S. HRG. 104-882

REPEAL OF THE 4.3 CENTS PER GALLON TRANSPORTATION MOTOR FUELS TAX

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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REPEAL OF THE 4.3 CENTS PER GALLON TRANSPORTATION MOTOR FUELS TAX

FRIDAY, MAY 3, 1996

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD–215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Dole, Chafee, Grassley, Pressler, D'Amato, Murkowski, Moynihan, Pryor, Breaux, and Graham.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order. We are here today to examine the effects of the 1993 Clinton gas tax increase and to explore the possibility of repeal.

Last October, Bill Clinton told Americans that he thought he had raised taxes too much. Today, I think that is a statement every driver in America would agree with. Today, gas prices are higher than they have been in more than a decade. During the last several weeks alone, prices have risen nearly 20 cents a gallon and show no signs of coming down anytime soon.

A number of reasons have been provided for the cause of these dramatic price increases: A long, cold winter and spring, the failure of the United Nations and Iraq to settle the terms for the sale of Iraqi oil, a practice of keeping marginal inventories, as well as refinery repairs and fires.

Some in Congress and the Administration have responded to the crisis by ordering investigations of the oil companies. Certainly if there is any price gouging going on, we ought to know about it and we ought to stop it.

But we need to take action now. What we in Congress can do right now is repeal a tax that only adds insult to injury for every driver in America. When President Clinton raised taxes $268 billion in 1993, he said he was raising them on the rich. Now everybody can see that this is not the case.

Every person who drives a car, who buys groceries, who takes the bus, the train, or a plane has had to pay this tax, and certainly not all of these Americans are rich. In fact, this regressive tax hits hardest those Americans at the lowest income levels. Consequently, the repeal of this gas tax will help the lowest income the most.

The gas tax has hit every mother who drives her children to school, every commuter, every family who drives to church, every senior who rides the bus to go shopping, every family planning a summer vacation. Let me read some quotes about what people across the country are saying about the sharp rise in gasoline prices.

Maura Miller, a TV coordinator in California is quoted as saying, "Gasoline costs around $2 out here. Is that crazy, or what? It's out of control. People who need to travel in the Los Angeles area will have a hard time avoiding paying these prices because there is no public transportation for them to rely on."

Ray Norega, a minister from Florida, is quoted as saying, "I can't swallow these reasons," referring to the sharp rise in gasoline prices, "but I'll have to drive. I have no choice. As a minister, I have to get out into the community. The gas tax needs to be repealed."

Sandra Marsh, of Oyster Bay, Long Island, is quoted as saying, "I just paid over $20 to fill my tank, and I haven't had to break a $20 at the gas station in a long, long time."

Well, these are a number of examples of what has happened. So I want to congratulate Senator Dole for his strong leadership on this most important issue. It is time to give Americans a break, a break from taxes and big government. It is time to repeal the gasoline tax.

Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Thank you, Mr. Chairman. I certainly do not want to begin this hearing on a partisan note, but you, sir, to my surprise and dismay, have called attention in an unfavorable manner to the fact that the President has called for an investigation of the oil companies.

Mr. Chairman, it is the oldest American political tradition that when anything happens, you investigate the oil companies. [Laughter.]

Now, we know that. From the first well in Titusville, PA, just over the New York border, in 1859. Jay Rockefeller, where are you when we need you? [Laughter.]

So we are not going to break with that tradition, sir. I am sorry. Not while this man is in government.

Two things to say, both gently. It is perfectly fair to call this the "Clinton gasoline tax increase," but, sir, it happened here in the Finance Committee in our producing the Omnibus Budget Reconciliation Act, the Deficit Reduction Act of 1993.

We raised $500 billion in deficit reduction and we have cut the deficit in half. For the first time since the 1960's we have a primary surplus in our budget. That is an insider's term, but that means that the revenues of the Federal Government are greater than outlays for actual programs. The difference is the interest on the debt we have accumulated. But we are back to where we were in the 1960's, with more revenue than we actually spend for programs.

I think that is a direction we should continue in until we have gotten the Federal Government out of the paralysis which the deficit has produced. I think that is a view we share on both sides of this committee.

I would point out with regard to gasoline, the price of gasoline fell after that 4.3-cents-gasoline tax was imposed. We had the lowest real prices in half a century, the lowest prices of any industrial nation in the world. Canada is on par with us.

We need this revenue. I hope we will keep it. We will not get it back. Every penny is a billion dollars, and if we want to go give speeches about our grandchildren paying off our profligacy we can, but not now. I just want to maintain that the tradition of investigating the oil companies is a solid one, and let the investigation go forth and leave the tax alone. How's that?

The CHAIRMAN. Pretty tough, Senator Moynihan.

Well, I do not want to be partisan either. But I would just like to point out that the tax increase of 1993 was an act that was reported out of this committee without a Republican vote.

Senator MOYNIHAN. Boy, was it. [Laughter.]

The CHAIRMAN. I congratulate you for your accomplishments.

Now we will hear from our leader as to what he thinks about this tax.

Senator DOLE. Well, I am undecided.

Senator MOYNIHAN. Senator Dole.

OPENING STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Well, I think it is very clear that this tax is probably going to be repealed. We will be introducing legislation today or early next week and we are looking at how we can pay for it. We are not quite certain of that yet.

I may be wrong, but I remember in 1990 we increased the gas tax 5 cents, but half of that went for the trust fund and half went for deficit reduction. But that was temporary. That was only 5 years.

In 1993, as I understand it, the 1993 Act created a new, permanent gas tax increase that did not go into the trust fund. It kept the 1990 increase, too. I think there has always been a sort of gnashing of teeth by people who want to build highways, and bridges, and others and people who have to pay the tax.

They can maybe justify it if it is for construction of highways, bridges, or whatever, but it is hard to justify—at least it has been in the past—to increase gas taxes for deficit reduction. I think therein lies the major problem, and probably will be the reason for the responses we will probably have from this panel on why the tax should be repealed.

Gas prices have gone up. I think in California they have gone up about 30 cents, and I understand they are generally a bit higher in California for a number of reasons, the Clean Air Act, and other things, which may be touched on by the panel.

But it seems to me if we can find another way to offset, if we can offset this in some way, there's no reason for the gas tax to pay for government programs. We have heard from the highway people who say, well, why don't we take this and put it into highways, bridges, and so forth? But the point here is whether or not we should use it to pay for government programs. I think not.

I think it would help, and of course we want it to come back to the consumer. As the former Chairman pointed out, every time there is a problem we do investigate the oil companies.

I remember back in 1973 when the gas lines, and the Excess Profits Tax, and all those things that came as a result. Maybe it was justified. But I know that my colleagues on the other side want to make certain, if there is a repeal, the consumer will benefit. And I agree.

Well, I assume the consumer will be alert enough to understand that if we take off 4.3 cents and if there is not a 4.3-cent reduction at the pump, somebody is not leveling with the consumer. So I think it is fair to say we want it to go to the consumers, too, obviously. That is the reason for the repeal. It is $4.8 billion a year, and we believe it is something we can do without.

It does indicate that it does tie into the larger tax increase in 1993, the $250 billion, $260 billion, however many billion dollars. But I think today we will talk about some of the jobs that may have been created, some of the reasons why the people in the real world out there trying to deal with it on a daily basis, why 4.3 cents per gallon is important.

It does not seem like a very big figure, 4.3 cents. But I believe after we hear the testimony we will understand that there is a reason for doing this. Some can say it is partisan, some can say something else about it. But I think we do not need it. I think we can do without it. I think we can offset it, and we ought to get rid of it. We ought to do it before the summer driving season starts in earnest.

Having said that, I would ask that my statement be made a part of the record.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Dole appears in the appendix.]

The CHAIRMAN. It is the practice of this committee to take the Senators in the order they appear, so Senator Murkowski is next.

OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. Thank you very much, Mr. Chairman. I wish you a good morning. I look forward to hearing from the witnesses. Let me commend you for having this hearing on the 4.3-cents-per-gallon tax. I want to also commend the Majority Leader, Senator Bob Dole, as well. Senator Phil Graham has also proposed the repeal of this tax, it should be recognized.

As everyone in this room really knows, the pressure to repeal the 1993 gas tax is directly related to a recent spike on the west coast, and California has been hit probably harder than any other area. But in my State of Alaska, we use a lot of four-wheel drive vehicles, simply out of necessity. We are currently paying about $1.33 for regular unleaded.

Now, not to be outdone, Mr. Chairman or Senator Moynihan, as Chairman of the Energy and Natural Resources Committee, next Thursday I am holding hearings on the matter of the oil price spike, and we will have the major producers, as well as the major independents and representatives of the retailers.

We are also going to examine another portion that is often overlooked, and that is the tax that is added on. People, when they go to the gas pump, really do not reflect on that, but it is a reality. So I did want to notify my colleagues of that.

But the preliminary information I received suggests the following are the main reasons for the current high prices. We have had a cold and long winter, forcing refiners to continue processing heating oil a little longer than they ordinarily would, so the inventories are somewhat down.

Just-in-time inventory methods adopted by many companies have left some companies with smaller than normal gasoline reserves.

Worldwide oil demand has increased, especially in the last few years. The growing economy in Asia is putting pressure on oil stocks around the world.

America's demand for gasoline has been increasing. More than 40 percent of new vehicles are light trucks and sport utility vehicles which only get about 15 miles to the gallon.

Companies have held off replenishing oil stocks in the belief that crude oil prices would drop if Iraqi oil came back on the market, which has not happened.

I think we need to examine a few facts, Mr. Chairman. We talk about eliminating this 4.3-cents-a-gallon tax, but we are also talking about where that lost revenue of about $30 billion is going to come from. That is an obligation of this committee.

What we are not talking about is the reality that we have a shortage of supply. Our consumption is 18 million barrels a day, we import nine million barrels a day. Back in 1973, the year of the Arab oil embargo, we imported 36 percent, today we are importing 51 percent, and the Department of Energy predicts that by the year 2000—that is only 4 years from now—the United States will be importing two-thirds of its oil.

Since 1973, domestic oil production has fallen by 30 percent. We have seen the President's response to this in Strategic Petroleum Reserve draw-down. That reserve contains 580 million barrels, valued at about $16 billion.

The President announced the release of 12 million barrels to drive prices down, but that is unrealistic. This is simply a drop in the bucket. This is less than a day's consumption. It is really a spit in the ocean compared to world oil production of 60 million barrels a day.

The President, in his budget, proposes to sell an additional 75 million barrels in the year 2002—this is something that not too many people really noted—in order to pay social programs, not for energy security. He proposes to continue to go into SPRO. This will raise another $1.5 billion. It is in his budget. It is actually there.

Now, the "S" in SPRO stands for strategic. The purpose of SPRO was to preserve the Nation's security interests in the event of a supply interruption such as we saw in 1973 and 1979, but certainly not for the purpose of financing social spending or regulating the market price of oil.

It seems like, by this action, the President has turned SPRO into a giant piggy-bank and a kind of back-door price regulator. We have not even debated whether or not we feel secure enough to allow the draw-down of SPRO as a consequence of our national security interest.

I find it extraordinary that we are now looking to Saddam Hussein to bail us out. Now, isn't that something? We are talking about the U.N. lifting sanctions to allow roughly $1 billion value of oil, or 50 million barrels every quarter. That is, what, 200 million barrels a year.

We will allow him to release that oil on the market once we are satisfied that the inspections on nuclear and so forth have met our standards and the U.N. standards. But you will remember, we had 500,000 troops over there. We fought a war.

When Senator Dole and I, and Senator McClure, and Senator Simpson, and Senator Metzenbaum were over in 1991, it was a clear message at that time. He wanted to control the supply of oil. I mean, he must be laughing all the way to the bank as he reflects on the fact that the United States is now looking to Iraq for temporary relief so that a billion barrels can flow out onto the market and relieve the circumstances relative to the supply of oil.

So, Mr. Chairman, we are focusing on an important aspect, but the real problem is supply. We are not doing anything about it. I have some ideas about that. I would refer many of you this morning to Charles Krauthammer's article which says, a Nation of crybabies.

We suddenly cry about the price of energy, but we do not do anything about the supply. We do not allow oil exploration in the area you are most likely to find it, in my State of Alaska, opening up ANWR, to suggest that we cannot do it safely.

Every member on this committee knows we have the technology to do it. But we are afraid to take on the environmental community, so we are going to be held hostage. It is just as plain as the nose on your face. So I get a little emotional about this because it is kind of like rowing uphill, Mr. Chairman. But the problem is supply. We are going to be more dependent on imported oil. Those nations are going to hold us hostage from time to time.

I would predict, Mr. Chairman, that you are going to see in July or August the price at the pump approaching $3. Then we will get the attention of the American people. Then we will decide we had better do something about it.

I support this effort, but, again, it does not do anything to relieve the real problem, and that is supply. We are dependent on imported oil, and it is going to get worse, not better. We had better do something about it.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Frank.

Senator Grassley.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, you can still hear the echoes of the words from 1992. "I oppose Federal excise gas tax increases. It sticks it to the lower-income and middle-income retired people in the country and it is wrong." These are not my words from 1992, these are the words of Bill Clinton, who was running for President then.

One year later, President Clinton proposed in one passage of the Federal excise gas tax increases, and in the process he really—as he said he was not going to do—stuck it to the lower-income and middle-income retired people in the country. And it is just as wrong now as it was wrong when he said it in 1992.

In fact, he really stuck it to a lot more folks than just retirees, he stuck it to the entire population across the board. Farmers, truck drivers, commuters, bus riders, vacationers, boaters, you name it, and he really stuck it to them.

It was done, as Senator Moynihan said, on a party line vote as part of the largest tax increase in our Nation's history. Not a single Republican voted for it. Democrats controlled both the White House and the Congress. Their fingerprints were all over the scene of the crime.

This President, of course, has a real problem with his record of saying one thing and doing another. This is just one of many cases, all of them combined to leave people cynical about leaders in office, because they want people in office that perform in office commensurate with the rhetoric of their campaign. To reduce that cynicism we have got to get back on track to doing that.

Last year, as we know, the President was in Houston addressing a group of high-dollar contributors at the fundraiser. Here is what he told them about his record tax hike of 1993.

He said, "Probably there are people in this room still mad at me at that budget because you think I raised your taxes too much. It might surprise you that I think I raised them too much, too."

What is interesting, Mr. Chairman, is that this seeming apology was to well-off Americans whom he was raising money from for his campaign. But you have not heard the President apologizing to these lower- and middle-income Americans that he really stuck it to.

In America I thought we defined fairness as treating everyone the same. That means rich, poor, black or white, we are all equal. So he apologized to higher income folks in Houston for raising their taxes. Can lower- and middle-income workers also expect an apology?

Why is it fair to tax lower- and middle-income workers who are trying to save for the future? These are the citizens who need tax relief the most. They have a harder time paying the bills and paying their taxes, like the gas tax at the pump, the issue of this hearing.

The President's response to our call to eliminate the gas tax was pure political panic. Selling off a few million barrels had the effect of a gnat taking a nibble out of an elephant.

I will tell you what would have a bigger impact than selling off the Strategic Petroleum Reserve; the President should get some of his Cabinet Secretaries to stop all the frequent flyer trips. That would save even much more.

The basic problem with this administration is this. Their idea of running government is taxing and spending. Translated, that means the Government's budget goes up while the family budget goes down. It is a zero sum game. If the Government's budget grows, the family budget automatically shrinks.

Of course, this is upside down economics, and we have seen it before from the other side. So it is not voodoo economics, it is *déjà vu do* economics. It is called tax and spend.

President Clinton and the Democrats have it all upside down. Their way has created falling income for workers, while increasing their taxes. It is a double whammy. It is a one-two punch for the workers of America. It really sticks it to them, as he said he was not going to do in 1992.

