) Spot heating oil prices rose from $0.50 to $0.79 per gallon in New York Harbor. Crude oil prices increased by 50 percent from $17 per barrel in mid-December to $25.43 a few weeks ago. And now some observers — myself included — say gasoline will be next.

While I will refrain from offering a forecast of prices for the summer today, I would like to talk to you about the factors driving the markets. It is important for you to understand these factors because they are likely to become a permanent fixture on the landscape — a fixture you must understand if you want to survive. I will briefly list these factors and then go into more detail on many of them.

The *first* critical factor driving prices up is environmental regulation or rather, regulations. In particular, regulations mandating the introduction of various types of gasoline and regulations that make it economically dangerous to own storage have limited available supplies and increased prices.

The *second* factor driving up prices is bad luck. For the last several years, directors of refining economics at every company I know have hoped that one of their competitors would suffer an upset. No one wanted their friends to have a major disaster and clearly no one wanted to see refinery workers harmed. But everyone secretly hoped the supply chain would be moderately disrupted. This year, the disruptions are happening.

The *third* factor is consumption. American consumers are in love with the large utility vehicles that are subject to minimal CAFE standards. They also love speed, and the increase in speed limits has boosted use. The EIA estimates that the combined effect of these factors may raise consumption by 2 percent. I think growth may be larger if supply is available.

The *fourth* critical factor is weather. Cold weather provided an extra stimulus to consumption this winter, perhaps delaying the shift to maximum gasoline production. At the same time, droughts and low grain stocks are boosting agricultural demand for fuels while limiting ethanol availability.

The *fifth* factor is the industry's aggressive effort to boost return on investment. Through all sectors of the economy, including the energy industry, CFOs have been sending out the order to increase returns on assets or dispose of them. One response has been to reduce working capital invested in inventories.

The *sixth* factor has been the desire to avoid losses if and when oil prices collapse. Companies do not want to be caught with high priced inventories if this happens.

The *seventh* factor is the loss of liquidity in energy commodity markets — particularly gasoline. This has made it harder to hedge and has reduced the market's usefulness.

The *eighth* and probably least important factor has been speculation. Over the last few years, speculators have influenced oil price movements, and as of last Tuesday, speculators had clearly contributed to the increase in gasoline prices. However, their role in the recent episodes has been minimal. In fact, increased speculation might work in the interest of gasoline marketers.

Together, these eight factors have created a witch's brew of price volatility, high spot prices, high retail prices at times, and an absolutely impossible business environment. While I fervently wish this situation would go away, I am here today to tell you it won't. I am also here to tell you there is very little the government can do in the short run to fix the problem unless it repeals important environmental laws, which it won't. Thus my task here is to provide some advice on how you might survive and profit in this more turbulent environment.

GOVERNMENT REGULATIONS

One of the primary causes of the price increase — in my view, perhaps *the primary cause* — is, unfortunately, government regulation. Various laws enacted by ill-informed or uncaring legislatures and enforced by equally ill-informed regulators have combined to reduce the oil industry's ability to supply the market with products required by consumers. These regulations and laws have also removed the flexibility of the petroleum distribution system, making large price increases more likely.

The actions that I believe have had the most pernicious effect are those related to groundwater contamination and reformulated gasoline. Enforcement of the Clean Water Act has almost made it a crime to operate a petroleum storage facility. As a consequence, every company has sought to limit its storage capacity and rely hopefully on the other guy. Shell capacity of storage has been reduced, and ironically, companies have been complemented by environmentalists for their actions.

And why not complement them? After all, storage facilities are unsightly, occasionally pollute, and perform no obvious service that consumers or environmentalists can see. Thus the closure of these facilities has been viewed as good.

However, the opponents of storage miss one important point — capacity is necessary to smooth out unexpected blips in production or consumption. Inventories allow firms to meet unexpected surges in consumption or cuts in production in an apparently seamless fashion. If inventories are not available, we all know what happens. As we learned in first-year economics, prices change (increase) until markets clear. If buyers panic, the increase can be quite dramatic.

Thus the government's admirable push for clean water combined with its arbitrary implementation of the Clean Water Act have contributed to the price increase by making it more difficult, more costly, and more financially dangerous to own storage facilities.

The second regulatory contributor to the price increase has been the introduction of reformulated gasoline. The RFG program represents another example of a well-intentioned program that has harmed both consumers and refiners. I would like to say the program's impact has been a surprise. However, I cannot. Indeed, I wrote about the implications of the program almost two years ago and my forecast has proven to be all too true.

There are, as you know, a host of problems with the RFG program. However, the basic difficulty with the regulations is they require more product segregations. This requirement ties up existing storage facilities and limits distribution flexibility. The consequence is that companies have to hold larger total inventories to meet a given level of total demand, while limiting the possible impact of sudden changes in consumption or production. If 300 million barrels of stocks was the correct amount before the transition to RFG, 400 million barrels may be the right number today.

However, as noted above we are operating with fewer total stocks, not more. Thus the clean water regulations and the RFG regulations are in conflict. The result is price volatility.

Of course, the problem could be resolved by importing more products. However, the ability to do this has been reduced by regulations included in the RFG program, which have effectively boosted the costs incurred by foreign refiners who participate in the market. The net effect has been to limit imports.

REFINERY ACCIDENTS

Bad luck at the nation's refineries has also contributed to price volatility. For the last several years, refiners have operated at historically high utilization rates. Experts have marveled at the industry's success and, at the same time, crossed their fingers because they recognized that refineries can experience disruptions. This year it appears the industry's luck has run out. During the period of peak distillate consumption, several East Coast refineries experienced disruptions that caused them to cut output. And this spring, several West Coast refiners have experienced outages that led to reductions in gasoline and heating oil production.

Such disruptions would have caused price changes in the past, but the effect would have been smaller because there was greater fungibility among products and larger inventories. Today, the mandated shift to a wide variety of products combined with the higher risk of holding inventories exacerbates the impact of refinery problems.

Unfortunately, the problems that have occurred this year have come about early in what is known as the driving season. This fact should concern you, the public, and those policymakers who are awake. The loss in productive capacity threatens to leave us unprepared for the summer — especially if there are more refinery problems.

CONSUMPTION

The third factor contributing to recent market events is increased consumption. Here there is a big surprise that I would like to bring to every bureaucrat's attention: consumers drive more when their income increases. Consumers also like comfortable cars. For years, environmental advocates have pointed to Japanese and European automobile owners as being environmentally correct because they did not buy big cars. At least they did not buy big cars until their incomes increased. Recently, sales of full-sized passenger vehicles in these countries have increased dramatically. If you want proof, just visit Tokyo. The freeways there are packed with large cars crawling along at 5, 10, or 15 kilometers per hour, depending on road conditions.

In the United States, consumers have shown a strong preference for vans and sports utility vehicles. Air conditioning is also a popular option. As a consequence, consumption per car is increasing again after remaining stable for years. I expect it will continue to increase.

A further stimulus has come from the removal of the "double-nickel" speed limit. As most of you know, average speeds have picked up noticeably since the 55 mph speed limit was repealed. Fuel economy per vehicle has declined as speed has increased.

Unfortunately, the members of Congress who restored the higher speed limits did not bother to grant relief to the refining industry in terms of making or storing more gasoline. The people who produce the fuel are expected to make do under the more rigorous program.

The consequences are not surprising. Consumption has increased while limits on storage and production have remained fixed. Bottlenecks have occurred. More bottlenecks will occur.

WEATHER

Weather has also played a very important role in the market gyrations over the last few months. Cold weather during the winter boosted heating oil consumption and pushed up prices. High distillate prices caused refiners to operate in maximum distillate mode longer than they had intended, thus delaying the shift to gasoline.

The drought in the grain belt will add pressure on prices this spring by cutting the availability of ethanol to the gasoline pool and by boosting consumption from the agricultural sector. The impact is identical to the effect noted earlier when I discussed the role of government regulations. Supply was reduced by the cold weather and drought, and high prices are now stimulating consumption.

CASH MINIMIZATION AND JUST-IN-TIME INVENTORIES

One of the important and, until recently, ignored stories in the industry has been the aggressive effort by senior managers to extract cash from the business. For the last ten to fifteen years, companies have worked very hard to reduce the amount of working capital tied up in stocks. Recently, however, the effort to limit inventories took a new turn — firms began to tolerate runouts.

The impact of the change in strategy should not be underestimated. This was brought home to me recently when I made one of my periodic presentations to the senior managers of a major oil company. One individual in the audience asked me what was different today from the situation a year ago or two years ago. This individual went on to note, "We have been trying to minimize working capital invested in stocks for years."

I responded by asking for a show of hands from the audience by individuals who had managed terminals. I then asked these people whether the situation had changed. The answer was that it had. Up until late 1994 or early 1995, the cardinal rule for terminal managers was never run out. One former manager noted, "There are quite a few used car salespeople who once had promising careers in the oil industry until the terminal they were managing ran out of product. Then they quickly became expendable."

The situation today is different. One major keeps a sign in its trading room that says "KILL." The goal is not to kill the competition but to "*Keep Inventories Low and Lean.*"

The effects of this new policy were seen in the natural gas market this winter. Last year (that is, in the fall of 1994) many local distribution companies (LDCs) went into winter with high stocks which, it turns out, were not needed because the weather was warm. As a result gas that had been purchased for $1.80/mcf had to be sold for $1.40/mcf or less. Some of the losses were passed on to LDC stockholders because regulators treated the losses as imprudent.

This year the LDCs apparently went into winter determined not to be stuck with unwanted stocks at the end of the year. Inventories were much lower and, as it turns out, inadequate for demand. The consequence was much higher prices.

The same situation occurred in the distillate market. In the spring of 1995 dealers found that they had unwanted inventories of heating oil. In the past these stocks would have been sold into the distillate market. However, the imposition of more stringent requirements on diesel fuel made it impossible to sell the fuel for over-the-road use. The product had to be held or sold at a large loss.

This year heating oil dealers entered the winter with lower stocks. When cold weather arrived, they were forced onto the spot market, where they bid up prices. Their demand spurred refiners to continue in maximum distillate mode for a much longer period.

Here again one can see the pernicious impact of government regulations on the market. The shift to low-sulfur diesel fuel, while undoubtedly a good idea, has fractured the distillate pool and removed market flexibility. When consumption is unexpectedly higher than anticipated, the incremental requirements must be met from production, not stocks.

AVERSION TO FALLING PRICES

The recent market events can also be traced to the fear of an impending price collapse. For the last nine to twelve months, oil buyers have operated in fear of an impending glut of oil and the possibility of another price collapse. This worry has been exacerbated by the promise or threat of Iraq's return to the world oil market, a concern that seemingly dominates the action of every trader.

There are two obvious ways to deal with this problem. The first is to hedge inventories. The second is to either own no inventories or operate with the minimum level of stocks. Most companies have decided to cut or eliminate inventories.

The first option — hedging — has become a less and less satisfactory means of obtaining financial production from price collapses as inventories have been drawn down. To be precise, the lower inventories are, the more expensive it is to hedge. The cost of hedging is revealed in the spread between the first and second month futures contracts (a so-called calendar spread). As these spreads worsen, a firm considering holding inventories and hedging faces increased "backwardation" (a condition that exists when cash oil sells at a premium to forward oil). In turn, the cost of hedging increases.

For example, in periods of high inventories, oil futures may sell for two or three cents per gallon more than cash. In such circumstances, a firm that hedges actually locks in a profit, selling not at today's price but at a price that is two cents higher. Under these circumstances, it is not expensive to hold stocks.

However, in periods of low inventories it becomes expensive to hedge. Gasoline supplies today may sell for 65 cpg, while supplies for next month may sell at a discount of 2,3,4, or 5 cpg. In such a situation it is very, very expensive to hold stocks.

This phenomenon can also be described using terms from the insurance industry. During periods of high inventories, it is very inexpensive to purchase price insurance (that is, to hedge). It becomes progressively more expensive to buy insurance as inventories decline.

Unfortunately, the desire to minimize stocks to avoid potential losses from a price collapse has a way of becoming a self-fulfilling cycle. As stocks decline, the cost of buying price insurance (hedging) increases and as the cost of buying price insurance increases, firms reduce inventories. Today we are in one of those cycles. Some companies have begun to run down stocks to free up working capital and to avoid inventory losses of the type associated with the 1986 price collapse. As inventory levels decline, their actions push the market into backwardation, causing other companies to cut stocks.

LOSS OF MARKET LIQUIDITY

The gasoline market has also been plagued by a loss of liquidity in the futures market. This has made it more difficult to hedge substantial volumes and, as a result, limited the ability of foreign offshore refiners to participate in the market.

The loss of liquidity can be traced to the shift to reformulated gasoline — again evidence of government meddling — and to the confusion at the state level as to the specifications required. Here the finger needs to be pointed squarely at the governors of New Jersey and Pennsylvania. Their actions last year on "opt outs" and the months in which oxygenates are required had a devastating impact on the gasoline futures market. Consumers in their states are now paying heavily for these actions.[1]

[1] I prepared an affidavit for the New York Mercantile Exchange in its suit with the state of New Jersey. In that affidavit I stated that the confusion created by the state would result in a loss of liquidity in the market and higher prices this spring. Unfortunately, I was right.

Here I need to point out that futures markets are delicate instruments. Participants use them with care when they are new until they can be sure that the delivery mechanism works and that futures prices converge to cash prices. Use drops every time there is a change in specifications. For example, use of the gasoline contract dropped in the mid 80s during the switch from leaded to unleaded gasoline. Use also dropped with the switch to RFG until the basis between the products could be established.

However, the uncertainty created by the governors of Pennsylvania and New Jersey has caused a far greater decrease than might have been predicted. Further, use has not picked up substantially.

When you think about it, you reach the conclusion that there is no reason for use to pick up. There is still uncertainty regarding the continued participation in the RFG program by many counties in the Northeast. Indeed, one or two entire states may drop out. Further, the EPA has made it clear that regulations requiring prolonged reviews of withdrawal petitions will be waived. Since the Republicans took over Congress, the EPA has been all too willing to take the politically expedient action and let a state or county opt out on almost no notice. The agency's view seems to be "so what if a few oil companies lose money. It is not our problem."

This uncertainty makes it much riskier to hedge and much more advantageous to hold low stocks. This is precisely the action the industry has taken. Unfortunately, marketers and consumers pay a heavy price for this.

The uncertainty also makes it much riskier to be an independent refiner. And not surprisingly, firms like Tosco have aggressively expanded into the retail business, in part to protect themselves from the whims of government regulation.

SPECULATION

Speculators are also blamed by some observers for recent market events. The purchases by these participants, it is claimed, have tended to raise the level of prices and boost price volatility.

In my view this conclusion is incorrect. Indeed, I would argue that the problem is there is too little, not too much speculation.

Let me begin by defining speculation. Speculation in commodity futures consists of the purchase or sale of commodity futures or other instruments linked to commodities by buyers or sellers. These buyers and sellers are not involved in the underlying physical business and for them, the fluctuations in the commodity price do not correlate with fluctuations in the revenues received from the firms' actual business. In short, speculators buy or sell the commodity to earn a return on the fluctuation of the commodity's price.

Those who participate in speculation range from single individuals (the infamous doctors and dentists) to hedge funds to pension funds. Today a large share of the money comes from pension funds, who have concluded that the overall returns on the funds under management can be increased or risk exposure reduced by investing in commodities. This group of speculators is more appropriately labeled "commodity investors."

Taken together, speculators tend to be buyers, not sellers of commodity futures. Examining data from the Commodity Futures Trading Commission reveals that the speculative segment of the market tends to be long, not short futures. This seems to imply that speculators push up prices.

Such a conclusion is incorrect because speculators must offset their positions, ultimately selling out a long position or buying back a short position. Thus speculators (including commodity investors) will bid up forward prices when they buy and then depress cash prices when they liquidate their positions. Alternatively, speculators will push down forward prices when they short the market and then push them up when they offset their positions. Since speculators on average tend to be long, it appears that speculation pushes up forward prices.

By boosting forward prices, speculation boosts the economic incentive to manufacture gasoline and to hold inventories. Thus speculation tends to help, not hurt, this segment of the business.

The positive impact of speculation could be seen at its best during the period in which Metalgesellschaft dominated the market — say, from the spring of 1993 to the spring of 1994. Although that firm's actions were referred to in the press and some academic articles as hedging, MG was in fact engaged in a very large bet on higher oil prices — a bet that could have put many firms out of business. MG's bet took the form of being long gasoline and heating oil futures. Its trading pushed up forward prices and provided an enormous incentive to make gasoline and hold inventories. One firm, Tosco, even acknowledged that the incentive provided by the market caused it to increase production of gasoline and heating oil at its Bayway refinery by 50 percent.

The beneficiaries of MG's bet were consumers and marketers. The increased demand for futures led to greater production and lower prices.

Unfortunately, there are too few speculators today. As a result, the market provides less of an incentive to manufacture and store gasoline. Consumers and marketers are the losers.

The decline in speculation is directly related to the problems cited above with RFG — in other words, government regulation. Surprising as it sounds, speculators want the same thing the industry wants — a fair market. One of the elements of a fair market is liquidity. Speculative funds want to be able to open and close positions without affecting prices. Thus they will participate in large markets but stay away from small markets.

The shift to RFG and the government's poor management of the transition has limited liquidity in the market. Open interest in gasoline futures had dropped by 70 percent from peak 1993 levels. Speculation is down and prices are up. You know who has lost.

CONCLUSION

Let me conclude then by suggesting that many of the causes of the current market turmoil can be found in Washington and in the capitals of the 50 states. Regulation adopted relating to the introduction of reformulated gasoline, higher costs associated with the storage of petroleum products, last minute changes in the RFG program, and increases in speed limits have contributed to the market volatility both directly and by cutting into the liquidity of the futures market. Bad luck and cold weather have also had a significant role in 1996. Finally, the aggressive push for increased financial returns and the focus on shareholder value have caused companies to withdraw cash from inventories, causing further chaos.

What can one see for the future? My instinct is to say more of the same. I see no hope that the governments will come to understand the effects of their actions any time soon. Even if government officials did understand, I would not expect them to act because in my view they just do not care. I also do not expect to see suppliers willingly increase inventories again. The day when the President can call on the industry to achieve an inventory level of 240 million barrels of heating oil by September 1, as Jimmy Carter did in 1979, is past. Instead, managers will be driven by the need to maximize shareholder value. The result will be more efforts to cut stocks.

This brings me then to the role of the independent marketer. What should you do? While it is impossible to offer specific answers, let me sketch out a few thoughts.

First, you should not count on your suppliers to hold inventories for you at their expense. Inventories are a form of insurance, which in many cases have been offered free to marketers. The day of such free insurance is over. This change may mean that you want to hold larger inventories — especially if you have the facilities. The purchase of inventories as strategic short-term assets may yield very large returns.

Second, do not expect the market to yield uniform prices or costs. The shift to just-in-time inventory strategies and the chaos in government regulation will create enormous differences in costs. Expect these differences to be reflected in the market place and develop strategies to deal with them. Your business is becoming more and more like the airline business, where a group of traditional suppliers are being forced to compete with low-cost carriers. The firms that survive will be the ones that learn to cope with the change — not fight it.

Third, innovate. This January I was asked to investigate the implications of the deregulation of gasoline marketing for MITI, the Ministry of Trade and Industry, in Japan. In preparing my paper, I looked into the developments that had occurred in France over the last ten years. There a new form of marketer — the hypermarket — had totally changed the market in that period. In 1985 there were roughly 60,000 gasoline stations in France and 55 percent were owned by majors. Today there are only 20,000 stations and roughly 50 percent are hypermarkets. (Hypermarkets are supermarkets with attached gasoline stations. You might call them "super convenience stores.") The same phenomenon is now occurring in the United Kingdom and is about to start in Japan.

I do not know whether the hypermarket phenomenon will reach the United States. However, I do know that firms need to innovate to stay in the business. Thus I conclude by advising you to continue pushing the innovation curve if you want to survive.

Let me thank you again for inviting me to speak.

Mr. HERGER. Thank you, Mr. Verleger.

Now we will hear from Melvin Sherbert, chairman, legislative committee, Service Station Dealers of American and Allied Trades.

Mr. Sherbert.

STATEMENT OF MELVIN SHERBERT, CHAIRMAN, LEGISLATIVE COMMITTEE, SERVICE STATION DEALERS OF AMERICAN AND ALLIED TRADES; AND OWNER/OPERATOR, TWO AMOCO STATIONS, SUITLAND, MARYLAND

Mr. SHERBERT. Thank you, Mr. Chairman. Mr. Chairman and Members, I am an Amoco lessee dealer in Prince George's County. My family operates two service stations. It is just 20 minutes from here. I am also the past president of Service Station Dealers of America and I serve now as their chairman of Government Affairs.