The President should show more leadership and do the right thing. He should begin by apologizing to the lower- and middle-income workers for raising their taxes like he apologized to those at the Houston fundraiser.

We may not be able to force him to apologize, but we can do something even better for them, the taxpayers. We can restore their faith in their elected leaders here in Washington. We can do that by repealing the gas tax of 1993.

The CHAIRMAN. Thank you, Senator Grassley.

Senator Breaux.

OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you very much, Mr. Chairman. I would just ask our witnesses at the table to hang on while we finish the opening rounds of our political conventions. We should be finished in a couple of minutes. [Laughter.]

There is a saying that we have in Louisiana and a lot of other places, that politics makes strange bedfellows. Politics also sometimes makes bad policy for the public, and I think this is an example of that.

I said a couple of days ago that this idea of repealing the 4.3-cent gas tax had about as much to do with lowering the price of gasoline to consumers who buy gasoline at the pump as spitting in the ocean does to raising the level of the seas, because there is absolutely no guarantee, I will say to our witnesses, that any of you are going to benefit one penny if Congress, tomorrow, repeals the 4.3-cent gas tax.

In fact, when we passed the gas tax, the prices at the pump started going down. There was absolutely no correlation between the tax and gas prices. You would think that the gas tax would cause the price at the pump to go up by 4.3 cents. It did not.

There is absolutely no assurance to any of you at this table that, if tomorrow we enacted this into the law, you would ever see the benefit of a 4.3-cent reduction, unless our Republican colleagues want to get into price controls and having the folks in Washington mandate the price of natural resource products.

If they want to do that, then they are talking about throwing out the laws of supply and demand in this country, that Washington knows better about what the price should be of a product that is in scarce supply that, as Senator Murkowski said, we are now importing about 50 percent of everything we use.

The real reason gas is more expensive now than it was is the same reason the price spiked up 6 to 8 cents a gallon last year between April and May, then it started going down as suppliers met the demand. In 1995 at the end of the year, gas prices were the lowest in history, when factoring in what inflation costs were. Yet we had a 6- to 8-cent increase in April and May, just like we are having it right now.

The reason is because Congress, No. 1, repealed the speed limit, and No. 2, reformulated gas refineries in California are shut down while they are rebuilding to, again, change what they do as far as refining purposes.

We had a record cold season, and about 8 percent more heating oil was refined instead of gasoline, so it created a shortage of gasoline. Now all of a sudden Congress is coming in and saying, no, we know better than the marketplace; we are going to fix this by repealing the gas tax of 4.3 cents. I would suggest that that would not get the job done.

Now, I would be willing to stipulate, Mr. Chairman, that the trucking industry, the airline industry, the railroad industry, and the bus associations all would like us to repeal this tax. I bet they are not going to tell us one thing that is going to surprise any of us; they are all users.

But I would ask them, how are they going to guarantee, short of Congress coming in with price controls, that the 4.3-cent reduction is going to affect them one penny or one-tenth of one penny. We could pass this tomorrow, and the price of gas the next day could be higher than it is the day we pass the reduction.

This is not good public policy, I do not even think it is good politics. I would suggest that before Congress actually gets around to doing this, our gas pains and this idea will be long gone. Thank you.

The CHAIRMAN. Senator Pryor.

OPENING STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Mr. Chairman. I want to thank you for holding this hearing today. I know that there was not a great deal of time and preparation to get all the witnesses together.

I do express some degree of sorrow that we do not have some economists with us. I know who we have, and I know most of these people. They are very fine people, and they are great advocates for——

Senator MOYNIHAN. Would my colleague yield just for a comment?

Senator PRYOR. I would be glad to yield.

Senator MOYNIHAN. We spoke to a number of distinguished economists to ask if they would come and testify on this matter, and they genuinely and honestly said, there is nothing to say. This market will go up and go down; this tax will have nothing to do with the price. We have real work to do.

Senator PRYOR. I thank the Ranking Member for that. That probably says about what I was going to say much better. So, I do thank you for that intervention, Senator Moynihan, because I wish we could ask, and get on record, some of the economists saying what they said to the former Chairman of this committee, that if we lower this or repeal this particular tax we are not going to see any real effect out there.

As Senator Breaux says, the consumers are not going to benefit from the particular repeal of this 4.3-cents-per-gallon gasoline tax. There is no evidence whatsoever to suggest it. In fact, the evidence may be to the contrary.

I think, too, we ought to say that once again I thought the nominating conventions started in August. I did not know they were going to be held this morning in the Finance Committee.

But our colleagues on the other side, they are always saying that for every problem we should not seek government intervention. That is exactly what we are doing here, we are seeking the intervention of the Government.

The marketplace indicates right now, if they want to seek some intervention somewhere, they ought to go to the oil companies. We ought to look at some of those profits.

The first quarter of this year, Shell made $483 million compared to $340 million in profits over 1995; Amoco made $728 million, over $523 million over the same first quarter of 1995. Enormous profits, up 30 and 40 percent over the first quarter.

Why can they not give us some relief if we need some relief out there in the private sector? That is where we ought to base our appeal, I think, rather than trying to make people believe we are going to repeal the gasoline tax, and all of a sudden their gasoline is going to go down. It is just not going to happen.

I think the responsible course of action for each of our witnesses this morning is, when they make their plea for us to repeal this gasoline tax which brings in, what is it, $4.8 billion a year, or whatever it is, please tell us where we are going to make it up.

Please give us an indication where you, as legislators, would make up this deficit. Please tell us where you would make it up so our deficit would not rise. I think we acted responsibly, we are bringing the deficit down, and I hope that we will not be stampeded into this repeal at this time.

Mr. Chairman, I thank you.

The CHAIRMAN. Senator Graham.

OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Mr. Chairman, I appreciate your calling this hearing and giving us an opportunity to become better educated on this issue and express our views.

I might say, I start this hearing from a feeling that this is a particularly inappropriate time to be considering this. We are dealing with a phenomenon of the marketplace. The prices of corn go up and down, the prices of beef goes up and down, the price of gasoline and diesel fuel goes up and down.

I think it is inappropriate and contrary to our professed desire to let the market be the guiding force to us to rush in every time there is a movement in one direction or the other that the marketplace has dictated.

Second, we are in the midst of what I hope is a serious reopening of the discussions to move toward a 7-year budget that will bring us into balance. At this point to be considering stripping out \$25–\$30 billion of revenue without any clear indication of how we are going to replace that revenue is really a statement that we are not very serious about balancing the budget, exactly the wrong signal that I think the American people want Congress to make at this time.

Third, and finally, I believe there are some much more fundamental issues of the Federal Government's role in future transportation and finance that are being submerged in this transitory debate.

My own feeling would be that we should not be repealing 4.3 cents of the Federal gasoline tax, that we ought to be repealing at least 10 cents of the Federal gasoline tax and turn that responsibility back to the States.

We have this high level of Federal gasoline tax primarily as a product of the post–1950's in order to finance the construction of the interstate system. We should send up a flag of victory; we have completed the interstate system.

Now is the time to turn more responsibility for highway finance, construction, operation, and maintenance back to where it was before the 1950's, and that is back to the States.

I am concerned that if we just take this short-range repeal of a 4.3-cent tax that we will miss the opportunity to do what is really fundamental and would have a long-term positive effect on our ability to intelligently use our resources for highway transportation, which is to put more responsibility back to the States by repealing at least 10 cents of the current Federal motor fuels tax. Thus, we would, by adopting a short-run aspirin, miss the opportunity to do the long-term surgery that will be most beneficial to the Nation's highway transportation system.

Thank you.

The CHAIRMAN. Senator Baucus wanted to be here today, but, unfortunately, had other commitments. He has asked that a statement in support of repeal of the 4.3-cents-per-gallon tax be put into the record, and that will be done, so long as there is no objection.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator MOYNIHAN. Mr. Chairman, may I say that Senator Bradley would be here today, but he is in Missouri, where he is receiving the Harry S. Truman Public Service Award.

The CHAIRMAN. Very good. I am sorry he cannot be here.

Senator Pressler.

OPENING STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM SOUTH DAKOTA

Senator PRESSLER. Thank you, Mr. Chairman. I strongly support the repeal of this gas tax. I am glad that our panel of witnesses are transportation people, because I come from a State that runs on transportation. If we can repeal this gas tax, we will see a burst of economic activity.

It is spring, finally, and after this difficult winter our people are actively starting their tractors in agriculture, they are starting trucks to move the produce, they are actively engaged in a number of economic activities. The more chance we give them to keep a portion of their earnings, the more families will benefit, the more agriculture will benefit, the more tourism will benefit.

Let me say a word about the tourism industry. It is the second-largest industry in the State of South Dakota, because we have Mt. Rushmore and many attractions that people travel to in the summertime.

Just today in *USA Today* there is an article speculating that airfares will go up because of the gas price increases. That will have a negative impact on tourism. The same thing is true of extra activities in agriculture. The hauling of grain costs about 50 cents a bushel from our State already. If that goes up, it reduces the farmer's price at the grain elevator.

So, Mr. Chairman, in conclusion, let me say that I strongly support the repeal of this tax. We have an opportunity to help the American people be more competitive and more productive.

Thank you.

The CHAIRMAN. Thank you, Senator Pressler.

Well, today we have a very distinguished panel of representatives from industries that are affected by the 4.3-cents-per-gallon motor fuel tax.

So I would like to welcome Tom Donohue, who is, of course, president and CEO of the American Trucking Associations. We are very pleased to have Melvin Sherbert, chairman of the Service Station Dealers of American Allied Trades Committee, and Susan Perry, vice president, Government Relations and interim manager of the American Bus Association.

We are also very pleased to have Ed Harper, president and CEO of the Association of American Railroads. It is a pleasure to welcome my friend, Carol Hallett, who is president and CEO of the Air Transport Association.

I would like to note that Mr. Sherbert owns and operates two Amoco stations in Prince George's County, MD.

Mr. Donohue, why do we not begin with your testimony. I would ask that each limit it to 5 minutes, or shorter, if possible.

STATEMENT OF THOMAS DONOHUE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN TRUCKING ASSOCIATIONS, WASHINGTON, DC

Mr. DONOHUE. Thank you, Mr. Chairman. Good morning, Mr. Majority Leader Dole, and Senator Moynihan, members of the committee. Nine 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 National Product.

Mr. Chairman, we buy 40 billion gallons of diesel and gasoline and drive 350 billion miles a year, so you can imagine that skyrocketing fuel prices have had a devastating impact on our industry.

Most of our companies are small, operating six or fewer trucks on a profit margin of less than 2 percent. Many of them now fear for their very survival, and with good reason.

Fuel prices can represent up to 20 percent of their overall operating costs, and a 17-cents-a-gallon increase in diesel fuel prices—we are experiencing that today—can easily tip the balance between staying in business or going out. That is why the 4.3-cents fuel tax increase enacted in 1993 should be repealed for all fuels.

The repeal should be immediate, and preferably permanent. If a temporary suspension of the tax facilitates a quick passage, we would welcome that action. But we would also urge an action of a permanent repeal at a later date.

Nationwide, this run-up in prices appears to be the result of market forces, as indicated by some of the Senators, and bad weather in the winter, and so on. There are particular problems with both diesel and gasoline supplies in California.

The extreme gasoline prices in California appear to result from the difficulty of forcing statewide use by June 1 of a special reformulated gasoline that cannot be produced fast enough to meet the immediate demand.

This problem might be addressed by a phase-in or short delay of the Clean Burning Gasoline mandate. However, there are also serious problems with diesel fuel, which costs consistently more in California. It is much higher. It is 30 cents higher in California for diesel fuel than it is anywhere else in the country.

Congress should take a close look at whether a special California diesel makes sense for trucks, particularly with our new engines that seem to clean the air.

In addition, Congress should look at providing a relief mechanism when the California diesel prices exceed the national average by some significant margin. The current 30-cent differential is harming truckers and their customers nationwide.

Just think about it, Mr. Chairman. California is the largest State and the biggest economy in the union, the fifth largest economy in the world, and we are strapping its primary mover of goods—trucks—with an additional 30 cents a gallon for diesel fuel.

This added cost is undermining the California economy, causing jobs to be lost, and could cause companies to move to other States. It is hurting its competitiveness in an international market. California and the entire Nation would benefit from the repeal of the 4.3-cents tax.

It would help keep inflation in check and provide immediate relief to businesses, small and large, and thereby protect jobs. Consumers would save $6.5 billion per year in fuel taxes; trucking companies would save $600 a truck.

More importantly, Mr. Chairman, these savings would benefit low-income families who pay, as we all know, a disproportionate share of all excise taxes and who often need to drive their cars long distances to work.

Well, just a few comments about the tax and road conditions. In no way does the trucking industry support reduction with having in mind that we want to cut expenditures on roads or that we are trying to effect the important effort to reduce the deficit.

But we have and we will strongly support reasonable user fees to build and maintain a superior system of roads and bridges. We want to pay our fair share. We pay $22 billion in this country for roads. I want to say that a lot of that money is stacking up in the trust fund and not being spent for roads.

But I want you to know that as part of the reauthorization bill that will come up next year, that we are prepared, if the money in the trust fund is spent, to put additional funds in taxes to build additional roads. But the 4.3 cents we are talking about is not going in the trust fund, it is going into deficit reduction and it is an incremental cost to these very expensive oil prices right now.

Now, let me just answer Senator Pryor's question. We cannot manipulate the market. The price of oil is going to go up and down, depending on what the market does. But the 4.3 cents is a constant. On the fuel pump it shows the price, and then it says the taxes are different. Whatever is going to happen to the fuel price, and I do not know, it will be 4.3 cents less than whatever that would be if we do not have this tax.

In conclusion, Mr. Chairman, many trucking companies are hurting, and hurting badly, particularly the smaller, family-owned firms. We provide an essential service to this country, and nearly every major industry and all the retailers depend on this. I would just say that you can do a great service if you send this money back to the productive economy.

Thank you very much.

The CHAIRMAN. Thank you, Tom.

[The prepared statement of Mr. Donohue appears in the appendix.]

The CHAIRMAN. Next, I will turn to Melvin Sherbert, who is chairman of the Legislative Committee of the Service Station Dealers of America and Allied Trades.

Melvin.

STATEMENT OF MELVIN SHERBERT, CHAIRMAN, LEGISLATIVE COMMITTEE, SERVICE STATION DEALERS OF AMERICA AND OWNER/OPERATOR OF TWO AMOCO STATIONS, SUITLAND, MD

Mr. SHERBERT. Thank you, Mr. Chairman, Senator Dole, Senator Moynihan, members. I appreciate being here. It kind of gives me a respite from my Amoco station, where I have been trying to explain the price of gasoline to my customers for the last few weeks.

But I do represent Service Station Dealers of America and Allied Trades. It is a federation of associations from around the country of service station dealers, including my own home association, which represents Delaware, Maryland, and the District of Columbia.

We support the repeal of this. I think that's pretty obvious. We probably would not be at the table today if we did not. But from the beginning of the interstate system we have supported user taxes and we have accepted that. I think it makes a big difference.

When we are in traffic, we cuss and complain when it is backed up because of road construction, but we still know that we paid for that at the pump, and that is where it should be. That is what we have believed from the very beginning and we have opposed it from that time.

We thought all along that the tax would always go to the Transportation Fund, and we were very much aghast when that did not happen. We were so afraid at that time that the 4.3 would become

10.3 or 20.3 over the years because we felt it was such an easy target.

So now we have an opportunity to change that, if you repeal that tax. If it is repealed, I promise you that my members will put that on the street, and whatever we are paying for the gasoline at that time, it will be 4 cents cheaper than it would have been. We know that.