We support the repeal. We thought it was a wrong move when it was imposed on us. Since the beginning of the interstate system, we have lived with the fact that user fees made sense, and whether we are waiting in traffic and cussing, and not because of the construction, we are still aware that those are our dollars that we spent at our service stations to fix our roads and bridges. So this 4.3 cents should have never been there to start with, and we do support the repeal of it.

It will be seen. I assure you, it will be seen. Over the last week, I have been talked to by economists and we have heard today about these average prices. I assure you, there are no average prices at Suitland Amoco or Marlow Heights Amoco that I operate. The price there reflects a few pennies more than what I pay for it that day.

So when this tax was imposed, within a few days of that, my price went up those few pennies, and when that tax comes off, when the inventories are cleared, that will go on the street that day, yes. If you want to measure all the rises and falls over the course of 1 year in the gasoline price, then yes, you might say the average price this year was no different than the average price last year, but I assure you, the price on my corner is different.

I have spent the last 2 weeks walking around at each station, talking to my customers, and I have taken a lot of abuse, which I do believe I have countered, because it is not our fault as dealers. Dealers are making less per gallon today than they were 1 month ago. We are selling fewer gallons today than we were 1 month ago. For what it is worth, our customers are shifting from our premium to our regular, and though there are only a couple pennies difference in our profit between the two, that is not insignificant when you sell thousands of gallons.

So it will make a difference in my neighborhood, and yes, we do have to receive that price reduction. You are right. If oil companies, and I cannot believe in this marketplace, with all the public relations that they are going to receive, they would refuse to pass that decrease on to me as a dealer—I know I am going to pass it on. If I chose not to pass it on, there is always one service station dealer on every street who would like to be the lowest, and the rest of us want to match that price and we will do it, no matter what. That is the art of our business and that is how you make a living, making a few pennies and selling a lot of product.

In 1972, when I went into business, I made a little over 7 cents a gallon. Now it is 1996 and I am making a little bit more than 8 cents a gallon, after 24 years. There are a lot of reasons why we have been able to accomplish that, the efficiency of the business and the way we operate the different volumes that we have. But the point is that we continue to make the same per gallon as we always did.

I have to tell you that when you were talking earlier, there were comments from the Members about what is going on on the west coast. Some of those dealers right now are going for a month or two without making any money, maybe losing money because of this situation that has been imposed on them.

We think that this tax should be repealed. If you choose not to repeal it, put it in the trust fund where it belongs and at least we will get some use out of it. I do not want to be too bold to address this to you, but to put this on the American motorist to reduce the budget deficit was just wrong and I think it would be wrong to continue it. It is a tough choice to make, to have to go out and find other ways to do it, but it can be done.

Thank you.

[The prepared statement follows:]

Statement of Mr. Melvin Sherbert
Chairman, Legislative Committee
Service Station Dealers of America and Allied Trades

Mr. Chairman and members of the Committee: My name is Melvin Sherbert and I operate two Amoco service stations in Prince George's County, Maryland. I am past president of the Service Station Dealers of America and Allied Trades and currently serve as the chairman of the Association's Legislative Committee. SSDA-AT is a national federation of state associations representing tens of thousands of small business owners and operations nationwide.

SSDA-AT supports the proposed repeal of the 4.3 cents per gallon enacted in 1993.

From the inception of the interstate highway system, SSDA-AT supported the concept of a user fee with revenues directed to the Highway Trust Fund.

In 1993, SSDA-AT opposed the 4.3 cent levy because this money was directed to deficit reduction. In our opinion, this violated the agreement between the government and the motoring public. It set a bad precedent and should now be corrected.

We believe that if the tax were to be repealed that the savings would be passed on immediately and directly to the motorist. Service station dealers operate on a cents per gallon rather than a percentage of the cost of product. Thus, the savings to motorists would be passed on as soon as the repeal would be realized.

SSDA-AT concurs with the American Highway User Alliance that the nation's roads and bridges need improvement. If not repealed, the 4.3 cents per gallon should be directed to its proper place . . . The Highway Trust Fund.

Motor fuel tax increases for deficit reduction is bad policy. We opposed the increase in 1993 and we support the repeal today.

Thank you.

Mr. HERGER. Thank you, Mr. Sherbert.

Mr. Verleger, in your written testimony, you state that since the tax cut will affect neither supply nor demand, you conclude it would do nothing to affect retail prices. My question is, Are you saying that taxes, unlike other costs of production or sale, have no effect on the price of gasoline?

Mr. VERLEGER. Sir, it depends, as you have heard undoubtedly many times here, on the elasticity of supply. Next fall, after Labor Day, there will be some flexibility in the supply side. Right now, there is essentially no elasticity in the supply of gasoline. The problem has been created primarily by EPA.

Currently, there is no flexibility to increase supply. We are living on the hairy edge. If we have one more fire at a major refinery, we will have substantially higher prices because there is no flexibility on the supply side to so regulate the system. If the price were to fall with a tax cut, there would be more demand. However, price would have to increase again because now a new supply could be available.

It depends, sir, on the supply elasticity. There is just no flexibility right now. That is why I said the price paid by consumers would not change. That is why Bill Niskanen, chairman of CATO, said the same thing in this morning's Washington Post. If there is no flexibility in supply, then a tax cut is not reflected in lower consumer prices. If there is flexibility in supply, then the consumer would see a lower price.

Mr. HERGER. What time period are we talking about? I guess a further question is, Do you believe that an increase in the gas tax would also have no effect on the retail prices?

Mr. VERLEGER. It is interesting that in 1993, we had an increase in the retail price because, essentially, there was some cut in supply in October. But by December 1993, the retail gasoline price averaged—and I agree with the previous speaker's statement about averages being a sin—about 5 or 7 cents lower than they had been in September, before the tax was imposed. So the tax went in effect in October, and by December, it had vanished, as had 3 or 4 more cents per gallon.

Mr. HERGER. Mr. Sherbert, you are in the business yourself. Do you agree with this comment?

Mr. SHERBERT. No, I do not. I agree that that is probably a fact, that the prices were 5 to 7 cents cheaper, but they would have been 9 to 11 cents cheaper if that tax had not been imposed at that time.

Mr. HERGER. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Sherbert, last night, I had the advantage of watching you on television with two other industry experts and one of them pointed out that the price of crude oil had dropped from $25 per gallon in April to $21 per gallon, and that it is anticipated that prices at the pump could come down relatively soon. What do you think about that?

Mr. SHERBERT. It is my feeling that that will happen, and we have these seasonal rises and falls every year. What happened this year, of course, is that we had a double increase, and I blame that on the speculation of the oil companies about where they were going to get the product and the fact that they are keeping their inventories so low now, they do not have any depth to respond to it. But the prices should go down. Now, whether they will go down the 20-some cents that they went up, I do not know.

Mr. COYNE. But is it realistic to expect that as a result of that price going from $25 to $21, that at least that would overshadow any decrease of 4.3 cents per gallon, all other things being equal?

Mr. SHERBERT. Unless someone chose to put it in their pocket, I think we would have that increase plus the 4 cents, and the dealers are not going to do that, I assure you. Whatever price we get, we add those 4, 5, 6, 7, 8 cents that we make to it, and that is the way we are going to continue to do it.

Mr. COYNE. So before too long, we are going to see a price decrease at the pump no matter what happens with the 4.3 cents per gallon?

Mr. SHERBERT. Did you say increase or decrease? I am sorry.

Mr. COYNE. Decrease.

Mr. SHERBERT. We should see a decrease over the course of the next 2 months, I guess. And I am only an expert, keep in mind, of what happens at Marlow Heights and in Suitland, Maryland.

Mr. COYNE. Mr. Fleenor, I wanted to address this to the Tax Foundation. Do you think the budget deficit has come down over the past 3 years?

Mr. FLEENOR. Yes, it has.

Mr. COYNE. Do you think that the 4.3-cent-per-gallon tax had any influence on that?

Mr. FLEENOR. I am sure it has, but our point, again, was that initially, the trust fund was set up as a dedicated user fee and we have strayed from that principle with the 1993 bill.

Mr. COYNE. Yes, I understand that. You are philosophically opposed to using that money. You would rather see it used for infrastructure. But there is no denying, is there, that the 4.3 cents per gallon had some influence on reducing the deficit, in your judgment?

Mr. FLEENOR. Sure.

Mr. COYNE. Thank you.

Chairman ARCHER [presiding]. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

Mr. Verleger, I am happy you are here today for two reasons. Number one, I think you have made the point that there are some of us in Congress who are concerned about extremism in the environmental regulations that have been imposed upon this country and the damage it does to our economy. Some of us are trying to put some balance back in those regulations and the enforcement of those regulations and we are not trying to rape the environment. We are simply trying to bring balance back into environmental regulation in this country.

So I appreciate your comments about how it is the EPA and environmental regulations that are one of the major causes of the price hikes in gasoline. I think we can point to other sectors of our economy where the same is true.

Number two, I appreciate your being here because you have given me a wonderful idea to balance the budget. If taxes do not affect the retail cost at the pump of gasoline, then I think we ought to just have a $50 a gallon tax and that way we can solve the deficit and the consumer will not know the difference.

What we have here today is Mr. Verleger, on the one hand, an economist, who makes a living making assumptions, and Mr. Sherbert, on the other hand, who makes his living selling gasoline. Mr. Sherbert disagrees with Mr. Verleger. He says, if I get to take the 4.3 cents off the front of my gasoline tank, I do it. Mr. Verleger says, oh, no, that is not true. If we reduce the tax by 4.3 cents, Mr. Sherbert is not going to take it off the front of his gasoline tank. Who is right? I would vote with the guy who actually has the gas tank.

Mr. Verleger, I would like for you to respond to that.

Mr. VERLEGER. Sir, as you know, I have a great deal of sympathy with the retailer. I know he would take the 4.3 cents a gallon off and pass it on. I would go visit him. The trouble is, he does not impose the 4.3-cent-per-gallon tax, as you know, because of the law that you passed. The 4.3-cent-per-gallon tax is imposed where gasoline breaks bulk, which in this case, is at the Fairfax terminal, where I believe Amoco delivers. What is required is for the price to come off there.

What I said about supply and demand was that the price in the market is set by equilibration of supply and demand, and normally, consumers buy more if the price goes down. The price cannot go down if the industry cannot produce any more.

My point now is EPA has so jiggered the system—I think you were the one who noted we could have had the BTU tax, and I testified here opposed to the BTU tax—but if we do not fix the EPA distribution regulations which make it almost impossible to move product, and if one does not fix the production process and the import rules, there is no more product, so there will be no more supply, so the price cannot come down. That is the point I am making.

I know Mr. Sherbert would reduce the price by 4.3 cents per gallon. Indeed, given the way the system works, I suspect somebody would reduce it by 5.3 cents per gallon. But first, it has to come off at Fairfax.

Mr. MCCRERY. I do not disagree with that, but surely, surely, you must admit that if we were to impose $50 of tax, the price would go up, and then if the next week we were to repeal that $50, the price would go down. Certainly, we do not expect immediately to see at every gas station a 4.3-cent reduction in the price of gasoline to the consumer because there are many other factors which affect the price of gasoline. I do not argue with that, sir. But for you to go further than that and state that if all other factors remain the same and we remove the 4.3-cent gas tax, nothing would happen to the retail price of gasoline, I think is a stretch.

Mr. VERLEGER. As I said, sir, I understand that you are correct about the assumptions and some portion of it will probably get seen, and a good portion of it will get seen after Labor Day. But in the meantime, you will hear from your constituents this summer.

Mr. MCCRERY. Oh, I understand. We are going to have some explaining to do when the price does not come down. In fact, it may go up because these pressures that you have talked about may be exacerbated in the next couple of weeks. We do not know.

Mr. VERLEGER. That is right.

Mr. MCCRERY. But the only thing that we can control today in this Committee—we have no jurisdiction over the EPA, unfortunately—the only thing we can control in this Committee is the tax, the direct tax on that gallon of gasoline, and that is what we are proposing to do something about. As you have just stated, it probably will be seen to some extent in the price by the consumer. We do not know to what extent because we cannot control those other factors. But all in all, I appreciate your testimony. I think it has been very good. I appreciate Mr. Sherbert's, as well.

Chairman ARCHER. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Chairman Archer, and I thank the witnesses for coming.

I am right back where I started from when this discussion began 1 week ago, when we were really kind of taken unawares that Senator Dole decided we were going to repeal this tax. Everything said here today is true. Mr. Sherbert would reduce it if he could. Do you pump gas, or is it automatic? Is it self-serve?

Mr. SHERBERT. No, I have a full facility that has bays and pumps and then we have—a rare one—a classic pumper.

Mrs. KENNELLY. Thank you. I am always for equality, but I still think men pump better than women pump and I look for a gas station like yours. I like full-serve pumps.

Here is what is happening, I think, and would Mr. Verleger and Mr. Sherbert continue this conversation. Am I right that when the fuel comes to the rack, the wholesaler goes to the rack and takes it in the truck and then delivers it to the retailer?

Mr. SHERBERT. That is true, but there are different classes of trade. I am an Amoco lessee dealer with direct supply by Amoco. So it does come into Amoco's terminal. Then Amoco delivers it directly to me. There are others where there is another class of trade that would pick up product at the rack and deliver it to either their own stations or to other dealers.

Mrs. KENNELLY. Am I right, Mr. Verleger, it is not only that Mr. Sherbert does not control the change in price or the wholesaler who delivers it to Mr. Sherbert that does not control the change in price. We have to go back, because we are in a free market society, back to the rack where, in fact, the tax is paid, am I right?

Mr. VERLEGER. I believe that is correct, yes.

Mrs. KENNELLY. So in a free market society, it is only natural that the person who paid the tax wants to get that back. Even though everybody would love to give the consumer a break, there is no guarantee whatsoever if we repeal this tax that, in fact, the consumer would get that break. You not only go back to Mr. Sherbert, who does not make the decision, the wholesaler does not make the decision, but the person that bought the gas from the crude originally makes the decision, am I right?

Mr. VERLEGER. I believe that is correct.

Mrs. KENNELLY. This is the exercise that we are going through—and it is a serious one. Let me tell you, Mr. Chairman, this is very serious for me. I have the unfortunate position of representing a State that has the highest gas tax in the United States of America, so I take this very, very seriously.

Having said that, I also come from a State that is still in recession, is beginning to get involved in the new world of trade—25 percent of our State product is in trade—and we are really interested in reducing the deficit so that the small businesses that are popping up in Connecticut and the small tool companies that are making it have money that small businesses can use. So we are very interested in this.

What I see here, and Mr. Verleger, tell me, since you have studied this question, what I see, by the 4.3 cents going directly into reducing the deficit, we have a guarantee that will happen.

Mr. VERLEGER. I believe that is the way the law is written.

Mrs. KENNELLY. So it happens. But if we repeal the gas tax, there is a lot of questioning here today whether the consumer, in fact, would ever see it because of the seasonal uses of gas. After Memorial Day and on, you see prices often going up because of the high use. We have had a winter that was very long and we have had the changeover to gasoline, so we do not have any guarantee there.

Mr. VERLEGER. That is correct.

Mr. SHERBERT. From a marketing point of view, that may be true, that you do not have it, but whatever price I will be posting, I have to assume it will be 4.3 cents less than I would have been posting otherwise. I am beginning to get the feeling that since I am here today, everybody is going to believe that at least the dealers would pass it on, but the oil companies are not here, so they will just say they are not going to do it. I think they will do it. They have——

Mrs. KENNELLY. But Mr. Sherbert, is that in your hands to do if it does not, in fact, happen before? If, as I said, the people who originally sold the gas do not reduce the price, will you be able to?

Mr. SHERBERT. You are right. Anyone along the chain that would choose to reap some unmerited profits off of this could do it, but with the way public relations is today, I cannot imagine an oil company taking that risk right now. They are already taking all the heat they can possibly take, and from us, too.

Mrs. KENNELLY. Mr. Sherbert, I have been through this raising of gas prices a number of times and I wish I had the faith of those up the stream, more faith in them than I do today. I certainly hope you are right. But I think history shows there is no guarantee they will pass on the reduction.

Mr. SHERBERT. If they do not do it, then they are wrong.

Mrs. KENNELLY. You are right.

Mr. VERLEGER. Congresswoman, I am struck by the fact that, in part, price is set by the capacity to make gasoline. EPA has made it very difficult to import gasoline. Indeed, we lost in the World Trade Organization for good reason, for unfairly disadvantaging foreign refiners.

If we lose any more refining capacity this year, if a cat-cracker at some refinery goes down, supply is simply going to be limited. As every Member of this Committee knows, when the supply is limited, price increases. So I do not think it is fair to say that the industry is trying to pocket the tax. This is the force of supply and demand——

Mrs. KENNELLY. I know that, sir. I know it is the marketplace.

Mr. VERLEGER. I want to make sure everybody understands where the problem is.

Thank you.

Mrs. KENNELLY. I think that is the problem. Where the problem is is the marketplace.

Chairman ARCHER. The gentlelady's time has expired.

The Chair would like to follow up on some of the points that have been made before recognizing another Member.

Mr. Sherbert, how many competitive brands of gasoline are sold in your overall market area, that is, the Baltimore area?

Mr. SHERBERT. There are about nine companies.

Chairman ARCHER. Nine? We heard the statement earlier that the seven big major companies would get together and fix the price of gasoline. There are more than the seven big major companies that are involved in the manufacture and the sale of brands of gasoline in this country, is that not correct?

Mr. SHERBERT. Oh, yes. There are a lot more brands than that. I am just talking about in the State of Maryland and the District of Columbia.

Chairman ARCHER. Mr. Verleger, you neglected to mention in your testimony or comments to questions that we are not limited to the supply of domestically produced gasoline at the pump in this country. We do import a good bit of the finished product, do we not?

Mr. VERLEGER. Chairman Archer, I think I said that EPA, in promulgating its RFG regulations, made it significantly more difficult to import gasoline into the United States. I know I said that.

Indeed, I also said, just 1 minute ago in response to Congresswoman Kennelly's question, that we lost before the World Trade Organization. This is something that one of the candidates for President in your party was complaining about. We lost because EPA's regulations were ruled to treat foreign refiners more harshly than domestic refiners. Had we not disadvantaged importers, more imports would be available. The Venezuelans are attempting to bring products here as are the Finns. But some of that capacity is not yet available.

I would also say that the current experience repeats the experience in 1989, when the Exxon Valdez went aground and the refineries in California lost crude. We had a very high price, and there were hearings then, too. Gas flowed from St. Croix and from the gulf to California and raised prices in Maryland and all across the country. At that time, there was no EPA regulation that limited imports, and so the problem was resolved much more easily.

Chairman ARCHER. I think you bring some very constructive testimony to this Committee relative to how environmental regulations can drive up the price of a product. Then you have to get into the question of whether they are constructive, reasonably done, objective, and so forth, which then leads to another question. Regardless, they certainly will drive up the price of a product.

But we are not limited, even today, to our domestic refinery capacity as far as the available gasoline in the marketplace.

Mr. VERLEGER. That is absolutely correct.

Chairman ARCHER. But the price—I hope you will agree to this—that the wholesale price of gasoline is quoted every day on the commodities market and is traded as a market item.

Mr. VERLEGER. The wholesale price of one of 220 varieties of gasoline is traded on the New York Mercantile Exchange.

Chairman ARCHER. That is correct.

Mr. VERLEGER. Open interest in that contract is now 70,000 contracts. It used to be about 160,000 or 180,000 contracts. I provided testimony to the Federal court in New Jersey for the New York Mercantile Exchange against the State of New Jersey's attempt to change the regulations because all the changes in regulations that have been enacted, both by EPA and the States, have eliminated liquidity in that market.

I will tell you, sir, that many companies, including most of the importers I work with now, will not import to the United States because they do not trust the liquidity in that market as the price quoted for the volume and the liquidity has dropped substantially.

Chairman ARCHER. I am aware of that, but the point I am trying to make is that gasoline is a commodity. It has a market price, as other commodities have market prices.

Mr. VERLEGER. It used to have more of a market price. Now there are 220 varieties.

Chairman ARCHER. I understand that, and they all play off of whatever the market is doing at any one particular time. They are not all traded on the commodities market, but they all play off of that. There are varieties of crude oil that are not bought and sold on the commodities market. You might have heard of the commodity of Texas light crude, though not true of all crude oils, they play off of that price. It is a marketable commodity that has a market price.

All of your testimony today is accurate in the sense that many factors affect the market price of a product. But that market price, which is determined on a give and take basis every day in the marketplace, is overlaid by the tax burden. The tax that is levied on gasoline is a retail sales tax. It must be collected from the consumer and added on top of whatever the commodity market price of the product is. Do you disagree with that?

Mr. VERLEGER. Sir, in the first——

Chairman ARCHER. No. Do you disagree with that?

Mr. VERLEGER. It is collected from the consumer. As you know from teaching economics, when supply is absolutely inelastic, the market clearing price is not affected.

Chairman ARCHER. But you are getting off of the question. When the supply is inelastic, it affects the basic market price of the product. I agree completely with that. But levied on top of that is a tax that must be collected from the consumer, and——

Mr. VERLEGER. Mr. Chairman, Bill Niskanen, who is a good friend, and I know is an acquaintance of yours, and I both agree on this one. If the supply is tight, during the period the supply is tight, the consumer may not see the tax cut. That is the thrust of my point in my testimony.

Chairman ARCHER. And you and I agree. That is the market price of the product.

Mr. VERLEGER. Right.

Chairman ARCHER. That determines the market price of the product. If the supply is tight and the demand does not adjust to it, the price of the product will go up. We know that. That is basic economics.

Mr. VERLEGER. Yes.

Chairman ARCHER. But layered on top of that must be collected the tax that government levies, whether at the State or the local level. The tax is not considered in the commodities market which determines the price of the basic product. The price of the basic product is determined by market forces, as you have enunciated.

Mr. VERLEGER. Right.

Chairman ARCHER. The tax must then be collected from the consumer. It is a consumer-levied tax on top of whatever the market price is.

When products are imported into this country and they have to deal with the environmental restrictions and whether there can be more or less of a flow, the price is not determined by the tax that is levied by government. It is determined by the market forces that apply, and we are in agreement on that.

As a result, it is impossible to determine whether the tax has been passed on or not. This is the point that my colleague, Mr. McCrery, was saying. The market price can go up or down in a very short period of time, and we have seen that at the pump, both from a decline and an increase, dramatic changes at the pump, going down and going up, within 1 week's time, within a couple of days' time, and I am sure Mr. Sherbert can testify to that.

But no matter what happens to that basic price, the tax must be collected. Therefore, it will clearly have an impact on the price of the product at the pump.

If, for example, we embrace the concept that we must have some sort of a legislated price which shows the price at the pump has gone down 4.3 cents; and if, in fact, the market price of the product goes down 4.3 cents, which the futures markets tell us it will, regardless of what we do, the producers could easily say they have done all the law required and therefore, will not reduce it anymore. That seems rather silly to me.

We saw this during the time of price controls back in the seventies, where the price control became a floor as well as a ceiling. Most economists will agree that that can easily happen in the marketplace because price controls distort the very market that you are talking about. When you attempt to dictate a price, you find you have had a counterproductive effect compared to what you would otherwise have.

It is very interesting to note that historically, prices of gasoline went down when Reagan removed the price controls. That is a historic fact.

I just think we need——

Mr. VERLEGER. We have no argument there.

Chairman ARCHER. I know it. I think we are in agreement. I am not trying to argue. I am trying to establish common ground——

Mr. VERLEGER. Fine. I understand.

Chairman ARCHER [continuing]. And have this publicly in the record because this is going to be the issue that we are going to have to treat when we get into the amendment process. So I am glad that we agree, and I have overabused my time.

Mr. Laughlin.

Mr. LAUGHLIN. Thank you, Mr. Chairman.

I understand before I arrived that my colleague, Mr. Hayes from Louisiana, stated he was one of six Democrats to vote against this tax bill in 1993 containing the gasoline tax. Frankly, I think he was mistaken. I think it was nine, because I was one of the six or one of the nine that voted against it very much for the reason I understand Mr. Hayes said. I want the record to be clear that I was one of those that voted against it.

I am sorry my friend, Mr. Coyne, left, because I wanted to make this point while he was present. Mr. Fleenor, you were asked by Mr. Coyne if you would agree that at least the gasoline tax helped contribute to a reduction in the deficit, and I believe your answer was in the affirmative.

Mr. FLEENOR. Yes, it was.

Mr. LAUGHLIN. Would you agree with me that that misses the point that this has been an unfair tax on those American citizens that, because of where they live, pay an inordinately higher tax if they live in a rural area, dependent upon their vehicle, than those who for whatever reason, good or bad, may choose to live in big cities that have subways, buses, other forms of mass transportation?

Mr. FLEENOR. Sure.

Mr. LAUGHLIN. Would you say that again, because it was pretty weak and I did not hear it very well.

Mr. FLEENOR. I would concur, yes.

Mr. LAUGHLIN. So the supporters of this gasoline tax, then, would you agree with me, are supporting an unfair tax on those citizens that choose to live in rural America rather than in the cities?

Mr. FLEENOR. In a sense, yes.

Mr. LAUGHLIN. Either it is fair or unfair.

Mr. FLEENOR. Again, the idea behind the original gas tax was to set up a user fee, and if people living in rural areas are using more of the highways, in that sense, it would not be unfair.

Mr. LAUGHLIN. That is the point I wanted to go to next. If it is going for deficit reduction to reduce the national deficit of all of America, then would you not agree with me, it is unfair to put it heavier on those who live in rural America than it is to put it on those who live in the cities?

Mr. FLEENOR. Again, our criticism of the 4.3-cent tax was that it broke the idea down of dedicating these revenues to highway construction.

Mr. LAUGHLIN. The point I want to make is that historically, a gasoline tax has been paid by those who derive a benefit from paying the tax, is that not correct?

Mr. FLEENOR. Right, and we think that is a very sensible idea, that people who use the roads are paying for them.

Mr. LAUGHLIN. I come from a very large rural area. Would you be shocked to know that I have a lot of constituents who would not mind paying a 15- or even a 25-cent gasoline tax if it all went to safer roads and safer bridges that they utilize?

Mr. FLEENOR. No, it would not.

Mr. LAUGHLIN. You would not be, would you?

Mr. FLEENOR. I would not be surprised.

Mr. LAUGHLIN. I can very honestly represent that to you.

Mr. FLEENOR. But again, that is the idea behind a user fee. People are desiring safe roads, as you say, and the commonsense idea behind the user fee is that they, in essence, pay for it through the gasoline tax.

Mr. LAUGHLIN. I represent some people that just last week had a schoolbus on Highway No. 59, that had almost the entire busload of children go to the hospital because it is a two-lane road in a rural part of our State, and I can tell you that they would not mind having their tax doubled or tripled if they knew it was going to make a four-lane safer road that we have in the metropolitan areas.

Mr. FLEENOR. Right, but that is just our point. The problem we find with the 4.3-cent tax is that it is not going to the Highway Trust Fund. It is going to the general fund.

Mr. LAUGHLIN. Then you agree with me it is unfair that it is going to deficit reduction and not to the benefit of those who are paying it?

Mr. FLEENOR. Exactly. The original idea behind the trust fund was to fund highway and transportation projects.

Mr. LAUGHLIN. Mr. Verleger, I want to shift to the EPA for 1 minute. As you talked about reduced capacity from our refineries, is it not true that many of the refineries are, in fact, closing, abolishing jobs in America and moving that refinery capacity offshore, either to the Caribbean islands or even places out of the North American continent because of EPA requirements?

Mr. VERLEGER. I know of three or four refineries that have closed, sir. I know a lot more refineries that would close if it were not for EPA laws as regards the Clean Water Act and remediation required when you close those refineries. So it is a mixed story.

The big problem is, we are not getting enough investment in the United States to make more gasoline. The National Petroleum Council concluded the industry had to invest $10 billion just to meet the standards mandated by the Clean Air Act amendments of 1990, and most of that investment was nonproductive investment. It did not add to capacity and it did not add to long-term jobs.

Mr. LAUGHLIN. Mr. Verleger, would you agree that those who are upset with the higher gasoline prices ought to do a little beating up and leaning on the EPA to get a better balance between gasoline capacity, gasoline production, get more balance in EPA in those areas, rather than beating up on the seven big oil companies?

Mr. VERLEGER. Congressman, I think they should do a lot of beating up on EPA to get them to write rules that achieve in a much more efficient fashion the goals for clean air rather than beating up on the seven oil companies. I absolutely agree with you.

Mr. LAUGHLIN. And would that not create more jobs in America that employ more people?

Mr. VERLEGER. I think it probably would, sir.

Mr. LAUGHLIN. Thank you, Mr. Chairman, and I thank all of you for being here.

Chairman ARCHER. Mr. Zimmer.
Mr. ZIMMER. Thank you, Mr. Chairman.
First, I would like to ask Mr. Verleger, were you invited here by the minority side of this Committee?
Mr. VERLEGER. I think I was invited by the minority side, sir. I am an independent, so it——
Mr. ZIMMER. I am not casting aspersions on your independence.
Mr. VERLEGER. I understand.
Mr. ZIMMER. It is just that for those people who think that this institution, this House, has not changed since November 1994, when the Democrats invite a witness who is affiliated with the CATO Institute and who bashes the EPA, I think it shows that the ground has shifted a bit.
I think we pretty well established your view that in the short term, the prices at the pump will not necessarily change. But in the longer term, over a period of 1 year, assuming we can keep this reduction in the tax for 1 year, do you see that finally the reduction in the tax will show up at the pump?
Mr. VERLEGER. Yes. After Labor Day, I am fairly certain it will show up at the pump.
Mr. ZIMMER. So it will be approximately 4.3 cents?
Mr. VERLEGER. I am not sure whether it will be 4.3 cents. As you know, and as Congressman Archer said, enough assumptions can be pushed around to get it anywhere from 3 cents to 2 cents to 4.3 cents, maybe even more.
And I will say, as a former Treasury official, the main reason I am worried here about this is that this is being advertised as a 4.3-cent reduction in the price of gasoline. As you know from visiting around the country and visiting your district, the public has a justifiable cynicism with Washington.
So if Congress were to pass a law and say the price is going down by 4.3 cents a gallon and the prices then do not go down, in fact, they go up this summer because everybody is driving their larger cars at 75 miles an hour and creating greater demand, I think that there would be a lot of unhappiness in the public. That is my worry, and that is a huge worry on my part.
Mr. ZIMMER. Thank you.
Mr. Fleenor, the Tax Foundation made some predictions back when this gasoline tax was originally considered about the impact on jobs in the United States. Do you have any prediction as to what the reduction in the gasoline tax will do as far as creating jobs?
Mr. FLEENOR. I did not work on that report. What I could say is that in the long run, a reduction in the gas tax will reduce the wedge between the cost of producing a product and its price. That will reduce the deadweight loss in our society and you should expect an increase in jobs as a result.
Mr. ZIMMER. For the record, Mr. Chairman, in 1993, the Tax Foundation predicted that the 4.3-cent increase would cost 69,508 jobs nationwide. I commend you on your precision in that prediction. I would like to know exactly what history has given us.
The second question I would like to ask is whether you and the Tax Foundation believe that the gasoline tax is a regressive tax in the sense of the word that economists use it, that is, that poor peo-

ple pay a higher percentage of their income for this tax than wealthier people do.

Mr. FLEENOR. That may or may not be true, but again, the idea of a user fee is that people pay for services they use, and we think that is a very sound idea. People who drive on the highways and use our transportation facilities should pay for them. It may be the case that people who drive—the demographics may be such that lower income people use the highways more. I do not know if that is true or not. But in that case, we would not find necessarily a problem with that if it is indeed the case they are using the facilities more.

Mr. ZIMMER. The information I have seen indicates wealthier people pay one-fourth the relative amount in taxes as a percentage of their income on gasoline than poorer people who perhaps may drive less but often use older cars and obviously are earning less money. So the same amount of fuel tax will be a larger percentage of their income. Does anyone on this panel have any data that they can share with me on this?

For those on the minority side of the Committee who are always showing us distribution tables about the impact of tax cuts or tax increases on the wealthy versus the less wealthy, I would hope that maybe when we consider this legislation, we will have some discussion of the impact of this tax, which I am convinced falls far more heavily on the poor and the middle class than it does on wealthier Americans.

I yield back the balance of my time.

Chairman ARCHER. Mr. Christensen.

Mr. CHRISTENSEN. Thank you, Mr. Chairman.

Mr. LEVIN. Mr. Chairman, are you calling on three Republicans in a row?

Chairman ARCHER. Mr. Levin, I do not show any request from any other Democrat. If you wish to be——

Mr. LEVIN. I thought you were going down——

Chairman ARCHER. If you wish to be on the list, I am happy to have you on this list. Mr. Christensen, if you will wait 1 minute, I will recognize Mr. Levin and then we will get to you.

Mr. Levin.

Mr. LEVIN. I will be glad to wait. I just wondered what——

Chairman ARCHER. That is fine. I just did not have your name on the list.

Mr. LEVIN. Whatever your preference is.

Chairman ARCHER. I would prefer to rotate. Mr. Levin is recognized.

Mr. LEVIN. I thank you, and welcome to all of you.

Mr. Verleger, in the Post this morning, you are quoted as saying,

> The Republican-sponsored solution to the current fuels problem is nothing more and nothing less than a refiners' benefit bill. It will transfer upward of $3 billion from the U.S. Treasury to the pockets of refiners and gasoline marketers.

Does the Post quote you accurately?

Mr. VERLEGER. That was a piece, Mr. Levin, that I submitted to the Post as an op-ed piece last week when I believed that this was a 12-month tax reduction, not a 7-month tax reduction. I learned last night that this tax reduction was, in effect, from, I guess, June 1 through December 31, which would change the numbers.

But as I said, and as Mr. Niskanen said in the same article, it is unlikely that the consumer would see much of the effect of the reduction certainly during the summer, and so a substantial share would go to refiners, yes.

Mr. LEVIN. Let me just talk a bit, then, about the issue of the dedication of the moneys, and Mr. Fleenor and Mr. Sherbert, you have referred to that. Was 1993 the first time an increase in the gas tax was used for general revenue purposes? Do you know?

Mr. SHERBERT. No, I do not believe so. I think that there was an earlier amount in maybe 1990 and that was temporary and then came off, or was made into the transportation fund. I do not know which.

Mr. LEVIN. Mr. Fleenor.

Mr. FLEENOR. I think it was the 1990 bill.

Mr. LEVIN. Right. One-half of the increase went to the General Treasury. So 1993 was not the first time, correct?

Mr. FLEENOR. The first permanent increase was in 1993.

Mr. LEVIN. But it was not the first time. Five years is not very temporary. It was not the first time in a deficit reduction bill that moneys from a gas tax increase were used for deficit reduction purposes, is that not accurate?

Mr. FLEENOR. That is accurate, yes.

Mr. LEVIN. Would you tell me—and by the way, four Members of this Committee on the Republican side voted for the 1990 bill that had a gas tax increase, one-half of which went to the General Treasury, as well as most Democrats. Do you know of any legislation between 1990 and 1993 that was introduced to repeal that increase or to earmark it?

Mr. SHERBERT. I certainly do not know. I know that was the figure that we had.

Mr. LEVIN. Mr. Sherbert, let me ask you. Did your association in those years support legislation to undo the gas tax increase, the one-half that was earmarked for the General Treasury?

Mr. SHERBERT. No. We certainly would have, but you are right, we did not, since there was none to support.

Mr. LEVIN. Did you lobby for it?

Mr. SHERBERT. No. We were opposed to the concept from the beginning, and what scared us, of course, was what we actually saw, that first it was 2.5 cents, then it became 4.3 cents. We thought the next step was going to be 8 cents or whatever, and that is why we are very excited today about this coming off.

Mr. LEVIN. The answer is no, your organization did not?

Mr. SHERBERT. No.

Mr. LEVIN. Mr. Fleenor, do you know of any materials from the Tax Foundation on this point?

Mr. FLEENOR. The Tax Foundation does not support or oppose specific pieces of legislation.

Mr. LEVIN. Was there any material that you wrote during this period on this subject?

Mr. FLEENOR. No. Again, our whole point is that originally, these revenues were dedicated, and we thought that was a sound principle of taxation. Our opposition to it in this instance is, again, that the money is not going toward highway construction.

Mr. LEVIN. But during these years of the 5-cent increase, one-half of which was going to the General Treasury, is there any literature that came out from your organization on this subject?

Mr. FLEENOR. I do not believe so.

Mr. LEVIN. So this bill, the 1993 bill, did not set the precedent, the 1990 bill did. That was passed on a bipartisan basis, and one of the leaders in the effort was the Majority Leader of the U.S. Senate, Mr. Dole.

I think the question is—and I think, Mr. Verleger, you have put your finger on it—if we are going to do this, will it benefit the consumer? Is there any assurance it is going to help the consumer rather than, as you say, going to refiners and gasoline marketeers? There has been no testimony today that gives any assurance that that will happen, that it will go to the consumers, so we had better work on that.

Chairman ARCHER. The gentleman's time has expired.

Mr. Christensen.

Mr. CHRISTENSEN. Thank you, Mr. Chairman.

Mr. Verleger, I want to thank you for your testimony here today. Even though we may not agree on the effects of a 4.3-cent repeal, I do agree with you on a number of things you have said today. I agree with you on the EPA. I agree with your quote, and if I am quoting you correctly, "the EPA has criminalized the distribution of gasoline."

Mr. VERLEGER. You heard me precisely, sir.

Mr. CHRISTENSEN. If I am quoting you correctly, "The EPA should be hit hard on the head." This past year, many of us in the Majority have taken a beating from environmental extremists saying that we are "for dirty water and dirty air." You mentioned two things that I would like you to expand on and that is the Clean Water Act and remediation, and then I would like to hear some ideas you would have for this body as far as environmental regulations that would make it better for the American people as far as bringing some common sense back into the environmental regulations.

Then last, I would like to know what would be your best guess as a percent decrease if we could bring these regulations into line with some common sense. What kind of percent decrease do you think we might see in the market prices, if they were enacted?

Mr. VERLEGER. Sir, the point I have been making for 2 years on EPA's regulations with respect to gasoline are that in implementing the Clean Air Act amendments of 1990, the EPA mandated that companies must essentially adopt entirely new procedures for the management of inventories. What these do is reduce the flexibility of turning tanks over. It is effectively like telling a grocery store they have to keep one-half of their dairy shelves empty every day, so it means you ought to double the number of shelves, the shelf space you have, if you are going to carry the same amount of milk.

At the same time, the Clean Water Act makes it very hard to build tanks. Nobody wants to see tanks. The consumers do not like tanks; they leak. Look at what happened in Fairfax. So, essentially, companies have been closing tanks, cutting tanks down. That is the smart thing to do for shareholder value. That is effectively saying the grocer should reduce the amount of space it has for milk.

Now, the third step the EPA has done is required many different types of gasoline be distributed. As I think I said to Chairman Archer, it is 220. That is the number of specifications that Colonial Pipeline has. That is the artery that brings us our gasoline here. And EPA refuses to allow commingling of different types of gasoline.

It is as if EPA told that grocer not only do you have to keep one-half your shelf space empty and our regulations are going to make you want to have fewer shelves, but you cannot put chocolate milk in the space where you used to have nonfat milk. The chocolate milk has always got to be in the same space and the nonfat milk has always got to be in the same space. What this does is if you work through the complicated inventory models is almost guarantee that you are going to have shortages and very high prices. That is what happened out in California. That is what has happened here on the east coast. That is what has taken the liquidity out of the New York Mercantile Exchange.

So the first step that really is needed, and I understand it is not in the purview of this Committee because I have sat here for many hours over the years, is that EPA should be instructed by Congress to adopt regulations that allow the industry to use the inventory management practices that they followed in the past. The result would still be cleaner air. In addition, distributor flexibility would be increased.

Then second, EPA must adopt a rational strategy for dealing with clean water and tankage and storage. Some of the laws are State laws and some of them are Federal laws. But if they were changed, and this is just making the regulations work within a market context, we would get much lower prices.

Mr. CHRISTENSEN. I want to thank you for your testimony. I fully agree about the overzealous efforts of the EPA and trying to bring some common sense back into that area that has been severely lacking over the last 20 years.

Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman, and I want to thank our witnesses for their testimony.

I have been listening and trying to understand the rationale for the repeal of the gasoline tax at this point. I guess I have heard three explanations. One, it would be good for the economy, that it could produce additional jobs. Second, it would give taxpayers some taxes back. And third, this tax is not dedicated to highways.

Now, the third point, we could correct. We could offer a change in the 4.3 cents to put it into the Highway Trust Fund without repealing the tax, so let us put that aside for a moment and deal with the first two points that have been made.

I understand there was a study done by Mr. Fleenor's group that the 4.3-cent gasoline tax increase would cost this country 69,000 jobs. I am rounding it off. Yet, I am not aware of any verification that in 1993, our economy lost 69,000 jobs when the gasoline tax increase went into effect. The information I have seen indicates that at that time, we had a growing number of jobs even in the energy-related areas, so that there is no evidence whatsoever that I am aware of to reflect the fact that we lost jobs.

If that rationale were true, we have just seen in the last few months an increase in gasoline prices that are four, five, six, seven times the 4-cent increase, and if the same rationale were true, we would be seeing right now a loss of a half a million jobs in our economy as a result of the price increase per gallon of gasoline.

I do not quite understand that. I am going to give you a chance to respond because I do not quite understand that argument and I want to make sure how we would, in fact, see an economic growth with the repeal of this tax.