If any organization in this country, any retailer, is closer to the consumer, I do not know who it is, because when the prices of gasoline are low, then we benefit, our consumers benefit.

We measure our profit in pennies. In 1972 when I went into business, I made 7.5 cents a gallon. Right now today at my station in Marlow Heights I am making 8.2 cents per gallon, all those years later. There are lots of reasons for that.

But the point I am making is, whether we pay 80 cents for it or $1.80 for it, we are going to add that 8 cents, or 6 cents, and there are dealers making 4 and 5 cents right now. That is what we will continue to do. That is just the way we market. We do not always like it, but that is the way we do it and that is the way we will continue to do it.

If the tax is not repealed, I think that is a mistake. But if we keep the tax, let us put it in the Transportation Fund where it belonged to start with. I think that we could support that as an alternative. But I promise you that my members—and there are thousands and thousands of them—will put that on the street the day they get it.

The CHAIRMAN. Thank you, Mr. Sherbert.

[The prepared statement of Mr. Sherbert appears in the appendix.]

The CHAIRMAN. Next, we would like to call on Ms. Perry, who represents the American Bus Association.

STATEMENT OF SUSAN PERRY, SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS AND INTERIM MANAGER, AMERICAN BUS ASSOCIATION, WASHINGTON, DC

Ms. PERRY. Thank you very much, Mr. Chairman. I appreciate it. I congratulate you on holding this hearing in such a timely fashion, and we are grateful to you for that.

I, first, want to say that I agree completely with what Tom Donohue has just explained on the diesel problem in California. This problem affects bus operators and bus companies exactly the same as it does trucks and truck companies.

I was in California last week with the California Bus Association, and they are extremely concerned about this, especially as they go into summer months. The summer months, of course, is when they use the most fuel. So they are very, very concerned about it, and they also appreciate that you are holding this hearing.

We are hearing from operators in the rest of the country as well. In fact, the first calls we had at our office were from Pennsylvania. But I was in California last week, and Tom has described it perfectly.

There are just three points that I would like to make, and I can make them very quickly. I testified before this committee in July, with almost this identical panel. This is kind of *déjà vu* for several of us.

What we were asking for then was equity among the modes, and that if the 4.3-cent exemption were going to continue for any of the modes, or if any of the other modes were going to be added, we, as inter-city bus operators, were asking for that same consideration.

Now Congress is proposing, or at least Senator Dole is proposing, to repeal the tax for everybody. I guess you could say that that would be the ultimate equity, and we certainly thank you for that and we applaud your efforts.

In addition to the lack of equity that we have had with the tax for the first several years that it has been enacted, the American Bus Association opposes the tax for two other reasons.

Tom touched on the Highway Trust Fund diversion. We do believe that moneys collected as fuel taxes should go into the Highway Trust Fund and not be diverted for deficit reduction, or for anything else. We have always said this, and said this when the tax was imposed.

The third, and probably the most important reason for us, is the regressivity of it. The tax disproportionately hurts bus passengers. Now, Senator Roth said in his opening statement that a lot of these people travel the bus; Senator Grassley knows who bus travelers are. For the most part, these are passengers who can least afford to pay any additional moneys.

The bus companies cannot absorb the extra costs; they are already enduring operating ratios of more than 100 percent. The passengers, being the least affluent, you really cannot pass it on to them, but there is not much else that the bus companies can do.

Any increase at all in ticket price, no matter how small, does affect these passengers. Greyhound's demographics show that 44 percent of their passengers have annual incomes of $15,000 or under.

So it is a major consideration for our constituency and for our companies who are not healthy, to say the least, and in rather precarious financial positions.

Thank you very much for this opportunity. The rest is in my written statement.

The CHAIRMAN. Thank you, Ms. Perry.

[The prepared statement of Ms. Perry appears in the appendix.]

The CHAIRMAN. Next, we will call on Mr. Harper, who represents the Railroad Association.

STATEMENT OF EDWIN L. HARPER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF AMERICAN RAILROADS, WASHINGTON, DC

Mr. HARPER. Thank you very much, Mr. Chairman, Mr. Leader, members of the committee. I am Edwin L. Harper, president and chief executive officer of the Association of American Railroads. I appreciate this opportunity to present the railroad industry's perspective on current proposals to eliminate portions of the fuel excise tax. It is appropriate for the Congress to reconsider fuel excise taxes.

The railroad's fuel bill has gone up almost half a billion dollars on an annualized basis so far this year, and this cost eventually is going to be passed on to everyone who uses electricity, everyone who drives a car, and everyone who eats food.

The AAR urges that the Congress repeal the 4.3-cents-per-gallon deficit fuel reduction tax to which transportation modes generally are subject. In addition, we ask that the Congress repeal the 1.25-cents-per-gallon tax which is uniquely and inequitably paid by the railroad industry.

In discussing fuel tax levels, it is important to distinguish two different and distinct types of fuel taxes that are 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 rights 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 tax into the Inland Waterways Trust Fund.

In contrast to other modes, however, the railroads build, own, and operate their own rights of ways and, thus, do not pay Federal excise taxes or user fees for those purposes.

The freight railroad industry does not have, want, or need a trust fund. Instead, each freight railroad carrier makes its own investment decisions and the industry pays significant property taxes on their 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 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-cents-per-gallon deficit reduction tax on transportation fuels.

This tax was payable by most transportation modes into the general fund of the Treasury. The 1993 Reconciliation Act imposed an additional 4.3-cents-per-gallon deficit reduction tax on all transportation modes, albeit with a deferred effective date for commercial airlines. This tax remains in place and is the subject of today's hearing.

Responding to Senator Breaux's comment about the public policy point as opposed to the marketplace, the key issue is the distinction between a user fee and a hidden sales tax.

Most Federal sales taxes in the past have been for the purpose of behavior modification—sin taxes, luxury taxes—but here we are dealing with a fundamental issue of transportation.

Thus, the deficit reduction fuel taxes imposed in 1990 and in 1993 should be repealed. They are hidden sales taxes. 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 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, half of the 2.5-cents-per-gallon deficit reduction fuel tax paid by the railroad industry would be eliminated, while the 2.5-cents-per-gallon 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 payors of the original 1990 deficit reduction tax, at a rate of 1.25 cents per gallon. Highway users pay 4.3 cents per gallon into the general fund of the Treasury, while the railroads pay 5.55 cents per gallon. The chart at the right end of the table graphically makes the point and I think explains the arithmetic involved.

The AAR urges Congress to remove the 1.25-cents-per-gallon differential by eliminating the full deficit reduction tax on all modes. AAR supports congressional examination of the fuel taxes paid by consumers of gasoline and diesel fuel.

In AAR's view, however, it is imperative that any initiative to reduce fuel taxes include the elimination of the deficit reduction fuel tax paid by freight transporters.

The rail industry paid $203 million in deficit reduction fuel taxes in 1995, which the railroads would have been able to put into more productive uses, including the enhancement of the safety and efficiency of the railroad infrastructure.

It is critically important that an even-handed system of taxes be put in place. The Nation's tax and budget policies should not be used as a mechanism to disfavor one freight transportation mode against another, and the transportation industry against the economy generally.

The inequity in current law should be remedied so that the rail industry will no longer be required to pay more for deficit reduction than its competitors.

Thank you for the opportunity to present our views on this important matter.

[The prepared statement of Mr. Harper appears in the appendix.]

The CHAIRMAN. Finally, we are very, very pleased to have Ms. Hallett here, who represents the airline industry.

STATEMENT OF CAROL B. HALLETT, PRESIDENT AND CHIEF EXECUTIVE OFFICE, AIR TRANSPORT ASSOCIATION, WASHINGTON, DC

Ms. HALLETT. Thank you very much, Mr. Chairman, Majority Leader Dole, and members of the committee. I greatly appreciate the opportunity to appear before you today. I am Carol Hallett, president and CEO of the Air Transportation Association of America.