Then the third point was that the consumer would get the tax back, and we have no assurance that that will happen. In fact, we have testimony that that will not happen during the summer months because of the inelastic supplies and because the tax is imposed at the rack and by the time it gets to the retail dealer, the retail dealer cannot control what price they put on the gallon of gasoline, so the price is not passed through to the stationowner. I am not picking on the stationowner, because you are controlled by the price of the gasoline when it reaches you. You do not pay the tax. The tax is already included in the product by the time it reaches you.

And none of you have been able to tell this Committee of an effective way to make sure the consumer gets the 4.3-cent tax reduction. No one has come forward with an effective way to guarantee that the tax rebate will actually go to the consumer.

I guess I am somewhat concerned about the premise for the tax reduction, whether, in fact, we will be able to carry out our commitment to the American people by either giving them back some of their taxes or creating greater economic opportunity.

The last point I would make is that if the tradeoff is to reduce the tax and increase the deficit, if that is what ends up happening despite our best intentions to the contrary, if the end result is that the deficit of the Nation goes up, the economic information I have seen is that that would have more negative impact on our economy than the positive impact of reducing the tax revenues. In that case, we would be better off to have lower deficits than to deal with a very modest reduction in the tax, particularly when the consumer is not getting the benefits of it.

Mr. Fleenor, do you want to try to rehabilitate that and tell me why we are going to lose these jobs or gain them back? Do you have any documentation? First of all, do you have any documentation of 69,000 jobs lost?

Mr. HANCOCK. Would the gentleman yield?

Mr. CARDIN. I would be glad to yield.

Mr. HANCOCK. I happen to be a small business man and I can assure you that the gasoline tax and the income tax cost jobs.

Mr. CARDIN. That is not what I really asked. I asked if the increase of the 4.3 cents in 1993—I want to try to focus in on that specific tax increase—the projection was by the Tax Foundation that we were going to lose 69,000 jobs as a result of that tax increase, 69,100 and some. He had the exact number. My question is, do we have any documentation of where those 69,000 jobs were lost in our economy?

Mr. FLEENOR. As I stated earlier, I did not conduct that report. But in general terms, an introduction of a tax will create a tax wedge and introduce an inefficiency in the economy and that will result in the loss of jobs.

Mr. CARDIN. But the truth is that the economic reports during the 1993 period show tremendous job growth.

Mr. FLEENOR. But you are looking at the—sure, I mean, jobs were lost, but these were offset by other jobs which were created. You cannot look at, sir, the macro statistics and say——

Mr. CARDIN. That is our exact point. Look at the deficit. If this has an impact on increasing the deficit, that is going to have an impact on our economy, also.

Thank you, Mr. Chairman.

Chairman ARCHER. The gentleman's time has expired.

The Chair would announce that I would like to complete this panel's testimony before we vote and we will return immediately after the last 5-minute vote.

Does the gentleman from Missouri wish to be recognized?

Mr. HANCOCK. I will be brief. Mr. Chairman, I would like to address Mr. Keating for just 1 minute. He is the chairman of the National Taxpayers Union.

Have you noticed in the conversation here today, Mr. Keating, that we talk about consumers? We have not mentioned very much about taxpayers. I get a feeling up here that the other side of the aisle thinks that those are two different people. They say, well, it is OK to raise the tax on the taxpayers and that is not going to affect the consumers. Is there a difference between consumers and taxpayers?

Mr. KEATING. There is certainly a large overlap. There may be some difference somewhere, but I would say generally, the class is quite similar.

I do not think there is any doubt that, over the long run, a permanent repeal of this gas tax increase will result in lower prices to the American public and lower taxes paid by the American taxpayer. I do not think there is any doubt about that.

I would also like to say something about the loss of jobs. In any economy, you have many different things going on at the same time. I am sure the Tax Foundation's estimate was based on isolating that one change—a hike in the gas tax. The projected loss of jobs was compared to the number of jobs that would have otherwise been created. So if you show an overall increase in jobs, that means you would have had even more jobs had the tax not been adopted. I do not see how anyone can believe otherwise.

Mr. HANCOCK. Let me just say this. Based on the testimony today that we have heard, not from you but from the questions on the other side, we might as well raise the price of the tax 8.2 or reduce it 8.2 or maybe three times as much and it will not have any effect. I think it is a little bit asinine to say that. Actually, any time you raise a tax, whether it is 1 cent, 4 cents, 8 cents, or 12 cents, it is going to have an effect. There is no question about it. Any time you affect energy, you are going to affect capital and labor and we are following around with the energy now.

Thank you, Mr. Chairman.

Chairman ARCHER. Will the gentleman yield to me for a little bit of his remaining time?

Mr. HANCOCK. Certainly.

Chairman ARCHER. What I am picking up from this is that whether it is jobs, which may be lost but there are more jobs created, or whether it is the price of gasoline and if it goes up or down, it seems to me it is compared to what? If you say the price of gasoline is not going to go down compared to what it is today if we remove the 4.3-cent gasoline tax, that could very well be true. The price of gasoline might even go up if we remove the gasoline tax if market forces happen to be coincidentally driving the price up.

Therefore, I think it should be very clear when we say the consumer will not realize it; that we consider whether the overall price of gasoline determined by market forces, which Mr. Verleger adequately and appropriately explained to the Committee is moving up or down.

It is a fact that the tax is not collected at the refinery. The price of gasoline is set at the refinery by market prices, again, which depend on environmental regulations, what the market supply is doing relative to demand, and so forth. The price then goes to the terminal, where the tax is added.

If it goes to the terminal and the tax does not have to be added, Mr. Sherbert will not see that tax in the price of the product that he receives. It seems very clear to me that you will automatically see a reduction compared to what it otherwise would be, not necessarily compared to what the price is today.

I thank all four of you for your testimony today and we do have to go vote. This completes this panel and you are excused. I will say to the Committee and to the next panel, we will try to come back as quickly as possible after the last 5-minute vote.

Thank you very much.

[Recess.]

Chairman ARCHER. The Committee will come to order.

My apologies to our next panel of witnesses. If you will take seats at the witness table, we will commence and try to get you out of here as soon as possible. If we move rapidly, before any other Members get here, we can do that pretty quickly.

I welcome all of you to the Committee. I am sure most of you listened to the previous exchanges, so you will be a little bit prepared about what we will be discussing.

I would like to start off with Hon. Carol Hallett. Carol, if you will identify yourself for the record, you may proceed.

Let me first say that, without objection, your complete statements will be entered into the record in writing. If you will attempt to summarize within a 5-minute period for your oral testimony, we would appreciate that.

Ms. Hallett.

STATEMENT OF CAROL HALLETT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AIR TRANSPORT ASSOCIATION OF AMERICA; AND FORMER COMMISSIONER, U.S. CUSTOMS SERVICE

Ms. HALLETT. Thank you, Mr. Chairman. I am Carol Hallett, the president and chief executive officer of the Air Transport Association of America. I appreciate the opportunity to appear before you and the Committee today.

On behalf of our member airlines, I would like to applaud the Committee's proposal to repeal the 4.3-cent-per-gallon transportation fuel tax. We certainly believe it is the right thing to do. As you know, repeal of the jet fuel tax on commercial aviation has been the airline industry's number one legislative priority since it was enacted in 1993 as part of President Clinton's deficit reduction plan.

At the time of enactment, our industry was granted a 2-year exemption from the tax in recognition of the industry's precarious financial condition, with losses totaling up to $13 billion since 1990. Thanks to you, Mr. Chairman, to Congressman Mac Collins and Congresswoman Jennifer Dunn and the rest of the Committee, an extension of our industry's exemption from the tax was included in last year's budget reconciliation legislation. Unfortunately, that bill was vetoed by President Clinton and the airlines joined all other transportation modes in paying this deficit reduction tax as of the first of October last year.

Jet fuel prices averaged in 1995 55.8 cents per gallon. They reached a low of 54.1 cents last July. But since then, they have steadily risen, with sharp increases in the last several months. Jet fuel prices in March and going into April, which is the latest available information that we have, were about 65 cents per gallon, although some have been reported at 70 cents.

Mr. Chairman, U.S. airlines consume 17 billion gallons of jet fuel per year. Each 1-cent-per-gallon increase in the cost of jet fuel equals an approximate $170 million per year in additional cost to the industry. These rising jet fuel costs are certainly a potential for hikes in our prices, particularly when you add to that the 4.3-cent-per-gallon tax that we are now paying.

Consequently, the 11-cent-per-gallon increase in jet fuel from the 1995 average level is of very serious concern to the airline industry. This 20 percent increase in the price of fuel will add $1.8 billion to our costs over the course of the year. On top of the recent runup in jet fuel prices, the airlines are now, as I have mentioned, also paying the 4.3-cent-per-gallon tax on domestic fuel and that adds another $550 million to our costs.

When we attempt to pass on to our customers this higher cost in the form of fare increases, we would normally see a reduction in demand for air travel services. In fact, industry analysts agree that each 1 percent increase in ticket prices correlates to a 1-percent decline in travel demand.

The industry estimates that passing on this cost results in 5 million fewer passengers a year. This occurs because some passengers opt to take shorter trips via automobiles or other modes of transportation to other destinations, or when some passengers, particularly business travelers who are constrained by budget limitations, decide not to travel at all.

This statistic alone, Mr. Chairman, is enough to drop many flights into the loss column and will surely result in airlines cutting back, particularly in markets that have few passengers to begin with. Economics will tell you that during the 5-year period when the airlinep industry was losing billions of dollars, government-imposed taxes and fees increased significantly more and significantly faster than any single airline cost.

Mr. Chairman, I join with my transportation industry colleagues today to urge you to move as quickly as possible to repeal a tax which affects not only the airlines, our passengers, and our shippers, but quite literally, directly impacts all Americans.

I look forward to responding to your questions.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Carol Hallett
President and Chief Executive Officer
Air Transport Association of America

Hearing before the Committee on Ways and Means
On the Repeal of the 4.3 Cents-Per-Gallon
Transportation Fuel Tax
May 8, 1996

Mr. Chairman, and members of the Committee, I am Carol Hallett, President and CEO of the Air Transport Association of America. On behalf of our member airlines,* I'd like to applaud the Committee's proposal to repeal the 4.3 cents-per-gallon transportation fuel tax.

It's the right thing to do!

As you know, repeal of the jet fuel tax on commercial aviation has been the airline industry's number one legislative priority since it was enacted in 1993 as part of President Clinton's deficit-reduction plan. At the time of enactment, our industry was granted a two-year exemption from the tax in recognition of the industry's precarious financial condition -- losses totaling over $13 billion since 1990.

Thanks to you Mr. Chairman, Congressman Mac Collins, Congresswoman Jennifer Dunn, and the rest of the committee, an extension of our industry's exemption from the tax was included in last year's budget-reconciliation legislation.

Unfortunately, that bill was vetoed by President Clinton and the airlines joined all other transportation modes in paying this deficit reduction tax.

The transportation fuel tax is having an adverse impact on the financial well-being of the airlines.

Jet fuel prices averaged 55.8 cents-per-gallon in 1995. They reached a low of 54.1 cents last July. Since then, they have steadily risen with sharp increases in the last several months. Jet fuel prices in March -- which is the latest available information -- were about 65 cents-per-gallon.

Mr. Chairman, U.S. airlines consume **17 billion gallons** of jet fuel per year.

Each one cent-per-gallon increase in the cost of jet fuel equals approximately $170 million per year in additional cost to the industry.

Consequently, the 11 cents-per-gallon increase in jet fuel from the 1995 average level is of very serious concern for the airline industry. This twenty percent increase in the price of fuel will add $1.8 billion to our costs over the course of a year.

On top of the recent run-up in jet fuel prices, the airlines are now also paying the 4.3 cents-per-gallon tax on domestic fuel consumption which adds another $550 million to our costs.

*ATA member carriers include: Alaska Airlines, Aloha Airlines, American Airlines, American Trans Air, America West Airlines, Continental Airlines, Delta Air Lines, DHL Airways, Evergreen International Airlines, Federal Express, Hawaiian Airlines, KIWI Airlines, Midwest Express, Northwest Airlines, Polar Air Cargo, Reeve Aleutian Airways, Southwest Airlines, Trans World Airlines, United Airlines, United Parcel Service, and USAir. ATA associate members include: Air Canada, Canadian Airlines International, and KLM-Royal Dutch Airlines.

When we attempt to pass on to our customers this higher cost in the form of fare increases, we would normally see a reduction in demand for air travel services.

In fact, industry analysts agree that each one percent increase in ticket prices correlates to a one percent decline in air travel demand.

The industry estimates that passing on this cost results in five million fewer passengers a year. This occurs because some passengers opt to take shorter trips, via automobiles, or other modes of transportation, to other destinations, or when some passengers (particularly business travelers constrained by budget limitations) decide not to travel at all.

A loss of five million passengers approximates a loss of one person on each and every flight.

This statistic alone is enough to drop many flights into the loss column, and will surely result in airlines cutting back -- particularly in markets that have few passengers to begin with.

Economics will tell you that during the five year period when the airline industry was losing billions of dollars, government-imposed taxes and fees increased significantly more, and significantly faster, than any single airline cost.

Mr. Chairman, I join with my transportation industry colleagues today to urge you to move as quickly as possible to repeal a tax which affects, not only the airlines, our passengers and our shippers, but quite literally, directly impacts all Americans.

I would be happy to answer any questions you or any member of the committee may have.

Chairman ARCHER. Thank you, Ms. Hallett.

Our next witnesses are in tandem, Susan Perry and Harry Blunt, both representing the American Bus Association.

Ms. Perry, would you lead off.

STATEMENT OF SUSAN PERRY, SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS, AMERICAN BUS ASSOCIATION

Ms. PERRY. Yes, I will. Thank you, Mr. Chairman, Members of the Committee. Thanks so much for holding this hearing. We appreciate your doing it and we appreciate being invited to participate.

Before I make three points very quickly, I just wanted to note, as Mr. Royce pointed out, the situation with diesel fuel is much worse in California because of their particular rules and regulations than it is in any other place else in the country. I was in California 2 weeks ago with the California Bus Association and they are suffering very, very badly. I think Mr. Donohue will talk a little bit more about this situation vis-a-vis the truckers in California, and I just wanted to note that it is the same problem for the bus industry with the diesel there.

The diesel fuel, when I was there 2 weeks ago, was up to $1.60 a gallon, and that is up from apparently about $1.10 just 1 year ago. The real threat with that problem is that as summer comes, and this is true all over the country, the bus companies use a lot more fuel than they do the rest of the year, so this is why it is so dire.

There are just three points that I would like to make quickly as to why we are in favor of the proposal to repeal the 4.3 cents. Last year, we testified and we submitted some testimony to this Committee asking for equity among the various transportation modes. What we said was that if the 4.3-cent exemption for aviation were to be continued, that we would like to be included in that exemption and we felt that that was a mater of equity.

As Carol said, their proposal to continue their exemption died when the budget reconciliation bill was vetoed, so that did not happen, either. Now that Congress is proposing to repeal the tax for everybody, I guess you could call that the ultimate equity and we applaud that effort.

In addition to the lack of equity with the way the tax was imposed on the various modes, the American Bus Association opposes the tax for two reasons. One of them certainly has been well discussed at length and that is diversion from the Highway Trust Fund. We do believe that moneys collected from the use of highway fuel should be deposited into the Highway Trust Fund and dedicated for those purposes.

We believe that the tax is a regressive tax and it disproportionately hurts bus passengers. It is difficult for bus companies to absorb any additional costs. Many of them are already enduring operating ratios in excess of 100 percent, which, obviously, they cannot do for terribly long, but a lot of them are doing it.

In addition to the bus companies being in a rather precarious condition, the bus passengers are the least affluent of the travelers, so any increase in ticket price, were the companies to pass it on to them, would affect them very adversely. According to Greyhound's demographics, 44 percent of its passengers have annual incomes of $15,000 or under. So I think it is a particular burden on the inner-city bus companies as well as on their passengers. I have gone into details of this in my written statement.

I would just thank you very much at this point for the opportunity.

[The prepared statement and attachment follow:]

STATEMENT OF SUSAN PERRY
SENIOR VICE PRESIDENT-GOVERNMENT RELATIONS
AMERICAN BUS ASSOCIATION

BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

MAY 8, 1996

Mr. Chairman and Members of the Committee:

My name is Susan Perry and I am the Senior Vice President of Government Relations for the American Bus Association (ABA). Thank you for the opportunity to testify in favor of repealing the 4.3 cents per gallon federal fuel tax.

ABA is the national trade association of the intercity bus industry, representing more than 700 bus and tour company members in the United States and Canada. Most of these companies are small businesses, many of which are family owned. They operate regular route, charter and tour, airport express, special operations, and contract services. The ABA membership also includes another 2,300 travel and tourism organizations and suppliers of services and products to the bus industry.

The intercity bus industry pays approximately $7.4 million per year in additional taxes because of the 4.3 cents per gallon surtax. The industry operates about 945 million bus miles and consumes about 172 million gallons of diesel fuel each year. The number of gallons multiplied by 4.3 cents per gallon yields a tax revenue of approximately $7.4 million.

ABA strongly supports repeal of the 4.3 cents per gallon federal fuel tax for three reasons. First, and most important, the fuel tax is a regressive tax with a disproportionately adverse effect on the typical bus passengers, including the elderly, the young, the poor, and those in rural America. The regressive nature of the tax is exacerbated by the recent dramatic rise in fuel prices.

Second, for the first two years it was in effect, until October 1995, the 4.3 cents tax was paid by the bus industry but not by the airline industry, which competes with our members directly in intercity passenger markets.

Third, the $7.4 million in tax revenue paid by the bus industry (or any of the other revenue raised by the 4.3 cents surtax) has never been used for highway construction and maintenance, unlike other federal fuel taxes that have been placed into the Highway Trust Fund since 1956.

For these reasons, the tax should be repealed immediately.

The Regressive Fuel Tax Hurts Bus Passengers Disproportionately

ABA supports repeal of the 4.3 cents a gallon federal fuel tax because it is regressive, and therefore imposes a disproportionate burden on bus passengers. The intercity bus industry transports the elderly, the young, members of the military, those in rural America, and those in the lower income brackets. In fact, Greyhound's demographic research indicates that 44 percent of its passengers have annual incomes of less than $15,000. For these Americans, the fuel tax, included as part of the cost of transportation, takes a higher portion of their incomes than it does for the more affluent Americans who travel on Amtrak or airlines or in private automobiles.

The regressive nature of the tax is exacerbated by the dramatic increase in diesel fuel prices over the past year. In April 1995, the nationwide average price of diesel fuel was $1.10 per gallon. By April 15, 1996 the nationwide average price had increased to $1.30 per gallon. Many bus carriers have long term contracts for services, and they are unable to renegotiate increases based on variable fuel costs. Repealing the 4.3 cents tax would help to alleviate the pressures imposed by the fuel price surge.

Intercity bus passengers can ill afford to pay this additional tax, and the financially strapped intercity bus industry cannot afford to continue paying this tax, particularly when it provides no benefit for bus operators.

Equitable Treatment for the Intercity Bus Industry

Last summer, when I testified before Congress on the federal deficit reduction fuel tax, I asked for equity among modes. If the Congress were going to extend the exemption for airlines, or expand the exemption to Amtrak, I asked that the bus industry receive the same treatment. Now, the leadership is proposing to solve these equity problems by repealing the tax for all modes. ABA believes that this is the most equitable solution available.

For the two year period beginning October 1, 1993, the intercity bus industry paid the 4.3 cents fuel tax while the airline industry was exempt from the tax. Airlines have only recently begun paying the tax, and they have sought to extend their exemption in perpetuity, ostensibly due to their industry's precarious financial health. Amtrak has also sought an exemption from the tax.

The bus industry competes directly with the airline industry, yet the bus industry has paid this tax all along while the airlines have not. Moreover, since deregulation in transportation markets, and the advent of regional airlines and discount air fares, that intermodal competition has increased markedly. Discount air fares have not only hindered the profitability of airlines, they serve as a check on bus fares as well. Thus, the bus industry suffers from the same precarious financial condition as the airline industry.

For example, according to the former Interstate Commerce Commission, for the first six months of 1995 (the latest period for which data are available), the top ten regular route intercity bus carriers had a combined operating ratio of 104.92, i.e., they incurred $104.92 in costs for every $100.00 in operating revenue. For Greyhound Lines, Inc., by far the largest carrier in the bus industry, and the only nationwide carrier in the industry, the operating ratio was 107.66 for that period. The bus industry is no stranger to tight margins and bottom lines in the red.

The bus industry also suffers from a striking disparity in net federal subsidies by passenger transportation mode. As compared by Robert R. Nathan Associates in a July 1995 report,[1] the airline industry receives a net federal subsidy[2] of $6.38 per passenger trip, Amtrak receives a net federal subsidy of $54.88 per passenger trip, and the bus industry receives a net federal subsidy of **five cents** per passenger trip. See Attachment 1.