On behalf of our member airlines, I would like to applaud the committee's proposal to repeal the 4.3-cents-per-gallon transportation fuel tax. 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—losses totaling over $13 billion since 1990.

Thanks to the support of this committee, an extension of our industry's exemption from the tax was included in last year's budget reconciliation legislation. Unfortunately, the bill was vetoed by President Clinton and the airlines joined all other transportation modes to pay this deficit reduction tax.

The Transportation Fuel Tax is having an adverse impact on 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 the March/April area, which is about the latest information we have available, were about 65 cents per gallon.

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 costs to the industry.

These rising jet fuel prices may lead to fare hikes, as indicated on the front page today of *USA Today.* It says, "Rising Jet Fuel Tab May Lead to Fare Hikes." Certainly, that is the case. Consequently, the 11-cents-per-gallon increase in jet fuel from the 1995 average level, is, indeed, of 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 a year. On top of the recent run-up in jet fuel prices, airlines are now also paying the 4.3-cents-per-gallon tax on domestic fuel consumption, which adds an approximate $550 million to our costs.

When we attempt to pass on to our customers the higher costs 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 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. In fact, some passengers, particularly business travelers who are 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 fewer passengers to begin with.

During the 5-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 and members, I join with my transportation industry colleagues today to urge you to move as quickly as possible to repeal a tax which effects not only the airlines, our passengers, and our shippers, but quite literally directly impacts all Americans.

I would be more than happy to respond to your questions. Thank you very much.

The CHAIRMAN. Thank you very much, Ms. Hallett.

[The prepared statement of Ms. Hallett appears in the appendix.]

The CHAIRMAN. With the agreement of the Ranking Member, I am going to call, first, on the Leader to ask any questions or make any comments that he feels is appropriate.

Senator DOLE. I think the point we should not miss here is that this tax goes for deficit reduction, which, until 1990, I think, was without precedent. In 1990, it was a bipartisan budget agreement.

Senator Bentsen used to be chairman of this committee and was chairman at that time. That was one of the sticking points in getting a budget agreement, a bipartisan agreement. So we agreed half of it would go for deficit reduction and half would go into the trust fund, and it would all expire in 5 years.

The problem is, in 1993 the President moved that into the trust fund, but then added the 4.3 cents for deficit reduction. He didn't make the hard choices to cut government spending, he just raised taxes. That is the point that should not be missed. I have been scolded for voting for gas tax increases, but they have been, with one exception in 1990, so we could build highways, bridges, and other things we need to do, as you have all indicated.

But the point is, this tax is simply a tax to fund a bigger government. It does not do a thing for highways, it does not do a thing for airlines, does not do a thing for buses, does not do a thing for railroads or the service stations, and that is the reason.

Maybe Senator Murkowski is right. Maybe in July or August the price is going to be $3 a gallon. I am not certain what the market forces will do, but I am certain—and I think Mr. Sherbert agrees—if we repeal this tax it is going to be 4 cents cheaper at the pump.

Now, we are not going to get into price fixing, as suggested by some. But if some of my colleagues are correct, then why should we not just raise the tax to 40 cents a gallon, if it does not have any impact? If 4 cents is not much, it is a great deal to those who have testified this morning and does have some impact.

But the point I want to make is, if this were going into the Highway Trust Fund I think there would be less concern, but it is not, it is to spend on Government programs. If we can find an offset that maintains the same deficit reduction path, then I think this is a good tax to get rid of and I think it would have broad bipartisan support.

Now, I have detected just a bit of partisanship here. Not much.

Senator MOYNIHAN. Sir! [Laughter.]

Senator DOLE. It is highly unusual for this committee. I think, as a former chairman, most things we do in this committee are on a bipartisan basis. I believe before we complete the hearings, if we can find the offsets—and I think I could suggest some—most members of this committee will vote to repeal this tax because it is not a tax for anything except deficit reduction, and that is not the purpose that you put additional burdens on drivers, consumers, buses, railroads, whatever it is.

I do not know how they got the extra 1.25 on railroads, but I think that would have expired in 1995 under the 1990 Act. But, again, they cut that in half, the 2.5, and extended it through 1999.

Mr. HARPER. You are right, Mr. Leader. They acknowledge the rightness of our argument, but wanted to keep a penny and a quarter anyway.

Senator DOLE. So I appreciate my colleagues being here this morning, and certainly this is going to be, not a big issue, but I think it is one that some people seem to understand.

The CHAIRMAN. Thank you very much, Senator Dole.

I thought we would have, for the first round, 5 minutes of questions. If necessary, we can give a second opportunity.

Let me start out by asking you a question, Mr. Sherbert. You have answered this before, but I think it is important that we ask you to repeat. As the owner/operator of two service stations, as I understand, in Prince George's County, you say that you would pass on the tax benefits to your customers if the 4.3-cents-per-gallon motor fuel tax was repealed.

I am interested in not only what you would do, but what you think the pattern among your colleague dealers would be. Mr. Sherbert.

Mr. SHERBERT. I know that we would go down. As I said before, the moment we received it, we would put that on the street. I think every other dealer would do that. We challenge each other to try to be the most competitive. Every opportunity that we have to reduce the price, we do it.

In 1986, when the prices were as low as they have been ever, was the best year for most of us. At that time, the prices were low, the consumer was happy, we made our 6, 7 cents a gallon.

Now here we are today making the same 6 or 7 cents a gallon, and the consumer is not happy. I promise that we will do it. They will all do it, because they are just waiting for an opportunity to do that. If the oil company goes down a penny, we will go put it right on the street.

The CHAIRMAN. Let me tell you what a gasoline operator said to me at home. He said, if you reduce this tax, of course I am going to pass it on, because I want to sell more gasoline. The faster I do it, the more competitive I am and the more money I make. Is that a fair statement?

Mr. SHERBERT. That is extremely fair, because we make the same per gallon, regardless of what the price is on the street. Anything that would give the customer an incentive to deal with us, and either not someone else or not to park the car, would be better for us everywhere.

The CHAIRMAN. Now, let me ask you this question. What drivers will be affected by the repeal of the 4.3-cents-per-gallon motor fuel tax?

Mr. SHERBERT. Well, as you said, I have two service stations. One is in a neighborhood that is moderate income, professionals, teachers, and so on. I do not know how it would affect them. They have nice, new cars and they are very comfortable.

But in Suitland, in the war zone in Prince George's County, most of the people there have older cars, bigger cars, and they buy their gasoline $3 and $5 at a time. Of course, what has happened to them over the last few weeks is that they still buy the same $3 or $5, but they do not get as much because that is all they have in their pocket. So, I think it will make a big difference to them.

The CHAIRMAN. It will make a big difference to all drivers, rich or poor.

Mr. SHERBERT. All drivers.

The CHAIRMAN. Ms. Perry, let me ask you this question. As I understood your testimony, you say bus passengers are more likely to come from rural areas. In addition, you say that added costs like the 4.3-cents-per-gallon gas tax can cause bus companies to abandon marginally profitable bus routes. Do you have any idea how many communities have lost bus service over the past few years?

Ms. PERRY. I do not, Senator Roth, and let me try to explain why. The definition of loss of service is so elusive. If you are talking about a community that had a bus that came through and stopped at a drug store and then a half a mile away stopped at another convenience area, and maybe 3 miles away stopped at a filling station, and you now have an interstate highway that is, say, between 5–15 miles from each of those, and the bus now goes on the interstate highway.

Assuming that those people had to have some other transportation to get to the bus stop in the first place, which they probably did if they were going on a trip with luggage, and whatever, they would still be able to get to that one stop, which is now several miles further away on the highway rather than right in the little town. So, is that a loss of service or is it not?

I mean, it is awfully difficult to define and I really do not have any numbers. I do know that the industry serves fewer points than it did, certainly, at its highest point.

It has gone from serving 10,000 points to now just under 5,000 points. Whether, as I say, that is loss of service or whether it is consolidation of service in a lot of cases, it is hard to say. But there are fewer points served, so far as stops made, scheduled stops.