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[1] The Impact of Higher Motor Fuel Taxes on the Intercity Bus Industry, Robert R. Nathan Associates, Inc., Arlington, Va., July 1995.

[2] A "net federal subsidy" is the aggregate amount of federal spending on infrastructure and operating subsidies received by a mode minus the amount of federal user taxes paid by the mode.

By repealing the 4.3 cents fuel tax for all modes, bus, air and rail, Congress would begin to restore the competitive balance in intercity passenger transportation markets across the modes.

Highway Trust Fund Diversion

Since the inception of the Interstate Highway System in 1956, all federal fuel taxes were paid into the Highway Trust Fund and then disbursed to the states for highways and bridges. Highway users, including the intercity bus industry, were willing to pay the federal fuel taxes as an investment in the nation's infrastructure. This trust fund system has provided a nationwide highway system that has played a critical role in the economic development of this country and contributed dramatically to the mobility of Americans.

The trust fund concept, however, was breached in 1993 by the Omnibus Budget Reconciliation Act (OBRA), which imposed the 4.3 cents per gallon federal fuel tax but diverted the revenue to the general fund to reduce the size of the federal budget deficit. Not a nickel of this tax revenue goes to construction, repair or maintenance of the nation's highway system.

If the highway system were in adequate repair, this diversion might not present such a critical issue to the intercity bus industry and other highway users. But by any measure, the infrastructure of highways and bridges in this country is deteriorating, and the trust fund spending is falling farther behind investment needs every day.

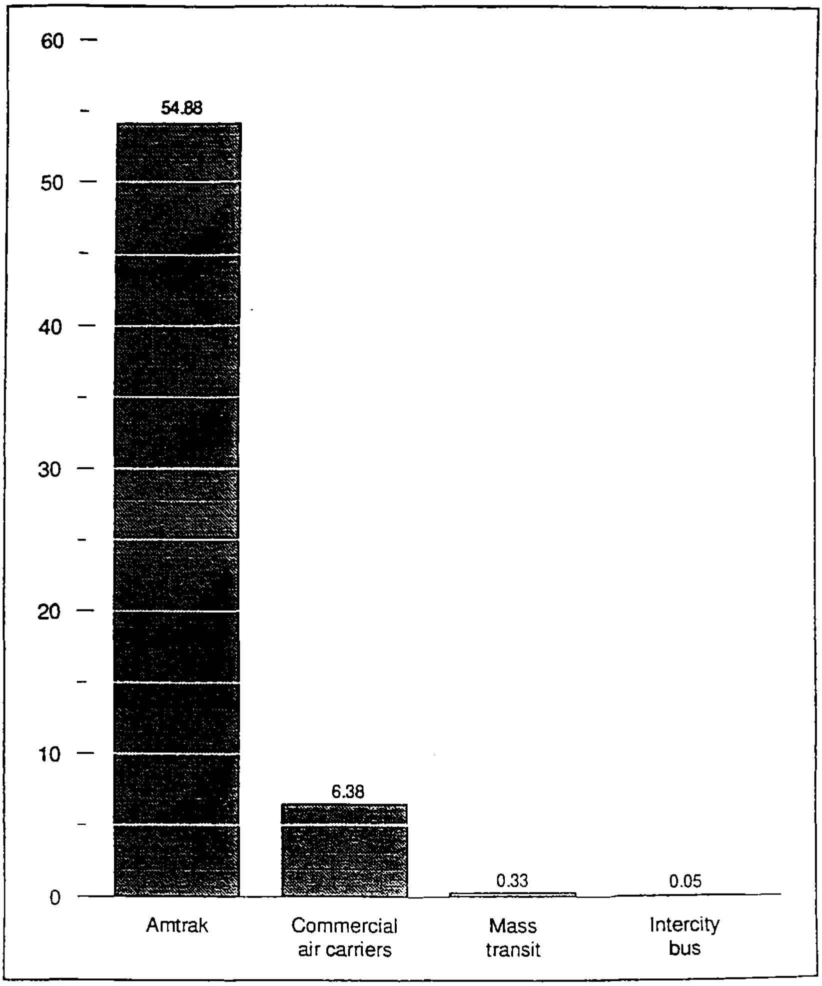
ABA believes that all revenues from federal fuel taxes on highway vehicles must go into the Highway Trust Fund. This will ensure that the investment in our nation's highway system does not fall prey to short term attempts to reduce the federal deficit.

For all of these reasons, it is time for Congress to repeal this mistake made in 1993.

ATTACHMENT 1

Figure 3. Total Federal Subsidies Per Passenger Trip, Net of User Fees, to Passenger Transportation Systems and Modes, 1960-1993

(1993 Dollars)



Source: Nathan Associates Inc.

Chairman ARCHER. Thank you, Ms. Perry.

Mr. Blunt, if you would identify yourself for the record, you may proceed.

STATEMENT OF HARRY W. BLUNT, JR., PRESIDENT, CONCORD COACH LINES, INC., CONCORD, NEW HAMPSHIRE; AND VICE CHAIRMAN, AMERICAN BUS ASSOCIATION

Mr. BLUNT. Thank you. My name is Harry Blunt and I am president of Concord Coach Lines, Inc., of Concord, New Hampshire. I also serve as vice chairman of the American Bus Association.

My company provides scheduled bus service throughout northern New England, serving 37 points in Maine, New Hampshire, and Massachusetts. We carry about a half a million passengers a year.

For the inner-city bus industry as a whole, the 4.3-cent-a-gallon gas tax contributes, as Susan has already said, to a slender profit margin for an industry that is suffering as it is already. As set out in the testimony that Susan made, many of our operators, including Greyhound, are still operating with operating ratios in excess of 100 percent.

This tax simply is an increment in operating costs for us. The bus industry and private business mine have already been hit in recent years with a number of increased operating costs as a result of additional government regulations. I know this Committee does not have jurisdiction over these areas, but it is important for you to keep in mind what we in the transportation industry must contend with because of changing Federal regulatory policies.

In the past few years, just to name a few, we have had to develop compliance programs for clean air, clean water, stormwater runoff, underground storage tank regulations, the Americans with Disabilities Act, drug and alcohol testing, family medical leave bills, and major changes in oil and chemical waste management. Regardless of whether or not we believe that these requirements are justified, and that is not the issue, these policies have added major costs to our industry and major costs to our suppliers, who have passed their costs on to us in increased costs.

Candidly, sir, no one from Congress has ever come to us and said, What will the cost of this be to your bus passenger? All of these expenses we have had to absorb, and nobody has ever been interested in what this does to the price of a bus ticket.

In the case of my company, we have not had a fare increase in nearly 2 years, except in one minor instance where we had a 2-percent fare increase. Bus carriers simply cannot pass the cost of fuel increases to passengers. Bus travel is extremely price elastic because of the competition with airlines, Amtrak, and primarily the private automobile. The price of a bus ticket cannot increase proportionately to accommodate the actual rise in fuel costs and taxes. The carrier must absorb the cost increases to keep the passengers on the bus.

Having said this, I do know that as a result of cost increases and current spikes in fuel prices, I have talked with some carriers who are anticipating a fuel surcharge in their pricing. I have also been told by these carriers that if this tax is repealed, they would be able to hold off on adding fuel surcharges. Repealing the 4.3-cent tax at this time will assist the strapped inner-city bus industry and that will help our passengers.

I thank you for the opportunity of presenting my views and look forward to answering any questions I may.

[The prepared statement follows:]

STATEMENT OF HARRY W. BLUNT, JR.
PRESIDENT OF CONCORD COACH LINES, INC.
CONCORD, NEW HAMPSHIRE

ON THE
REPEAL OF THE 4.3 CENTS PER GALLON MOTOR FUELS TAX

BEFORE THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

MAY 8, 1996

Mr. Chairman and Members of the Committee:

My name is Harry Blunt. I am the president of Concord Coach Lines in Concord, New Hampshire. I also serve as the Vice Chairman of the American Bus Association.

My company provides scheduled bus service from 37 points in New Hampshire, Maine and Massachusetts. We operate service to Logan Airport and to the new South Station intermodal terminal in Boston.

As a small company that purchases over half a million gallons of diesel fuel each year, we fully support repeal of the 4.3 cents a gallon fuel tax that goes into the general fund. Our annual savings from this tax repeal may be small when compared with the overall cost of the highway system, but it would have a significant impact on our company and its ability to serve our customers.

Concord Coach purchased 546,503 gallons of diesel fuel last year, and we paid $23,500 to the federal government because of the 4.3 cents fuel tax increase that went into effect in 1993. These tax payments are direct operating costs to the company.

For the intercity bus industry as a whole, the 4.3 cents a gallon fuel tax adds to the slender profit margins faced by many carriers. As set out in the testimony of the American Bus Association at today's hearing, many carriers providing scheduled service have operating ratios above 100, meaning that their operating costs exceed their operating revenue. This tax is simply an increment to those operating costs.

Bus carriers have already been hit in recent years with a number of increased operating costs as a result of additional government regulations. I know that this committee does not have jurisdiction over these areas, but it is important for you to keep in mind what we in the transportation industry must contend with because of changing federal regulatory policies. In the past few years, we have had to develop compliance programs under the Clean Air Act, the Clean Water Act (including stormwater runoff and underground storage tank regulations), the Americans with Disabilities Act, drug and alcohol testing for bus drivers, and expanded OSHA regulations. Regardless of whether or not we believe that these requirements are justifiable on policy grounds, these compliance programs all add costs to our expense statements. The 4.3 cents a gallon tax was added on top of these requirements two and one half years ago.

In addition, the price of fuel has gone up dramatically in the past few months. In April 1995, the national average price for diesel fuel was $1.10 a gallon. By April 1996 the price had risen 20 cents to $1.30 a gallon. That 20 cents a gallon increase cost my company $109,300 in one year. Our total annual ticket revenue is only about $6 million, so the 20 cents a gallon price increase, along with the 4.3 cents a gallon fuel tax, amounts to 2.2 percent of our total ticket revenues. In an industry with notoriously thin margins, this has an exorbitant impact on profitability.

Bus carriers cannot simply pass on the cost of fuel increases to passengers. Bus travel is extremely price elastic because of the competition with airlines, Amtrak and private automobiles. The price of bus tickets cannot increase proportionately to accommodate the actual rise in fuel costs and taxes. The carriers must absorb the cost increases to keep the passengers on the bus.

(Having said this, I do know that as a result of the cost increases and current spike in fuel prices, some carriers are considering a surcharge on service if there is no relief. They tell me that repealing the 4.3 cents tax would alleviate their need to add a new charge.)

Furthermore, the 4.3 cents a gallon tax does not even benefit the intercity bus industry. Unlike the other federal fuel taxes paid by bus carriers, the 4.3 cents tax goes into the general fund, and not the Highway Trust Fund. This money is deposited into the general fund and is not spent on construction, repair or maintenance of the nation's highways. The tax simply counterbalances a small portion of the federal budget deficit.

Repealing the 4.3 cents tax at this time will assist the strapped intercity bus carriers. And whatever you can do to assist us will help our customers.

I thank you for the opportunity to present my views to the committee today, and I ask that you vote to repeal this tax as soon as possible.

Chairman ARCHER. Thank you, Mr. Blunt.

Mr. Donohue and Mr. Bowman are both here representing the American Trucking Associations.

Mr. Donohue, if you will specifically identify yourself for the record, you may proceed.

STATEMENT OF THOMAS J. DONOHUE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN TRUCKING ASSOCIATIONS, INC.

Mr. DONOHUE. Thank you, Mr. Chairman and Members of the Committee. I am Tom Donohue, president and chief executive officer of the American Trucking Associations. As you indicated, Don Bowman, our chairman of the board, is with us today.

Mr. Chairman, 9 million Americans make their living in the trucking business. We represent 78 percent of the Nation's freight bill and account for 5 percent of the gross domestic product. Mr. Chairman, we buy 40 billion gallons of diesel and gasoline and we drive 350 billion miles every year, so you can imagine that skyrocketing fuel prices have had a devastating impact on our industry.

Most of our companies are small. Fuel prices can represent up to 20 percent of their overall operating costs, and a 16- to 20-cent-per-gallon increase in diesel fuel prices, like we are experiencing today, can easily tip the balance between staying in business or going out of business. That is why the 4.3-cent fuel tax increase enacted in 1993 should be repealed for all fuels. The repeal should be made immediately and, preferably, permanently.

There are particular problems with both diesel and gasoline that the Committee should consider in terms of California. The extreme gasoline price increases in California appear to result from the difficulty of requiring statewide use by June 1 of a special reformulated gasoline which cannot be produced as fast as needed because of the refining process, as you have heard discussed today. The problem might be addressed by a phase-in or a short delay.

Congress should take a close look at whether special California diesel makes sense in the light of the high cost and the very little increase in clean air. We have made major improvements in clean air with electronic engines.

In addition, the Congress should look at providing a relief mechanism when the price of fuel in the air quality areas gets considerably over what it is everywhere else. Maybe there is a trigger; I am not sure. Think about it, Mr. Chairman. California is the largest State in the union, has the fifth largest economy in the world, and we are strapping their primary mover of goods, trucks, with an additional 30 or 31 cents a gallon more than every place else in the country.

It would help to keep inflation in check if we moved on this, and certainly help to keep their economy in shape. Consumers would save about $6.5 billion a year in fuel taxes if we went ahead on your suggestions here, Mr. Chairman, and every truck in this country would save $600 a year.

In conclusion, I would like to say that repealing this tax is not about politics that happen to be going on in this building. It is all about jobs and preserving thousands and thousands of jobs and opportunities in this country for people in our business. It would really help if we just stepped up and, for once, said, We are not going to collect a tax that is not going into the trust fund, that is not building roads, and that is not helping the people that move the Nation's goods.

I thank you very much, sir.

[The prepared statement and attachments follow:]

Before the

UNITED HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS

STATEMENT OF THOMAS J. DONOHUE
PRESIDENT AND CHIEF EXECUTIVE OFFICER
AMERICAN TRUCKING ASSOCIATION, INC.
ACCOMPANIED BY DONALD M. BOWMAN
CHAIRMAN, D.M. BOWMAN, INC.

May 8, 1996

The American Trucking Associations, Inc. (ATA) appreciates the opportunity to testify on repealing the 4.3-cent general fund fuel tax and on fuel prices. We wish to make three points:

- The 4.3-cent general fund fuel tax should be repealed immediately for all fuels. Taxes on highway fuel should go into the Highway Trust Fund and be used only for highway purposes, as has historically been the case.

- Repeal should be immediate and, preferably, permanent. If making repeal permanent would slow down its enactment, we would favor a short-term repeal followed by more comprehensive legislation that includes permanent repeal.

- There are particular problems with both diesel and gasoline supply in California. The extreme gasoline prices, which have drawn all of the media attention to date, appear to result from the difficulty of forcing statewide use by June 1 of a fuel that cannot be produced fast enough to meet the immediate demand; this might be addressed by a phase-in or short delay of the "clean burning gasoline" mandate. However, diesel fuel also costs consistently more in California than elsewhere even though the clean air benefits are less certain. Congress should take a close look at whether special California diesel makes sense in light of the high, permanent cost to the entire economy. In addition, Congress should look at providing a relief mechanism when California diesel prices exceed the national average by more than a certain margin. The current 31 cent differential is harming truckers and their customers nationwide.

I. ATA REPRESENTS THE TRUCKING INDUSTRY

ATA is the national trade association representing trucking companies of all sizes, industry segments and regions. More than 35,000 companies belong directly to ATA or to our 51 state and 14 specialized national affiliates. These companies range in size from individual owner-operators to carriers with thousands of trucks. Diverse as those businesses are, they all use fuel. Thus, ATA has a strong interest in fuel taxation.

II. TRUCKING PLAYS A VITAL ROLE IN THE ECONOMY

Nine million Americans make their living in the trucking business. Trucking is a $360 billion industry, representing some 5% of gross domestic product. Shippers overwhelmingly choose to send goods by truck; trucking now accounts for 78% of the nation's freight bill.

As businesses at all stages of production trim inventories, they increasingly rely on frequent and precisely timed truck deliveries to make sure they have enough raw materials, parts and final goods to keep operating. This growing dependence on trucking instead of storing materials has held down costs and made suppliers more nimble in meeting changing demands from both domestic and foreign consumers.

At the same time, this dependence makes the financial and competitive condition of the trucking industry all the more important to the entire economy. With a profit margin of less than 1.5% in 1995, the trucking industry cannot afford taxes that are unique to transportation industries.

III. Fuel Is a Major Expense for Trucking

Fuel costs account for anywhere from 4% to 20% of a trucking company's operating revenue, depending on the nature of the company's vehicles, customers and length of haul. The burden of fuel costs--and fuel taxes--falls on all carriers and their customers but it does so very unevenly. Operations with especially heavy fuel needs include: long-haul trucking; van lines; and activities that use fuel for nonhighway purposes, such as the motors used for refrigerated trailers, dumping, trash pickup and compacting, and concrete and other mixing and pumping operations.

Unfortunately, fuel costs have been soaring lately--even more in much of the nation for diesel fuel than for the gasoline that has received most of the media attention. The Energy Department's Energy Information Administration (EIA) surveys 250 truck stops every week. Because shippers, carriers, government agencies and other rely on these surveys to determine fuel price trends, EIA recently began, at ATA's request, conducting this survey three times a week, instead of weekly. The survey shows that the nationwide average retail price for diesel fuel rose 15% in just 10 weeks, from $1.13 per gallon on February 5 to $1.305 on April 15. The latest survey, done May 6, showed the national average was still $1.292. (See Table 1 and Figure 1.)

EIA also compiles five regional averages. Those averages reveal that prices rose throughout February in the regions that use heating oil, namely the East and Gulf Coasts and the Midwest. Although heating oil typically is a bit cheaper than diesel fuel, utilities, factories and fuel oil distributors who may have had trouble getting enough heating oil (or natural gas, in the case of dual-fuel facilities) probably started buying diesel fuel during the coldest weather last winter, pushing up diesel prices in those regions. Now that winter has finally ended, diesel prices in those regions have eased a bit. But in the Rocky Mountain and West Coast regions, prices began to move up in late February or early March and are still climbing. Total increases in those regions have been steeper and more sudden: a 26-cent jump in just 7 weeks in the West Coast.

Commercial trucks will consume over 40 billion gallons of fuel this year - 24.3 billion of diesel fuel and 16.1 billion of gasoline. Commercial truck owners will contribute $8.8 billion in fiscal 1996 in fuel taxes to the federal treasury, of which $1.7 billion will go to the general fund and $7.1 billion to the Highway Trust Fund. These figures are calculated at current federal tax rates of 24.3 cents per gallon for diesel fuel and 18.3 cents for gasoline. In addition, commercial truck owners will pay another $3.1 billion in other highway user taxes on new trucks, tires and highway use. All told, commercial trucks will pay 44% of Highway Trust Fund taxes in fiscal 1996, in addition to $1.7 billion in general fund fuel taxes. Additionally, commercial trucks will pay an additional $13.2 billion in state taxes, not including property and/or weight distance taxes.

IV. The 4.3-Cent General Fund Fuel Tax Should Be Repealed Immediately

The trucking industry has willingly paid highway user fees that are in fact used to build highways. A good highway system is good for all citizens and for the nation's economic well-being, and trucking is willing to do its part to improve and maintain that system.

But there is no justification for singling out businesses and individuals for a special burden of deficit reduction based on how much fuel they consume for transportation. The general fund fuel tax, which falls only on transportation fuel, should be repealed immediately. The impact on the budget is minimal, only 0.3% of this year's $1.6 trillion budget, yet the burden on highway using small businesses is substantial, particularly when fuel costs are squeezing many of these businesses to the edge of extinction. This tax also falls unfairly on the poorest automobile drivers who are least able to absorb this cost.

Even the treasury gets some benefit from repeal of this unfair tax. The Joint Committee on Taxation staff estimates that 25% of the revenue loss from dropping the 4.3 cent tax will flow back to the treasury in higher income and payroll taxes. That's because consumers will spend the savings at the fuel pump on other goods and services, which will add to employment and profits in the industries supplying those products.

The savings will show up in a variety of forms. The most immediate impact of course will be right at the gasoline pump and will be greatest for families who use practical but fuel-thirsty minivans and station wagons. These same families will also save when the tax is no longer passed on by shippers in the price of milk, clothes and other goods they buy. They will save again on travel costs, whether by family car or in the costs embedded in the price of a bus, rail or airline ticket. Families that relocate will see the savings in their moving-van costs. The total savings will be about $100 per year for a family of four. That's a genuine, family-friendly tax cut--with no complicated phase-ins, phase-outs or eligibility questions.

V. Repeal Should Be Immediate and Permanent If Possible

The repeal of the 4.3 cent tax should take place immediately to provide relief when it is most urgently needed to counter today's soaring fuel prices. Because the tax on highway fuels is imposed at the terminal rack where tank trucks pick it up for delivery to retailers and bulk fueling facilities, the repeal will be reflected in the price that users pay within days.

If possible, the repeal should also be permanent. Too many taxpayers now must contend with the uncertainty of temporary income and excise tax provisions. This much-needed repeal should not be added to the list of provisions that lie in legislative limbo. However, we recognize that permanent repeal may take longer to work through the legislative process. Therefore, we would support an immediate but temporary repeal if Congress needs more time to work out permanent repeal.

VI. California Situation Deserves Added Attention

Prices have been rising especially fast in California in the past few weeks. In fact, since April 15, when ATA began daily, state-by-state tracking of diesel prices at both the terminal rack and the retail fuel pump, national prices have drifted down slightly but prices in California have continued upward almost without interruption. Diesel now costs 31 cents per gallon more in California than in the nation as a whole, according to the latest daily survey of 4000 truck stops by Computer Petroleum Corporation. (See Table 2 and Figure 2.) Because California is such a huge market itself and is the point of origin or destination for so much of the nation's domestic and international freight, these price differentials are matters of nationwide concern.

Like the rest of the nation, California prices have been affected by high crude oil costs, brought on in part by uncertainty about whether Iraq will soon begin selling oil again, and by unexpectedly strong demand for gasoline. However, the California situation is made worse by California Air Resources Board (CARB) requirements that refiners produce specially formulated "low aromatics" diesel fuel and "clean burning" gasoline. "CARB diesel" has been mandated since October 1993; "CARB gasoline" has been required in the Los Angeles basin since March and will be mandatory statewide beginning June 1. The statewide mandate has produced a short-run surge in demand as every vendor tries to secure supplies by that date from a very limited number of refiners. The inability of either diesel or gasoline customers to purchase fuel produced out-of-state makes them extremely vulnerable to price spikes when demand rises or supply is cut by production problems, such as a refinery shutdown. Unfortunately, both a demand surge and a refinery explosion have hit the California market this past month, leading to a predictable upsurge in prices.

The extreme gasoline prices, which have drawn all of the media attention to date, are likely to subside once refinery capacity catches up to demand. This problem might be addressed by a phase-in or short delay of the clean burning gasoline mandate. However, diesel fuel also costs consistently more in California than elsewhere even though the clean air benefits are less certain. Congress should take a close look at whether special California diesel makes sense in light of the high, permanent cost to the entire economy. In addition, Congress should look at providing a relief mechanism when California diesel prices exceed the national average by more than a certain margin. The current 31 cent differential is harming truckers and their customers nationwide.

VII. CONCLUSION

The trucking industry has always been willing to pay its fair share of legitimate highway user fees. However, it is inequitable and discriminatory to charge trucks disproportionate amounts for nonhighway purposes that do not directly benefit highway users. Therefore, ATA supports immediate, permanent repeal of the 4.3-cent general-fund fuel tax.

If the tax cannot be permanently repealed right away, ATA would favor a short-term, immediate repeal, quickly followed by permanent repeal.

Congress also should begin an immediate review of whether California-only fuel mandates are unnecessarily restricting markets and driving up prices there, particularly for diesel fuel, where the clean air benefits are much less likely to warrant the price penalty that truckers and their customers nationwide suffer as a result of requiring a fuel sold only in one state. In addition, Congress should consider whether it would be appropriate to provide relief from the differential in diesel prices between California and the rest of the country when that gap exceeds a certain level for more than a short period of time.

Table 1: EIA National and Regional Retail Diesel Fuel Prices

($ per Gallon)

	National	East Coast	Midwest	Gulf Coast	Rocky Mts	West Coast
01-Jan-96	1.148	1.147	1.125	1.106	1.203	1.262
08-Jan-96	1.146	1.149	1.120	1.107	1.193	1.261
15-Jan-96	1.152	1.159	1.126	1.117	1.191	1.260
22-Jan-96	1.144	1.152	1.116	1.106	1.188	1.255
26-Jan-96	1.136	1.143	1.110	1.094	1.186	1.247
05-Feb-96	1.130	1.141	1.104	1.088	1.179	1.236
12-Feb-96	1.134	1.142	1.111	1.093	1.180	1.233
19-Feb-96	1.151	1.168	1.130	1.115	1.176	1.233
26-Feb-96	1.164	1.182	1.148	1.125	1.174	1.232
04-Mar-96	1.175	1.190	1.165	1.135	1.187	1.230
11-Mar-96	1.173	1.183	1.163	1.142	1.187	1.228
18-Mar-96	1.172	1.180	1.160	1.139	1.197	1.235
25-Mar-96	1.210	1.231	1.198	1.186	1.213	1.244
01-Apr-96	1.222	1.235	1.208	1.196	1.220	1.283
08-Apr-96	1.249	1.251	1.236	1.218	1.250	1.336
15-Apr-96	1.305	1.299	1.301	1.265	1.309	1.387
22-Apr-96	1.304	1.297	1.287	1.258	1.342	1.431
29-Apr-96	1.285	1.269	1.260	1.214	1.357	1.479
06-May-96	1.292	1.272	1.267	1.216	1.380	1.494

	National	East Coast	Midwest	Gulf Coast	Rocky Mts	West Coast
Last Year	1.126	1.120	1.103	1.087	1.156	1.260
One Year Low	1.093	1.095	1.069	1.055	1.140	1.211
One Year High	1.305	1.299	1.301	1.265	1.380	1.494
1996 Low	1.130	1.141	1.104	1.088	1.174	1.228
% ch. to May 6th	14.34%	11.48%	14.76%	11.76%	17.55%	21.66%

Figure 1: Retail Diesel Prices

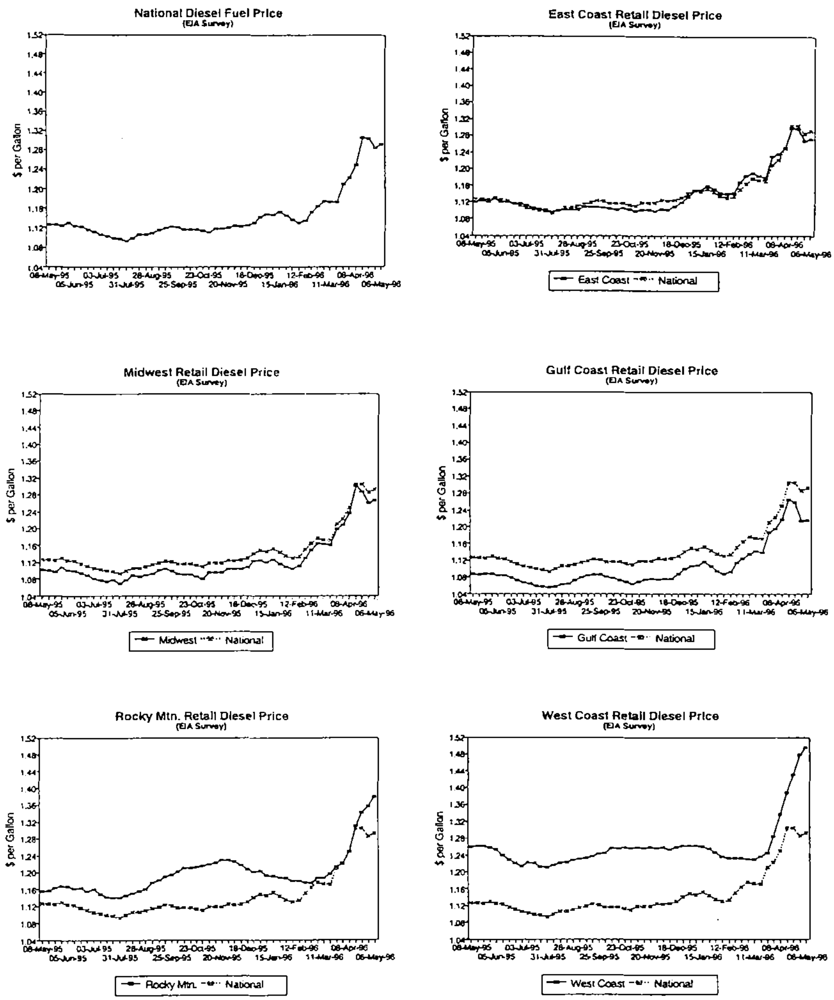
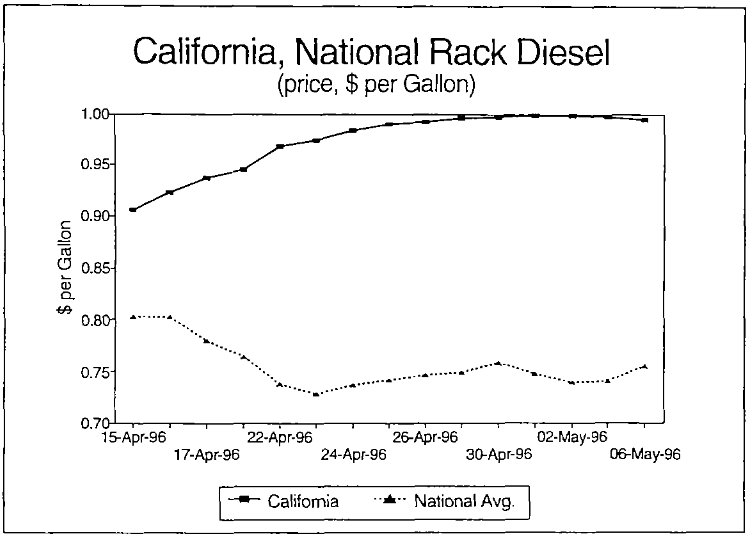


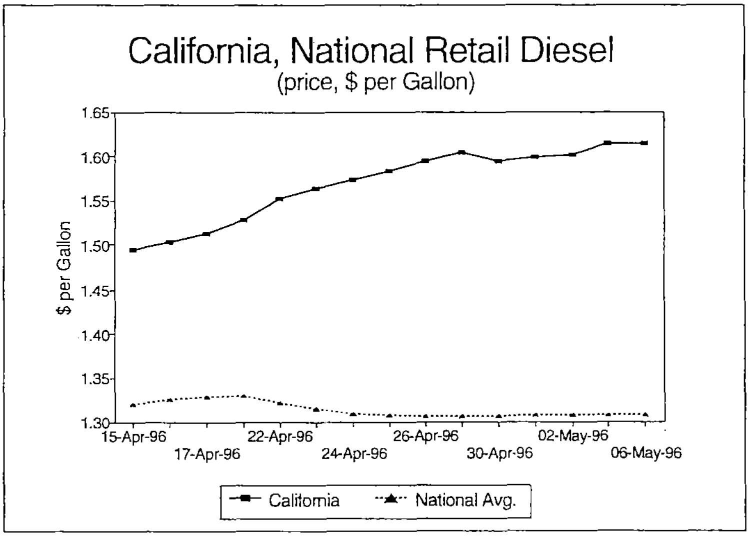
Table 2: California & National Daily Average Rack & Retail Diesel Prices
($ per Gallon)

Date	California Rack	National Rack	California Retail	National Retail
15-Apr-96	0.906	0.803	1.496	1.321
16-Apr-96	0.923	0.802	1.504	1.327
17-Apr-96	0.938	0.780	1.513	1.329
18-Apr-96	0.946	0.764	1.530	1.331
22-Apr-96	0.968	0.738	1.553	1.322
23-Apr-96	0.974	0.728	1.563	1.316
24-Apr-96	0.984	0.736	1.574	1.309
25-Apr-96	0.989	0.742	1.584	1.308
26-Apr-96	0.992	0.746	1.594	1.307
29-Apr-96	0.996	0.749	1.604	1.307
30-Apr-96	0.997	0.758	1.595	1.306
01-May-96	0.998	0.748	1.599	1.308
02-May-96	0.998	0.740	1.602	1.308
03-May-96	0.997	0.740	1.614	1.307
06-May-96	0.995	0.755	1.614	1.308
% Change from 4/15 to 5/6	9.83%	-5.99%	7.89%	-0.97%

Source: Computer Petroleum Corporation PetroNet and ATA

FIGURE 2: CALIFORNIA VS. NATIONAL RACK & RETAIL DIESEL FUEL PRICES





Source: ATA Statistics; data provided by Computer Petroleum Corporation PetroNet© software

Chairman ARCHER. Thank you, Mr. Donohue.
Mr. Bowman.

STATEMENT OF DONALD M. BOWMAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, D.M. BOWMAN, INC., WILLIAMSPORT, MARYLAND; AND CHAIRMAN OF THE BOARD, AMERICAN TRUCKING ASSOCIATIONS, INC.

Mr. BOWMAN. Good afternoon, Mr. Chairman and Members of the Committee. I am Don Bowman, chairman and chief executive officer of D.M. Bowman, Inc., of Williamsport, Maryland, and this year's chairman of the board of ATA, the American Trucking Associations, Inc.

My company is a medium-sized truckload carrier. We run around 450 trucks and employ around 600 people. I am here today on behalf of my company and the thousands of other truckers who are experiencing serious problems with rising fuel costs.

The rise in fuel prices is causing major problems for my company and many other ATA companies. For example, the supply of diesel fuel has been interrupted for many of our member companies and operating costs are going through the roof. If we do not get some kind of relief soon, we will be unable to afford to buy the equipment that we need to run our businesses and may even have to lay off some employees.

Let me tell you what kind of effect repealing the 4.3-cent tax would have at D.M. Bowman, Inc. We buy about 8 million gallons of fuel annually. If Congress got rid of the 4.3-cent tax, my company would save $344,000 a year. With that money, I can create eight more full-time jobs, paying a little over $40,000 a year, or I could buy six brandnew tractors.

In summary, Mr. Chairman, there is very little any of us can do about the market forces that are driving up the price of fuel, but there is something we can do about the taxes on that fuel, particularly taxes that do not build roads and bridges. Congress should seize this opportunity to repeal this 4.3-cent tax and help protect jobs and promote economic growth.

I feel that repeal of this tax will mean a reduction of 4.3-cent-per-gallon tax to my company and other end users of the product. I think competition will ensure this.

I would like to thank you for the opportunity to testify today, and I will be happy to answer any questions.

Chairman ARCHER. Thank you, Mr. Bowman.

Mr. Harper, you are our last witness. If you would identify yourself for the record, you may proceed.

STATEMENT OF EDWIN L. HARPER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF AMERICAN RAILROADS

Mr. HARPER. Thank you, Mr. Chairman, Members of the Committee. I am Edwin L. Harper, president and chief executive officer of AAR, the Association of American Railroads. I appreciate the opportunity to present the railroad industry's perspective on current proposals to eliminate portions of the fuel excise taxes.

It is appropriate for the Congress to reconsider fuel excise taxes. The railroad fuel bill has gone up $480 million on an annualized basis so far this year. That cost will be passed along eventually to everyone who uses electricity, who drives cars, or who eats.

The AAR urges the Congress to repeal the 1993 deficit reduction fuel tax to which transportation modes are subject. All modes are subjected to a 4.3-cent-per-gallon tax, while the railroads are uniquely and inequitably subjected to a 5.5-cent-per-gallon deficit reduction fuel tax.

In discussing fuel tax levels, it is important to distinguish two distinct types of fuel taxes now in place. First, there are fuel taxes which are essentially user charges imposed on nonrailroad modes of transportation to pay for the improvement and maintenance of public infrastructure and right-of-ways on which they depend.

Motor carriers pay fuel taxes to the Highway Trust Fund as a user charge for federally financed construction, operation, and maintenance of the publicly owned streets and highways throughout America. Likewise, inland waterway carriers pay a similar fuel tax to the Inland Waterways Trust Fund.

In contrast, however, to other modes, the railroads build, own, and operate their own rights-of-way, and thus do not pay Federal excise taxes or user fees, fuel or otherwise, for these purposes. The freight railroad industry does not want or need a trust fund. Instead, each freight rail carrier makes its own investment decisions and the industry pays significant property taxes on its privately owned rights-of-way.

Second, other fuel taxes are paid by freight transporters solely for deficit reduction. Prior to 1990, the only purpose of transportation fuel taxes was to finance nonrailroad transportation infrastructure. The 1990 Budget Reconciliation Act extended the fuel tax beyond its historical role as a user fee by introducing a 2.5-cent-per-gallon deficit reduction tax on transportation fuels. This tax was payable by highway users and railroads into the general fund of the Treasury.

The 1993 Reconciliation Act imposed an additional 4.3-cent-per-gallon deficit reduction tax on all transport modes, albeit with a deferred effective date for commercial airlines. This tax remains in place and is the subject of today's hearings.

The deficit reduction diesel fuel taxes imposed in 1990 and 1993 should be repealed. There is no justification for expanding fuel taxes beyond their traditional and appropriate application as a user fee. In addition, it is fundamentally unfair to single out the transportation industry from other segments of the economy to pay for deficit reduction. Moreover, it is grossly unfair to then single out one mode of transportation, the railroads, for an even larger share of the burden.

The 1993 Reconciliation Act provided that on October 1, 1995, one-half of the 2.5-cent-per-gallon deficit reduction diesel fuel tax paid by the railroad industry would be retained and extended, while the tax paid by the trucking industry would be redirected into the Highway Trust Fund rather than dedicated to deficit reduction. Thus, the railroads are now the only payers of the original 1990 deficit reduction tax, originally set to expire last year, at a rate of 1.25 cents per gallon.

The chart, which you will see over here, illustrates the point and makes clear the arithmetic. The AAR urges Congress to remove the unique and inequitable differential by eliminating the full deficit reduction tax on all modes.

Mr. Chairman, in conclusion, while waiting this morning, I was reading the Joint Committee on Taxation's report prepared on May 2 for the use of this Committee and the Finance Committee. In that text, you will see a chart showing the trust fund, general funds, and so forth. If this Committee and Congress go ahead and eliminate the 4.3-cent-per-gallon tax, what you will see in this column is all zeroes except for the railroad industry. They will be the only one the next time that this chart is created that will be paying a deficit reduction fuel tax of 1.25 cents per gallon. Thus, we hope that you will give careful consideration to making that a part of the total package of eliminating the vestiges of the 1993 act.

Thank you.

[The prepared statement follows:]

STATEMENT OF EDWIN L. HARPER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ASSOCIATION OF AMERICAN RAILROADS
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON THE IMPACT OF THE 1993 TAX INCREASE ON TRANSPORTATION FUELS
MAY 8, 1996

Mr. Chairman and Members of the Committee, I am Edwin L. Harper, president and chief executive officer of the Association of American Railroads (AAR). I appreciate this opportunity to present the railroad industry's perspective on current proposals to eliminate portions of the fuel excise taxes imposed in the Omnibus Budget Deficit Reduction Act of 1993 (OBRA '93). These proposals involve repeal of the 4.3 cents-per-gallon deficit reduction fuel tax imposed generally on competing modes of transportation. As Congress seeks to repeal the 4.3 cents-per-gallon deficit reduction fuel tax to which transportation modes generally are subject, AAR urges you to also repeal the 1.25 cents-per-gallon deficit reduction tax resulting from OBRA '93 which is uniquely and inequitably paid by the railroad industry.

FUEL TAXES ON TRANSPORTATION MODES ARE NOT AN APPROPRIATE DEFICIT REDUCTION MECHANISM

In discussing fuel tax levels, it is important to distinguish the two distinct types of fuel taxes now in place. First, there are fuel taxes which are essentially user charges imposed on certain individual modes of transportation to pay for the improvement and maintenance of public infrastructure and rights-of-way on which they depend. Motor carriers and other motorists pay fuel taxes to the Highway Trust Fund as a user charge for federally-financed construction, operation and maintenance of the publicly-owned streets and highways throughout America. Likewise, inland waterway carriers pay similar fuel taxes to the Inland Waterways Trust Fund to support federal spending on the publicly-owned inland waterway system. Air passengers, until recently, have paid ticket taxes which support airport and air traffic control system improvements. In contrast to the other modes, however, railroads build, own and operate their own rights-of-way and thus do not pay federal excise taxes or user fees (fuel or otherwise) for these purposes. The freight railroad industry does not want or need a trust fund. As a privately owned and operated industry, each freight rail carrier makes its own investment decisions and pays significant property taxes on these privately-owned rights-of-way.

Second, other fuel taxes are paid by freight transporters solely for deficit reduction. Prior to 1990, the only purpose of the transportation fuels tax was to finance non-railroad transportation infrastructure or operations.[1] The 1990 Budget Reconciliation Act, for the first time, extended the fuel tax beyond its historical role as a user fee, by introducing a 2.5 cents-per-gallon deficit reduction tax on highway users and railroads, payable into the General Fund of the Treasury.[2] OBRA '93 imposed an additional 4.3 cents-per-gallon deficit reduction rate on all transportation modes, albeit with a deferred effective date for commercial airlines; this tax remains in place and is the subject of this hearing.