The CHAIRMAN. Let me follow that up with one further question. In your statement you say bus passengers are more likely to be elderly and poor than those people who do not take the bus. Is that correct?

Ms. PERRY. That is correct. The bus passengers are predominantly the old, the young—college students are still taking buses—the very poor, or the least affluent, and the very rural. Those in very rural communities, since it is the only mode of transportation left.

The CHAIRMAN. Now, do the elderly, as a group, have fewer alternative modes of transportation?

Ms. PERRY. Yes.

The CHAIRMAN. Is it fair to say that added costs like the 4.3-cents-per-gallon gas tax has the effect of adversely affecting the availability of service to the older and poorer passengers?

Ms. PERRY. Yes, it certainly could. We have some rough numbers that would show that it would cause about a 1-percent increase in the price of a ticket. A 1-percent increase in the price of a ticket frequently is the deciding point of whether they go or whether they do not go. So I would say, yes.

The CHAIRMAN. Thank you. My time is up.

Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman. First, to a point that Senator Pryor made earlier when he asked about, why were there no economists present. It was pointed out to me that in this morning's *Wall Street Journal* there is an item in the "Washington Wire."

It says, "Don't do it. Many economists say repealing the gasoline tax is wrong. Federal Reserve Chairman Greenspan and Board Nominee Rivlin have previously called for higher rates to discourage consumption and balance the budget. Berkeley's Alan Auerbach calls the cut a silly idea. The consensus of some 35 economists meeting there was for a rate near $1 per gallon." Now, do not get excited. We are not going to do that.

But I have to just say that the economics profession, which is not all-knowing or all-wise, nonetheless is very clearly of the view that our fuel prices are too low for the larger efficiency of the economy. The externalities are too high in consequence.

Alan Auerbach was formerly the Deputy Chief of Staff of the Joint Committee on Taxation, Mr. Chairman. The notion that our prices are too high does not sustain the scrutiny. Other economies have them at two and three times as high.

Now, I would say once again, we passed this tax in 1993 as part of a deficit reduction act. You have heard, deficit, deficit, deficit. Now, every one of you from a trade association, how many times do you go to how many conventions, and how many people stand up and say, we have to cut the deficit, right? Right? You are all nodding, and that is honest and friendly, because we know you all.

Well, we did cut the deficit. We cut it in half. We now have a primary surplus for the first time since the 1960's, which is to say outlays are lower than revenues, save for debt service.

It was not easy. I can tell you, the 11 members on this side of the committee spent 1 week in room 301 in the Capitol getting us from 4 cents to 4.3. Senator Pryor nods knowingly, and Senator Breaux nods. A week of your life. There are other ways to spend it. By ourselves.

We accomplished deficit reduction of $500 billion, as we have had testimony from Chairman Alan Greenspan and others. There had been a deficit premium on interest rates, based on the fear that we would end up monetizing the debt, which is to say letting inflation go up. Interest rates dropped the minute we got the $500 billion legislation.

Capital costs in every one of your industries went down. We have to deal with this deficit, and we think we did. To start undoing what we did, it seems to me, would be a great loss.

I want to say to those who think our fuel prices are too low, the judgment of the economists and the judgment of this Senator, in 20 years in this committee, is that the prices, in fact, should be higher. It would be in the interest of the economy to do so. Now, you are not supposed to say that; I just said it.

But I do want to say one last thing, Mr. Chairman. What I would not want to come out of this committee hearing—Senator Dole has made important statements, and very clear ones, very legitimate ones.

Senator Murkowski made a perfectly respectable forecast that we might see $3 a gallon prices this summer, and indeed we might. I mean, things happen of that kind. We never have, but there is no point in saying, something can happen.

I would like to note that in the New York market—and this is from the *Wall Street Journal* of April 29—there is a very sharp decline in crude oil futures prices. The spot price on April 26 was about $22.46 a barrel. The August futures price is just about $19. You can see it on this chart.

This ought to make you feel good, you know. Smile. Come on, it will not hurt you. See that?

Senator BREAUX. It makes me feel terrible. [Laughter.]

Senator MOYNIHAN. The markets expect a decline in crude oil prices, a very sharp decline, and I would put on an extra 20 percent. That may not be correct, Mr. Chairman, but we are not going to have $3 gasoline, or anything like it. Thank you, sir.

The CHAIRMAN. I would just say to my distinguished colleague that, of course, many economists say that we ought to charge a lot more for gasoline, two or three times, or as much as they do in Europe.

But what that overlooks is the fact that the car and gasoline are the lifeblood of this country. It is important, critically important to our economy, and all I can say is, when you talk to the individual on the streets back home, they are upset by what has happened.

Senator MOYNIHAN. I do not disagree. I quite agree that there is a difference between what economists think and what people think.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. To the panel members, I have no disagreement in your positions, as far as representing your constituents. You are all professionals. You have been around this city as long as I have, or maybe not that long, but I respect what you do for your constituents and I understand your arguments. I do not want to be personal with you.

But, you know, it is almost like you are not pawns in this political battle up here, but you sort of are being used. I respect what you are saying for your constituents and understand where you are coming from. The point I want to make is along the lines of Senator Moynihan.

In 1992, the year before this was passed, the Federal deficit was $290 billion, the highest dollar level in history.

Senator MOYNIHAN. Two hundred and ninety billion dollars?

Senator BREAUX. $290 billion. Today, CBO is projecting the deficit to be $140 billion. That is more than a 50-percent reduction in that short period of time. What happened in the interim was that we had the courage to do something that reduced the deficit.

I am absolutely convinced that American families and people we represent are going to be far better off if we can reach a balanced budget in a reasonable timeframe. Your industries, your constituents, the American family, everybody will be much better off. It is not going to be easy to get there.

There is no magic wand that we can wave that gets this done. Progress is being made now with 4 years in a row of deficit reduction because people have had the courage to do some things that are not very pleasant. This was one of them, but it is working.

Now, I would suggest that if we pass this repeal, that it will destroy any reasonable effort to reach a balanced budget agreement in this Congress. It will destroy it, because we are going to have to find $30 billion somewhere.

Where are we going to find it, are we going to auction Spectrum off again? We sold it more than the Brooklyn Bridge has been sold. We are just not going to be able to find $30 billion.

I am going to be really interested to see if Senator Domenici's budget resolution comes to the floor with a $30 billion hole in it as a result of the repeal of this 4.3-cents gas tax and still reaches balance. Where is it going to come from? Take it all out of defense, all out of welfare, all out of Medicare or Medicaid?

The price of gasoline in 1995, last year, was the lowest in recorded history when you take into account inflation, $1.20.5. It was lower than in 1994 when it was $1.20.8 cents. It was lower in 1994 than it was in 1993 when it was $1.20.6. It was lower in 1993 than it was in 1992 when it was $1.30.3. It was lower in 1993 than it was in 1991.

Now, Mr. Sherbert, I respect you saying you are going to pass this on, but you do not pay the tax. The tax on gasoline is paid when it leaves the pipeline or when it leaves the barge. Now, this tax is not passed on to you. You are not going to be able to unilaterally lower your price at the pump by 4.3 cents a gallon if that is not passed on to you.

The people at the pipeline end or the barge end when the fuel comes out collect the tax and pay it. They have no obligation to pass it on to you, just as they did not increase their prices when we passed a 4.3-cents tax. Therefore, you cannot stay in business with a 4.3-cents tax cut, or a cut at the pump, if that has not been passed on to you.

I will just put in the record the statement from the Joint Committee on Taxation, which I wish was here talking to us in a public forum. Here is what they said. Let me tell you, these ain't Democrats.

Senator MOYNIHAN. Yes.

Senator BREAUX. I am not saying they are Republicans. The Joint Committee on Taxation said, "Because the 4.3-cents-per-gallon excise tax statutorily is imposed at different points in the distribution chain for different transportation sectors, the degree to which the proposed excise tax reduction is enjoyed by consumers through price reductions will be dependent on market forces beyond the purview of this proposed tax legislation."