It is AAR's view that the deficit reduction diesel fuel taxes imposed in 1990 and 1993 should be repealed. It is fundamentally unfair to single out one industry -- transportation -- from other segments of the economy to pay for deficit reduction. Moreover, it is grossly unfair to then single out one mode of transportation -- the railroads

[1] With the exception of the 0.1 cents-per-gallon Leaking Underground Storage Tank (LUST) tax, which has expired.

[2] The railroad industry alone continues to pay 1.25 cents of this 1990 tax into the General Fund. (This is discussed in detail below in section III.)

– for an even larger share of the burden. There is no justification for expanding fuel taxes beyond their traditional, appropriate application as a user fee.

RAILROADS ARE SUBJECT TO A COMPETITIVE INEQUITY UNDER THE CURRENT DEFICIT REDUCTION FUEL TAX SYSTEM

In addition to imposing the 4.3 cents-per-gallon deficit reduction fuel tax, OBRA '93 modified the original 1990 deficit reduction tax in a way that unfairly burdens the railroads. This inequity must be remedied. OBRA '93 provided that as of October 1, 1995, the full 2.5 cents-per-gallon tax paid by the trucking industry and other highway users would be redirected into the Highway Trust Fund instead of being dedicated to deficit reduction, while half of the 2.5 cents-per-gallon deficit reduction diesel fuel tax paid by the railroad industry would be retained. Thus, as a result of OBRA '93, railroads now are the only payers of the original 1990 deficit reduction tax, at a rate of 1.25 cents-per-gallon. Highway and waterway users and commercial airlines pay 4.3 cents-per-gallon into the General Fund of the Treasury, while railroads pay 5.55 (4.3 plus 1.25) cents-per-gallon. This inequity is shown on the following table.

Deficit Reduction Fuel Taxes

(CENTS PER GALLON)

Freight Transportation Modes	1990 Tax	1993 New Taxes	1993 Changes To 1990 Tax (Effective 10/1/95)	Current Total
RAILROADS	2.5	4.3	-1.25	5.55
MOTOR CARRIERS	2.5	4.3	-2.50*	4.3
INLAND WATER CARRIERS	0	4.3	0	4.3
COMMERCIAL AIRLINES	0	4.3	0	4.3

*PAYMENT TO DEFICIT REDUCTION ENDED; PAYMENT TO HIGHWAY TRUST FUND BEGUN

This discrepancy in the deficit reduction fuel tax rate places the railroads at a competitive disadvantage. It is clearly unjust to require railroads to pay 1.25 cents-per-gallon more to reduce the deficit than their competitors. To remove this inequity, AAR urges Congress to repeal the 1.25 cents-per-gallon differential in conjunction with the repeal of the 4.3 cents-per-gallon deficit reduction tax.

CONCLUSION

AAR applauds Congressional efforts to reduce the level of taxation imposed on transportation by OBRA '93 through the fuel tax mechanism. In AAR's view, however, it is imperative that any initiative to reduce fuel taxes also include elimination of the deficit reduction diesel fuel tax paid by freight transporters. If the 4.3 cents-per-gallon tax were eliminated, but not the railroads' additional 1.25 cents-per-gallon tax, the railroads would be the only payers of a deficit reduction fuels tax; clearly Congress could not allow such an inequity. The 4.3 cents-per-gallon paid by the railroad industry for deficit reduction totaled approximately $157 million in 1995, for which the railroads would have had much more productive use, including its own infrastructure investments. The industry also was required to pay another $46 million last year for the additional 1.25 cents-per-gallon tax unique to the railroad industry.

AAR urges Congress to repeal the deficit reduction diesel fuel tax currently imposed on the nation's railroads. Deficit reduction should be accomplished by means other than burdening the transportation system with additional costs that do not enhance the efficiency or productivity of the system. It also is critically important that an evenhanded system of taxes be put in place. The nation's tax and budget policies should not be used as a mechanism to disfavor one transportation mode against another. The inequity in current law should be remedied so that the railroad industry will no longer be required to pay more for deficit reduction than its competitors.

Thank you for the opportunity to present AAR's views on this important matter. I would be happy to respond to any questions you might have.

Chairman ARCHER. Thank you, Mr. Harper. You concluded your testimony precisely as the red light came on, so I compliment you for that.

All of you are here today to say that you support the repeal of the fuel tax. You have a little more added to the common request, Mr. Harper, but all of you basically agree that we should repeal the 4.3-cent per gallon tax that went on in 1993. But we are told by other Members of the Committee that none of this will be passed on to the consumer. Why does it make any difference to you?

Mr. HARPER. I would be glad to volunteer on that subject. We operate in an incredibly competitive environment. The railroads since 1980 have become much more productive in many, many ways, and we have operated in such a competitive environment that, in real terms, the cost of our services are about one-half of what they were in 1980.

But about 90 percent of the productivity improvements we have made and the cost reductions we have made have been passed along to the shippers, our customers. Eventually they will go on to the consumers in America because this is such a competitive industry. Our prices have gone down and that has been passed along to the consumer; that is where our cost reductions, for the most part, have gone over the past 15 years.

Chairman ARCHER. But the comments by Members of this Committee to my left have been that you will not get a cost reduction because none of this will be passed on to you. Therefore, you will not be able to give anything to your customers. So why should you be concerned about this?

Mr. HARPER. In the railroad industry, we buy both the dyed and the undyed fuel, and a significant portion of the fuel we buy does not come through the service station distribution chain. Therefore, we believe we will realize cost reductions through the major purchases of about 3.7 billion gallons of diesel fuel a year.

Chairman ARCHER. Let me pursue this a little further, because the Members who assert this argument say that it is not the retailers, nor the distribution system, but the refineries who will simply increase the price of their refined product by an amount equal to 4.3 cents a gallon, and therefore, there will be no benefit to any purchaser of the product.

Mr. HARPER. It is a complex issue, admittedly, but we believe that in the competitive environment that we face today, we will see this happen amongst the many other factors that dictate market prices in the end.

Chairman ARCHER. Mr. Donohue, did you have your hand up?

Mr. DONOHUE. Yes, sir. I think that those who argue against this repeal, suggesting we should not do it because it will disappear some way along the daisy chain and we will never get it, really ought to understand that, as you indicated before about commodity pricing, that the price of oil and diesel and eventually gasoline are going to go up and down with market demands. There is only one set of constants in this whole business, and that is the taxes that are imposed by Federal and State governments.

It is clear to me that if you do not repeal the tax, that whatever happens in the up and down of the price, then the price will be 4.3 cents on top of whatever it otherwise could be. You might well have a price that is no lower than we have today after withdrawing the fuel tax, but it would have been 4.3 cents higher if the tax had not been repealed.

Second, a lot of the people in our business did not just fall off a turnip truck. We are going to keep the heat on the oil companies. We understand what drives fuel prices up and down and we are going to keep the heat on them to keep their pricing to market forces and not to try and assimilate the benefits of a reduction in taxes. I have observed that oil companies respond to that type of thing on the public level and we now have in Congress for what seems to be the 112th time, an investigation of the oil companies. But that does keep the spotlight on these guys.

I am convinced that we are 4.3 cents better off one way or the other. We know this. If we do not take it off, it is going to be there, for sure.

Chairman ARCHER. Should Congress include a requirement that the price of fuel be 4.3 cents lower after the effective date of this act?

Mr. DONOHUE. Mr. Chairman, I am fundamentally opposed to price controls. They do not work, you cannot follow the little birdie because at the end, when you take them off, prices always go up. I do not think you can legislate that.

I think the role of Congress is to impose or withdraw taxes. When you withdraw them, and with a stern eye toward the people that are providing the product, I think we will get the end result. If they do not, the people at this table will be back in here singing a different song, encouraging you to do something that would be necessary at that time.

But I think we believe, and our industry is convinced, as a purchaser of 40 billion gallons of this stuff, we will get a fair shake out of the oil industry on this matter. They have no place else to go. We buy the product.

Chairman ARCHER. Ms. Hallett.

Ms. HALLETT. Mr. Chairman, airlines buy their fuel at a price set before taxes are added. Therefore, in the highly competitive jet fuel market that we are involved with, we are confident that carriers' costs will go down with the passage of this very important legislation.

At the same time, as an association, we cannot discuss, arrange, or really otherwise deal with any of the consumer pricing issues. We are also convinced that if fuel costs, as our second biggest component of all of our operating expenses go up, our costs of doing business are going to go up. If that cost is held in check, then obviously it is going to be very important in terms of decisions that are made by the carriers.

But I would hearken back to the original concern we have and that is that the airline industry has been working on this issue for over 2 years now. One of the reasons this was so important to us was not only because of our losses, but because President Clinton's own National Commission To Ensure a Strong Airline Industry, led by former Democratic Governor Baliles of Virginia, said that it made absolutely no economic sense to impose this 4.3-cent-per-gallon tax on our industry, and yet that tax has been imposed on us.

Chairman ARCHER. So you are satisfied if we remove it you will see a reduction in your fuel prices?

Ms. HALLETT. Yes. And, in fact, just yesterday, I met with two of our carriers, Aloha and Hawaiian, and they have now been forced to place a surcharge on passengers because of the increase in fuel coupled with the 4.3-cent-per-gallon tax.

Chairman ARCHER. Mr. Donohue, I heard somewhere recently that there were a number of trucks that have been idled by the higher fuel bills in this country. Can you tell us approximately how many trucks are not operating today because they cannot afford to pay the higher fuel bill?

Mr. DONOHUE. Mr. Chairman, let me say that if you take large and small trucks, there are about 5 million trucks running around the country today and almost 2 million tractor trailers. Some are idled from time to time because of overcapacity and high competition in this business.

But I will tell you that in California in particular, where fuel prices are 30 to 31 cents above everything else that has gone up, and in the agricultural industry and others, there are people that are not able to compete and participate. I am sure that you will find that in other industries around this country.

If you are a marginal carrier—understand, we have more than 300,000 carriers. A huge number of them, the great proportion, have less than six trucks. Those are people that buy fuel with the local credit card or sometimes cash, and when that number gets up high enough, that may be the week or the month that they are no longer able to go forward. This is an industry of small companies. This is our second largest cost, personnel being first, and if you cannot get the fuel, you cannot run the truck.

Chairman ARCHER. So you cannot at this time quantify what number or percentage of the trucks have been made inoperative simply because of higher fuel prices? But clearly, what you said is understandable.

Mr. DONOHUE. Mr. Chairman, if I could just add one sentence, one thing that we all know about excise taxes is that they fall hardest on those people least able to pay; whether it is the carpenter that has to drive 60 miles each way to and from work, or whether it is someone that is using his of her car for another reason, and it is the exact same thing in the trucking business. It falls most directly on those least able to pay. So for the small family guy with three trucks, or even one truck, there comes the week that he cannot make that payment. He is not going to run that week.

Chairman ARCHER. Thank you.

Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

I would suggest, Mr. Chairman, that if we had a chance to reschedule the panels, that this perhaps should have been the first panel this morning, because at least this panel has been instructive. The debate, and I would call it debate, that went on this morning was simply the suggestion that this was an easy issue to resolve. It was simply black and white, that we just ought to proceed. As much as the Chairman made reference to those on the left, there are many people, I think, on this Committee that really desire trying to get to the heart of the issue.

Mr. Harper, in fairness, said this is a complex issue. Mr. Donohue, in fairness, said they would put heat on the oil companies.

I think it is a legitimate question for the Minority to ask, will there be relief at the end for the consumer? This is an entirely legitimate question to raise, and what better place to have those issues crystallized than right here at the Committee level.

Mr. Donohue, you said with some assertiveness that you could put heat on the oil companies to ensure that this was, in fact, passed on to the consumer. Would you care to elaborate?

Mr. DONOHUE. I would, Mr. Neal. If I might just digress for one sentence, because I was hoping you were going to be here. I wanted to say, on behalf of the trucking industry, and I think on behalf of some others that are sitting at this table, that your work on behalf of the meals deduction issue, with our employees, the folks making $25,000 to $35,000 or $37,000, the long-haul truckers who drive around this country and are required to be away by DOT law and by their jobs and therefore have to eat away all the time and have very simple meals—they are not eating at Rive Gauche or Chez Francois or something——

Mr. NEAL. Neither are we anymore. [Laughter.]

Mr. DONOHUE. Yes, I understand. That is your fault, not mine. [Laughter.]

But, Mr. Neal, I just want to say that that makes a huge difference in their take-home income when it cannot be deducted, and I just want to thank you on behalf of our industry. It was a first-rate effort.

Mr. NEAL. Thank you for reminding me. I might direct a question to the Chair. Mr. Chairman, will we be getting to those issues, do you believe, before the expiration of this Congress?

Chairman ARCHER. I certainly do hope so. In fact, I contemplate that in budget reconciliation we will once again have a tax package and be able to consider those very issues. I cannot guarantee the gentleman that the President will sign it into law.

Mr. DONOHUE. Now to your question. We had one of the major oil companies on our television show yesterday, Mr. Tell, who is president of the Communications Group of Texaco and who is the head of the Highway Users Federation this year. He really understands transportation.

We heard all of his problems that you heard today about supply and refineries and all that sort of stuff. Those of us that buy fuel and our members that buy fuel on a regular basis keep very careful track of those matters. If all of a sudden we take away 4.3 cents of our tax and that is filled up with an immediate price increase that is not accompanied by some problem in a refinery or a supply issue which we are able to track, I am sure that our individual companies—and Carol Hallett made the point—cannot buy fuel collectively. Although we have thought about maybe getting a business together to do that—our individual companies will put tremendous heat on the oil companies to explain their pricing, and if it became a practice that was widespread, I am sure they would ask their association to intervene with the appropriate government officials.

Maybe by me saying that—and I am sure Mr. Harper and Carol Hallett and others would have the same interest—by me saying that, we are sending a message that it damn well better get passed on.

Mr. NEAL. I think that is the point the Minority in this Committee tried to raise this morning, and if we were not very glamorous in the manner in which we presented it, I think, legitimately, that is the question we wanted raised. We thank you for the answer that you have given.

Thank you, Mr. Chairman.

Chairman ARCHER. Let me just piggyback very quickly on that, if I may. There are 200 companies that produce different brands of gasoline in this country, 200. To say that competition, when costs are reduced by 4.3 cents a gallon, will not force that price down is to say we do not believe in the free enterprise system in any way, shape, or form.

This same argument could be made over and over again, relative to every aspect of the free enterprise system, including the businesses that you people represent; that there must be government to come in and dictate to you what your pricing must be, because if your costs go down, all of you are going to get together and keep your price up. Now, you know that will not happen, and you know with 200 different manufacturers in this country that it will not happen there, either.

Mr. Collins.

Mr. NEAL. Mr. Chairman, could I quickly respond?

Chairman ARCHER. Sure.

Mr. NEAL. Thank you. We subscribe fully to the free enterprise system on this side. We just believe that from time to time it needs a bit of a nudge.

Chairman ARCHER. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

As the Chairman knows, as well as Mr. Donohue and others, I have been in the trucking business now for a number of years. Back early in my business efforts, I used to go to Atlanta on rainy days and go by the Mack truck used truck lot and kick tires, wishing I could buy another truck. I never will forget the used truck manager asking me one day, "Do you know what the biggest cutthroat in the world is?" And I said, "No, sir, I do not believe I do." He said,

> It is a guy with a used truck, because he will cut prices and he will do everything he can to get a load and in 90 days, he will give up his truck because he cannot make the payment. He did not get enough for hauling the load.

I never have forgotten that.

Mr. Bowman, I find with interest the fact that you said that you buy 8 million gallons of fuel annually and that the 4.3 cents is equivalent to $344,000 a year. Before leaving home Monday, I stopped by my trucking company office to see my son. He was sitting behind the desk with the checkbook open. I was afraid to ask, and did not ask, what is the price of fuel, because I knew when he was looking at that checkbook, he was looking at making some payments on that particular day.

The $344,000 you mentioned could be used to buy additional tractors or to make additional payroll. It also could be used to cover red ink in a checkbook because of the increase in fuel prices, is that not true?

Mr. BOWMAN. Right.

Mr. COLLINS. Mr. Donohue was asked about the number of trucks that sit still. It is very difficult to judge and determine how many trucks sit still, because oftentimes, as Mr. Donohue says, when the bill comes due to pay that fuel bill, they may not have the money. The truck may sit still for a few days, but I guarantee you, that guy is going to try to find some way to get rid of that truck or some other person to operate it. So there is no definite way to determine or measure how many trucks are sitting still because of the fuel crisis.

I look at it this way. There are two pools of money in this country. There is a public pool and there is a private sector pool. We take from the private sector pool to make the public pool. If we take 4.3 cents less from the private sector pool to put in the public pool, that means it remains in the private sector.

In viewing just the business cycle itself, consumers and purchasers, no matter what level of business it is, that money is going to stay in that private sector and it is going to soon make the full cycle and everybody is going to participate in some way, especially as long as we have competition in this country. As long as we have the dealer network, as long as we have the jobbers network, as long as we have the refiners network, competition is going to exist.

I guarantee you, if my son calls a jobber and asks him the price of a load of fuel and he thinks it is a little bit excessive, he will call the next jobber. The same thing is true with dealers at service stations. A guy across the street sees more people going into the station across the street than they are coming to his, he will drop his price, and eventually, that makes a full cycle. Somewhere along, the consumer is actually going to benefit from the fact that this 4.3 cents comes off of the price of gasoline or fuel or whatever it is.

I hate it that a lot of people in the Congress and a lot of consumer groups, and I saw where the Concord Coalition was here earlier today. I am sorry I missed the earlier portion. But I hate it that they are taking the opinion that we should oppose this, that it is not going to help the consumer.

The truth of the matter is, the working people in this country pay the entire bill. I do not care where you place taxes, what entity you are trying to tax, or where you assess the tax. Working people pay the bill—4.3 cents less coming from the private sector going into the public sector means that the private sector is going to have 4.3 cents remaining there to where working people will have access to it.

I wholeheartedly support the full repeal of this. I do want to ask Mr. Harper, that asterisk that is by the 2.5 cents on motor carriers, what does that asterisk mean?

Mr. HARPER. That means that that 2.5 cents went into the Highway Trust Fund rather than being eliminated altogether. So it was put where I think the consensus today seems to think it belongs.

Mr. COLLINS. But going back to your testimony, the tax itself did not fade away. It just went from one pot to another pot?

Mr. HARPER. The tax itself did not fade away.

Mr. COLLINS. But it is still coming from the private sector into the public pool?

Mr. HARPER. It went into the trust fund, yes, sir.

Mr. COLLINS. Thank you very much.

Thank you, Mr. Chairman.

Mr. HARPER. If I may, the other penny and quarter, though, stayed in the public pocket and did not go back into the railroad infrastructure.

Chairman ARCHER. My compliments to all of you. I appreciate your testimony. You have been very helpful to us as we pursue our desired goals. You are excused.

I would like to enter into the record at this point written statements from both the Concord Coalition Citizens' Council and the American Road and Transportation Builders Association.

[The prepared statements follow:]

THE CONCORD COALITION CITIZENS' COUNCIL

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STATEMENT BEFORE THE COMMITTEE ON WAYS AND MEANS ON LEGISLATION TO REPEAL THE FUEL TAX

May 8, 1996

The Concord Coalition Citizens Council opposes repeal of the 4.3-cents-per-gallon transportation fuels tax levied as part of the 1993 deficit reduction effort. Repeal would make it harder to balance the federal budget.

Outright repeal would reduce revenues by nearly $34 billion over seven years. Suspension of the tax through the end of December, 1996 would reduce revenues by nearly $3 billion.

If offsetting savings were not enacted, the deficit would be increased by those amounts plus interest on the increased debt. Even enacting dollar-for-dollar savings offsets would not "neutralize" the impact that repeal of the fuel tax would have on efforts to balance the budget. This is because the budget savings being considered to offset the revenue loss from repealing the fuel tax are already identified and earmarked as part of the package of policies intended to balance the budget. If these budget savings are used instead to pay for the fuel tax repeal, they would no longer be available for balancing the budget.

We are also deeply concerned that repeal of the 4.3-cents fuel tax would undermine the climate of serious work on deficit reduction that has developed since the last election. Cutting any broad-based tax while the nation is running chronic deficits defies common sense. Concord believes that Congress and the President should enact a legitimate plan to balance the budget first and only then consider tax cuts -- including fuel tax cuts.

It is a sad commentary on the depth of commitment to balancing the budget that after a year of hard work, a balanced budget plan still has not been adopted, while after scarcely a week, a bipartisan stampede to pander to motorists is being allowed to undermine deficit reduction efforts.

What's even worse, the debate over the price and supply of gasoline is occurring at a time when fuel costs in the U.S. are well below their historical average and when market factors already seem to be driving down the cost of gasoline without a fuel tax cut. In any event, gasoline price fluctuations week to week and even neighborhood to neighborhood vary enough that repealing the 4.3-cents-per-gallon fuel tax would not be clearly identifiable at the pump, even if it were in fact fully passed through to consumers.

There are no sound economic reasons to repeal the 4.3 cents of gasoline tax increases. The government should let market forces work.

Statement of the
American Road & Transportation Builders Association
To
Committee on Ways & Means
U.S. House of Representatives

May 8, 1996

Chairman Archer, Mr Gibbons, members of the committee Thank you for allowing us to submit comments for your hearing today on the 4 3 cents per gallon fuel tax currently going to the General Fund.

The American Road & Transportation Builders Association (ARTBA) was founded in 1902 and is the only national association devoted solely to the planning, construction and safe operation of transportation facilities of all types. Our membership of 4,000, located throughout the nation, is composed of contractors, engineers and planners, equipment manufacturers, materials suppliers, financial institutions, educators and transportation officials from federal, state and local governments.

Our membership is greatly concerned that congressional actions in the near future on the 4.3 cent gasoline tax will undermine the nation's ability to develop, maintain and operate an efficient, productive transportation system. Under the extreme pressures of a presidential election year, Congress may take -- or not take -- actions that could preclude for years its ability to adequately fund badly needed transportation improvements

ARTBA is unalterably opposed to using federal fuel taxes for anything other than to finance improvements in transportation facilities We strongly opposed enactment in 1993 of the 4.3 cents-per-gallon tax increase for deficit reduction and remain convinced it is bad public policy That action was totally contrary to the user fee concept adopted in 1956 when the Highway Trust Fund was created Rather than permanently repealing the 4.3 cents of the tax, we believe the income it produces should be deposited in the Highway Trust Fund

There are several reasons why this is a necessary move. It is widely accepted that for years the United States has not adequately invested in its transportation infrastructure. The result of this neglect is a transportation system unable to support a dynamic, growing economy. Last October, the Department of Transportation documented that just to maintain current conditions, an additional $15 billion a year was needed for roads and bridges. Transit needs were nearly $2 billion short of needs.

Last year, the Congress approved designation of the new National Highway System, a 161,000-mile network of the nation's most important roads, including the Interstate System. The DOT reports that maintaining current conditions on the NHS requires expenditure of $21.5 billion, more than the total of federal spending for all highways this year.

Under-investment in transportation clearly produces undesirable costs: billions of dollars in urban congestion, reduced business efficiency and competitiveness, unsafe conditions and unacceptable levels of air pollution. The only way to address transportation needs is through increased expenditures.

Congress next year is scheduled to reauthorize federal surface transportation programs. Without additional revenue, the trust fund cannot support an appreciable increase in highway and transit programs. In addition, it is certain that Congress will face the highly contentious issue of how federal highway funds are distributed to the states. These formula disputes have been a major feature of the authorization debate in other years, and in 1997 they are likely to continue to dominate. The inability to devise a simple, reasonable and equitable formula produced the complex arrangement that is now the basis for distributing funds. Failure to find a widely acceptable solution to the formula problem could lead to the disintegration of a transportation program with a national focus, a situation that would not well serve the United States or its citizens.

In addition to reducing the investment deficit, the additional resources provided by the 4.3 cents would greatly simplify the effort to provide equity in distributing transportation funds to the states.

If the 4.3 cents of the gas tax are permanently repealed, political reality suggests that it would be extremely difficult, if not impossible, to increase transportation funding in the foreseeable future.

For these reasons, we strongly recommend that the 4.3 cents not be repealed. If Congress believes some step should be taken to reduce current gasoline prices, collection of the 4.3 cents could be suspended until, say, January 1997, at which time the proceeds should be deposited in the Highway Trust Fund. This action would address the existing price situation and, for the long run, provide funding for a strong national transportation system.

While there may be seemingly attractive short-term reasons for repealing the 4.3 cents of the gas tax, the long-term outcome could be ruinous to the country and difficult to reverse. We firmly believe that the correct -- and more politically beneficial -- approach is to assure stable and adequate funding for the nation's vital transportation system.

Chairman ARCHER. The Committee will stand adjourned.
[Whereupon, at 2:02 p.m., the hearing was adjourned.]
[Submissions for the record follow:]

Statement for the Record
by the
American Waterways Operators
to the
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C.
May 8, 1996

Chairman Archer, members of the Committee, thank you for requesting our comments for your hearing on repealing the 1993 4.3 cents per gallon transportation fuels tax which by law is deposited in the General Fund for deficit reduction purposes.

The American Waterways Operators (AWO) is the national trade association representing the inland and coastal barge and towing industry and the shipyards which build and service our industry's vessels. AWO is comprised of more than 300 individual companies, with a geographic scope ranging from New England to Alaska, and throughout the interior river system of the United States.

As you recall, Mr. Chairman, during the 1993 budget debate, the initial administration budget proposal called for the imposition of a BTU energy tax, and a $1.00 per gallon, 525% increase in the barge fuel tax. This tax is paid only by our industry into the Inland Waterways Trust Fund, which by law, provides funding for 50% of the construction and rehabilitation costs of the multi-use inland waterways infrastructure.

As you likewise recall, due to widespread opposition to these proposals, what was viewed as a compromise proposal was developed to access a 4.3 cents per gallon tax on all transportation fuels, with funds collected going to the General Fund for deficit reduction. Thus, as a result of enactment of this proposal, our industry currently pays 24.3 cents per gallon in federal fuel taxes, 20 cents going into the trust fund, and 4.3 cents going for deficit reduction.

While in the context of the 1993 debate, the 4.3 cent compromise was obviously far preferable to the alternative of a BTU tax of at least eight to ten cents per gallon and the $1.00 per gallon barge tax, the proposal nevertheless breached the government's longstanding commitment to the public that transportation fuel taxes would be used to finance infrastructure improvements, i.e. that user taxes would be returned to the public by way of future infrastructure investments. As a result, AWO's Board of Directors, at the start of the 104th Congress, directed the association to support legislative efforts to repeal the 4.3 cent tax, or if outright repeal is not possible, to support efforts to redirect the levy into the individual transportation trust funds for infrastructure improvements.

We therefore very much applaud the Committee's approval of the repeal proposal and support your efforts to enact this measure as soon as possible.

Thank you.

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May 8, 1996

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The Honorable Bill Archer, Chairman
Committee on Ways and Means
U. S. House of Representatives
Washington, D. C. 20515

RE: Ways and Means Hearing to Examine the Impact of the 1993 Tax Increase on Transportation Fuels, May 8, 1996

Dear Mr. Chairman:

On behalf of the Independent Petroleum Association of America (IPAA), I am pleased to submit the following statement for the record on your hearing today. IPAA represents America's 5,300 independent oil and natural gas producers/explorers.

Background. Gasoline prices are racing skyward all across America. In fact, they've reached their highest point since America fought in the Persian Gulf War. And matters could get worse if we don't develop a U.S. energy policy now that encourages domestic oil and natural gas production to drive our cars, heat our homes and fuel our economy. Today's hearing concerns the repeal of the 4.5-cent excise tax on gasoline, but America's independent oil and natural gas producers would also like to offer some other solutions for stabilizing America's energy resource base that can be considered in the future.

When consumers go to the gas station and pay upwards of $1.40 per gallon, they are understandably upset. The fact is the nation experienced one of its coldest winters ever, which, in turn, caused Americans to use up oil supplies to keep warm. Now America is faced with depleted fuel inventories. And as the law of supply and demand states, if supplies are low and demand is high, prices will inevitably go up. That's simply beyond anyone's control in the short term.

Now is the time to take action so that we can protect ourselves from these types of crises in the future. We should increase domestic oil and gas production. We should stockpile our Strategic Petroleum Reserve. But current policies are doing just the opposite. Domestic production is at a 40-year low. And President Clinton and Congress have agreed to continue to sell off the oil from our nation's Strategic Petroleum Reserve in order to balance the budget. We should be adding to that reserve, not taking away from it.

Solutions. We must rely more on American-produced oil. That way, we could protect ourselves from the current scenario. We wouldn't be as vulnerable to another oil embargo. We wouldn't send our children to fight "oil wars." And the benefits go on: more jobs, more royalty dollars in federal and state treasuries, fewer foreign tankers in our waters, more stability.

IPAA urges the Ways and Means Committee to consider options in the tax code that could enhance the domestic petroleum industry -- and ultimately the consumer. Last year, for instance, a bi-partisan coalition of senators and congressmen introduced the Domestic Oil and Gas Production and Preservation Act (S 451, HR 987) which provides tax incentives for domestic oil and gas production, including a tax credit on marginal and new production, percentage depletion reform, expensing of geological and geophysical expenditures, and other updates to the tax code and regulatory system.

Another example of legislation that should be examined is the Energy Independence Act which was introduced by Congressman Mac Thornberry yesterday in response to the gas price situation. This act would change the tax code in a way that would encourage domestic oil and natural gas producers not only to bring existing wells back on line, but also would encourage new wells to be drilled -- adding millions of dollars to our economy, thousands of jobs to our workforce and stability to our energy resource base.

Consumers want relief from high gasoline prices now. And they deserve solutions. America needs a sound energy policy that promotes the nation's crude oil and natural gas producers as our primary suppliers of oil and natural gas. We need to get over our addiction to foreign oil. If we don't develop a strong energy policy now that enhances the domestic oil and natural gas industry, cheap foreign oil will continue to flood our country and play havoc with prices. And then we all suffer the consequences.

IPAA looks forward to working with you and your committee in the coming month to address how, by working together, we might best address this important national policy goal. Please contact Milton Wells, IPAA's director of tax and budget policy, at (202) 857-4722 for more information.

Sincerely,

Lew O. Ward

Lew O. Ward

STATEMENT OF PROPANE VEHICLE COUNCIL

The Propane Vehicle Council hereby submits comments to the Committee on Ways and Means for the record of the May 8, 1996 hearing to examine the impact of the 1993 gasoline tax increase.

The Propane Vehicle Council was established in early 1994 to advance propane's future as a clean, safe and superior-performing alternative transportation fuel. The Council works to remove legislative and regulatory barriers and to increase awareness of propane's advantages as a transportation fuel among government officials, the auto industry and consumers. It also undertakes projects to encourage the development, demonstration and marketing of propane-related technologies and propane-powered vehicles.

Working together with the National Propane Gas Association, the PVC is composed of a wide variety of stakeholders with a significant interest in the transportation fuel market for propane. Council members include propane marketers, propane producers and pipeline operators, equipment manufacturers and distributors, vehicle and engine manufacturers, and associates.

The Propane Vehicle Council applauds your leadership in holding this hearing on the impact of the 1993 gasoline excise tax increase. We support your efforts to repeal the 4.3 cent per gallon gasoline tax increase as an important step in providing the American people with needed tax relief. At a time when gasoline prices have risen to their highest levels in a decade, this decrease in the federal gas tax will have a positive effect on the American family budget. It should be enacted expeditiously.

As you move to repeal the 4.3 cent tax, the Propane Vehicle Council strongly supports your consideration of a proposal to repeal the current tax penalty imposed on clean-burning, domestically-produced fuels. Both Congress and the President recognize the important role that alternative transportation fuels can play in reducing oil imports, improving air quality and providing domestic jobs. Accordingly, U.S. government policies, including tax policy should encourage the use of such fuels.

State and federal taxes are a primary impediment to the use of alternative fuels. Since motor fuels are taxed on a gallonage basis, without regard to the energy content of the fuel, these taxes are markedly different. In fact, federal taxes for alternative fuels, when corrected to a common energy content, are in excess of the rate imposed on gasoline. Propane is particularly disadvantaged; it is taxed at an effective rate of 24.9 cents per gallon (when corrected to a common fuel energy content), compared with the current 18.3 cents per gallon tax on gasoline.

Propane has for many years been the nation's most widely used alternative fuel. It is derived primarily from domestic natural gas. Unlike gasoline, propane is an environmentally-friendly and clean-burning fuel, with the lowest greenhouse emissions of any currently viable fuel. Propane is a safe, reliable energy source throughout the world and is used in homes, farms and businesses, as well as for transportation. Of all the alternative transportation fuels available, propane can most readily be used by fleets and motorists.

Congress failed to recognize that the energy content of a gallon of propane is about 75 percent that of gasoline. Therefore, imposing the same tax on propane as on gasoline is actually very unfair. The tax rate on alternative fuels, assuming the new tax rate on gasoline of 14 cents per gallon (except CNG) should be as follows: propane (10.2 cents); methanol (6.9 cents); ethanol (9.2 cents); LNG (12.0 cents); all with an effective rate of 14.0 cents per gallon.

Congress neither intended to discourage the use of propane nor place it at a competitive disadvantage. Both the Congress and the President have expressed the intent to achieve "fuel neutrality" in their alternative fuel policies. Accordingly, good tax policy dictates imposing a tax on all alternative transportation fuels (except CNG) on a per gallon energy equivalent basis. Such steps would ensure that the congressional policy to encourage the use of alternative fuels is consistently and effectively implemented.

As you draft the gasoline tax reduction proposal, the Propane Vehicle Council urges you and your Ways and Means colleagues to incorporate a proposal that ensures that no alternative fuel pays more federal excise tax than gasoline, and that the government in its tax policy stays out of the business of picking winners and losers in the alternative fuels area. A level playing field is all that we in the propane industry feel is necessary and all that we expect. It is important that (except for compressed natural gas) your proposal equalize the federal tax rate on all alternative fuels.

The Propane Vehicle Council also urges you to craft a proposal that ensures that all alternative fuels continue to contribute to the highway trust fund. We feel that it would be inequitable if any one fuel were exempt from paying any federal excise tax. We acknowledge, for example that compressed natural gas (CNG) is taxed at a level below that of propane. We do feel strongly that any reduction in the federal excise tax on gasoline should at least retain this level of tax and that any vehicle using CNG be required to continue contributing to the highway trust fund.

Mr. Chairman, in developing legislation to reduce the federal excise tax on gasoline, you have an opportunity to correct an inequity in the tax code that has hampered the increased use of safe, clean, domestically-produced alternative fuels. We also hope that as you proceed with the legislation you will ensure that all fuels share in contributing to the highway trust fund. That way you will have produced equitable tax legislation that makes a significant contribution to our nation's energy security and environmental well- being.

Nick Rahall

STATEMENT OF U.S. REP. NICK J. RAHALL
Before the Committee on Ways and Means
May 8, 1996
Hearing On Motor Fuel Taxes

Mr. Chairman and Committee Members. Seizing upon the recent increase in gasoline prices, some in the House and Senate are proposing to repeal that portion of the federal motor fuel tax--4.3 cents per gallon--which is currently going to deficit reduction. I, on the other hand, believe this is the perfect opportunity to direct those funds to where they should have gone in the first place: the Highway Trust Fund.

To accomplish this goal, last week I introduced H.R. 3372, the "Gasoline Tax Restitution Act of 1996" which would simply redirect to the Highway Trust Fund the 4.3 cents per gallon in federal motor fuel taxes currently going into the General Fund. Joining me in introducing this bill was the ranking Democrat on this Committee, Sam Gibbons, and the ranking Democrat on the Committee on Transportation and Infrastructure, Jim Oberstar.

The fundamental reason why I believe this Committee should consider taking this approach, rather than outright repealing the 4.3 cents per gallon tax, is because of the pressing need to address the Nation's crumbling highway infrastructure.

According to the latest statistics available, in 1993 all levels of government provided $39 billion in highway capital expenditures, with the federal government accounting for $17.1 billion of that amount. Yet, the cost to maintain the Nation's highways and bridges is estimated at $54.8 billion, and to improve it at $74 billion, on an annualized basis.[1] This means that we need $15.8 billion in additional revenues *just to keep the overall system in its present condition* and are $35 billion short of the amount of revenue required to make necessary improvements.

Poll after poll shows that the American motorist, while not enthused about paying taxes, nonetheless supports paying gasoline taxes if the money is dedicated to the Highway Trust Fund for the purpose of maintaining and building new roads, highways and bridges.

I would also submit that most motorists believe that it is a fundamental responsibility of their government to maintain the highway system and that the majority of them believe improvements should be made.

H.R. 3372 offers this Congress an opportunity to at least begin making a dent in the current shortfall in highway spending. Each penny in federal motor fuel taxes raises between $1.1 and $1.3 billion in receipts for the Highway Trust Fund. This means that H.R. 3372 could provide between $4.73 and $5.59 billion in additional revenues to maintain and improve our Nation's highway system.

Mr. Chairman, next year the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) expires and Congress will be faced with the task of reauthorizing the federal-aid highway program. It certainly makes sense for us to begin working today to ensure there are enough revenues available to bolster our efforts to address America's crumbling highway infrastructure. The legislation I am advancing is one way to do it, and I would note, do it without raising new taxes on the public.

Thank you for your consideration of this matter.

[1]1995 Status of the Nation's Surface Transportation System: Condition & Performance, Report to Congress, U.S. Department of Transportation

STATEMENT
on
PROPOSALS TO
REPEAL THE 4.3-CENTS-PER-GALLON
FUELS EXCISE TAX
for submission to the
HOUSE COMMITTEE ON WAYS AND MEANS
for the
U.S. Chamber of Commerce
by
William T. Sinclaire
Senior Tax Counsel and Director of Tax Policy
May 8, 1996

The U.S. Chamber of Commerce -- the world's largest business federation, representing 215,000 business members, 3,000 state and local chambers of commerce, 1,200 trade and professional associations and 76 American Chambers of Commerce abroad -- appreciates this opportunity to express its views on proposals that would repeal the 4.3-cents-per-gallon General Fund transportation motor fuels excise tax (the "1993 fuels tax"), enacted as part of the *Omnibus Budget Reconciliation Act of 1993* ("OBRA '93").

Majority Leader Robert Dole (R-KS) is proposing to repeal the 1993 fuels tax and recently issued a joint statement with House Speaker Newt Gingrich (R-GA) calling for the immediate repeal of the tax through the end of 1996, with permanent repeal to be considered in the context of the 1997 fiscal-year federal budget. Senator Phil Gramm (R-TX) and Representative Edward Royce (R-CA) have also introduced bills -- S. 1727 and H.R. 3375, respectively -- that would permanently repeal the 1993 fuels tax. The U.S. Chamber welcomes these efforts and our members overwhelmingly support repeal of the 1993 fuels tax.

The Chamber opposed OBRA '93 because it increased the tax burden of both individuals and businesses. Included in OBRA '93 was a provision that imposed a permanent 4.3-cents-per-gallon excise tax on various motor fuels used in highway, rail, water and air transportation. We assert now, as we did then, that additional fuels excise taxes slow economic growth, heighten inflation and worsen unemployment.

Excise taxes, by nature, are regressive and assessed without regard to one's ability to pay. The burden of the 1993 fuels tax has been falling disproportionately on smaller businesses, individuals with fixed incomes and low-income workers. Increased fuels taxes, therefore, have the most negative impact on those who can least afford them.

The 1993 fuels tax goes into the U.S. Treasury's general revenue account to finance the federal government's overall spending. There is no reasonable justification for specifically targeting motor fuel purchasers for spending or deficit reduction purposes. General fund fuel taxes unfairly penalize those individuals, businesses and industries that rely heavily on automobile, bus, truck, rail, air or other modes of transportation.

Generally, transportation and other businesses that are obligated to pay higher motor fuels taxes either pass the extra cost on to their customers in the form of higher prices, cut back expenses -- such as labor and capital investment -- or incur lower net income. Conversely, a decrease in motor fuel taxes would offset these negative developments.

Opponents of repealing the 4.3-cents-per-gallon fuels tax assert that there is no guarantee that such a repeal would lead to lower gasoline and other motor fuel prices. They claim that the oil industry would profit from the repeal of the tax since it would not reduce prices by a corresponding amount. However, this argument fails to take into account a basic free-market dynamic -- competition.

A business that incurs a lower input cost could seek to capture more market share by lowering its prices. Competitors would have to lower prices as well or risk loss of market share.

In the case of a lower excise tax, all suppliers would face a similar decrease in costs, creating pressure on the entire industry to lower prices.

The amount of the tax reduction that would be passed on to consumers depends on the elasticities of supply and demand in the market involved. For a good such as motor fuel where demand is relatively inelastic, it is likely that most of the reduction would be passed on to consumers.

Of course, other constantly changing factors in the market will affect an industry's supply and demand and therefore the market price. Consequently, the change in price brought on solely by the repeal of a tax may be masked by changes in other factors. This means that the repeal of the 1993 fuels tax does not guarantee that the final market price will be lower than before repeal. It does mean, however, that it would be lower than it would have been without repeal.

Opponents of repeal also state that the 1993 fuels tax does not need to be repealed since fuel prices in the United States are significantly lower than those in other countries around the world. While we may have lower fuel prices than other nations, it is unsound reasoning to rationalize the existence of an excise tax that retards economic growth and costs jobs simply because other countries impose higher taxes on their citizens. The United States needs to keep its income and excise taxes as low as possible in order for its businesses to be competitive internationally.

For the above reasons, the U.S. Chamber urges this Committee to support repeal of the 4.3-cents-per-gallon fuels excise tax enacted as part of OBRA '93.

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