That is the bottom line. All of you would love it to be passed through to you, but there is absolutely nothing in this proposal before this Congress that guarantees that any consumer or any service station operator will have to pay 4.3 cents less.

But this country will suffer a $30 billion hole in the Federal budget, and all the talk about trying to move to a balanced budget is going to be destroyed if we do what is bad public policy, in my opinion. That is a statement.

I do not have any questions because, gosh, you all are doing a fine job representing your people, and my hat is off to all of you for doing that. There is nothing wrong with your statements as far as representing the people. If they could be guaranteed they would get the 4.3-cents reduction, we would be in total agreement, but there is no guarantee.

Thank you.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman. Mr. Chairman and colleagues, I think it should be noted for the record that after the 4.3-cents-per-gallon gasoline tax was enacted, gasoline prices at the pump went down, they did not go up. Gasoline prices at the pump went down, and I think the record should show that.

Mr. Sherbert, I want to thank you, one, for coming. I think this committee needs more witnesses who really, I guess you would say, come from the trenches and who are out there in what we call the real world. We thank you for coming today.

But I would just try to impart a thought before we break up this morning to you, and that is, if you see this committee, the Senate, and the House repealing the 4.3-cents gasoline tax, do not, the next day, lower your prices by that amount, please, or you are going to be out of business in about a week.

The price at your pump has nothing to do with the 4.3-cents tax. The big oil companies that process and sell you the gasoline, they are the ones who remit this tax to the Federal Government and impose a fee upon you for collecting. I do not know what that fee is, or what have you.

But somehow or another I think the impression has been left this morning by our very distinguished panel that the U.S. Government, with a 4.3-cents gasoline tax, is responsible for increasing the tickets, for increasing the prices, for increasing the number of people who cannot afford to get on an airplane, or ride a bus. It is not true.

Finally, if I could say this, this panel has come this morning and in one sense they have said, give us a break. Give us a break so we can give the consumers that we serve and the people, the constituency, a break that we advocate for.

But I would just simply say, and ask this question of the panel, maybe they can answer it. You have come to us for relief. Shell Oil Company made $143 million the first quarter more this year than they made in the first quarter in 1995. Amoco made $205 million more in the first quarter this year than they made in the first quarter of 1995.

Have you gone to the oil companies that you buy your fuel from to say, can you not give us some relief? You come here and said can you not give us relief. Have you gone to the oil companies to ask them for some relief? Mr. Donohue.

Mr. DONOHUE. Well, as a matter of fact, Senator, we have been having some conversations with them. I asked one oil company executive not long ago if God came to him in the middle of the night and suggested a 25-cents increase, because we were trying to find out where a lot of this was coming. In fact, when you buy between 40–50 billion gallons of this stuff, we are talking about really serious business.

Now, you have heard the litany by members of this panel and the members of the Senate of all the things that have changed, with reformulation questions, and terminals, and international intrigue. The bottom line is, in an industry with a 2- to 3-percent profit margin, these types of numbers are highly significant.

And, yes, we are talking to the oil companies. Yes, we are trying to find out what we might do in clean air issues, as we discussed, and in reformulation questions, and leveling supplies, and that sort of thing.

Yes, some of our people are buying hedges, which you would do if you were a big company. But if you were like the majority of our folks down in Arkansas, you have two or three big companies but the rest of them are little guys, they cannot buy hedges; they do not know what a hedge is.

So I guess everyone is here not only because we would like to see all fuel taxes going into the intended purpose, but because we have an opportunity. This significant increase in fuel causes people to focus on the problem, and we are here for whatever assistance this committee and the Congress can render.

I think the arguments that Senator Breaux makes about deficit reduction, as I said in my statement, are very significant. But the other hand is, we need to keep this country mobile in terms of its people and its freight, and if an opportunity presents itself here where we can do both, we ought to try.

Senator PRYOR. Thank you, sir.

Yes, Ms. Hallett.

Ms. HALLETT. Thank you very much, Senator. A couple of points. First of all, this is a very important issue for the airlines because we have been working for 2½ years to have this repealed. It was the President's own Airline Commission that said that this 4.3-cents tax should not be placed on the airlines at any time.

But I want to make one other point, because I think we are losing track of the whole purpose. This proposal does not suggest that we add to the deficit. In fact, it was the Leader who said that he would be offering offsets to the budget so that it would not be impacted.

Certainly from our standpoint we, of course, have been extremely concerned about the price of this particular tax. I discussed it as recently as 2 weeks ago with the chairman of the oil company that is the biggest supplier to our carriers, because it continues to be such a great concern, and every increase in taxes is an increase that has to be passed on.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman. Mr. Chairman, I was somewhat taken aback at the characterization of the deficit reduction effort, which has been under way with such success in recent years, the statement that this has been done only for deficit reduction. I thought deficit reduction was our primary national domestic goal, and that there was a broad recognition of both the immediate benefits and the longer term benefits.

This became an intergenerational question, that were we going to continue to be so selfish that we would continue to pass on this enormous burden to our children and our grandchildren [holding up picture of grandchildren]?

I might say, I am quite interested in this because I am the grandfather of these eight wonderful little boys and girls, from the age of 5 to 10 months. I do not want to have them coming to me as adults and asking why we did this to them and why you, grandfather, had a chance to reverse it and failed to do so.

So I think this is not a trivial issue, but a central issue. It not only is important to these eight young Americans, it is also of great significance and importance today. We have had economists who have testified before this committee that if, in fact, we could achieve a balanced budget, that we might have as much as a 1- to 2-percentage point lower cost of money over the next decade than that which we would have if we failed to balance the budget and show that degree of discipline.

So I would like to ask a question of each of you, but I would like to focus on Ms. Hallett. I might say, I admire her in the number of relationships in which she has served in the past, and appreciate the great importance of your industry to my State.

In fact, I have said one of the five things that has most influenced Florida in the last half century has been the development of the jet airplane. So, it is a central industry for the well-being of our State.

Let me ask a question. Do you know what the annual interest payments are of the members of your association?

Ms. HALLETT. Senator Graham, I cannot tell you what the annual interest payment is, and I would be more than happy to report that back to the committee.

But, at the same time, I would also point out that we have a very serious problem in that only one of our carriers has an investment-grade rating. All of the rest of them have a junk bond rating, which relates directly to the huge interest payments that we are paying, and will continue to pay.

Senator GRAHAM. So the possibility of a balanced budget agreement and a savings of 1–2 percentage points over the next 10 years would have a disproportionately positive impact on the aviation industry.

Ms. HALLETT. Well, I would like to think that were true, but I do not know that it is a statement that we can actually make because there are so many other problems that we are confronted with, just as with this industry.

Between now and the year 2000, primarily because of new government-proposed regulations, we will be paying somewhere between $50–$60 billion in the next 4 years to meet those regulations and buy new equipment to also meet those regulations. Just as an example, to meet the new sound requirements. So, we have so many other problems, I do not think it is fair to say that that would be the case.

Senator GRAHAM. I am not suggesting that this is the only issue facing any one of your industries. But I would think, as all of your industries are highly capital intensive, the opportunity to have a significant reduction in your cost of financing over the next decade, I would think, would be a matter of great hope for your industries.

I would be interested if you could supplement, each of you, with an estimate of what is the annual interest payment by the members of your association so that we might appreciate what could be the potential savings to your members by virtue of achieving this objective of a balanced Federal budget.

Senator GRAHAM. If I could, in the limited time I have remaining, I would like to ask a second question specifically of Mr. Donohue. You talked about the importance of effective investment in transportation. As a Senator and former Governor, I am particularly aware of that.

I indicated in my opening statement that I think a fundamental policy decision that we ought to be looking at, in this post-interstate era, is whether or not we should be turning more responsibility back to States, which, in my opinion, would be able to use the resources more effectively than the current system of driving them through a Washington bureaucracy before they get back to the States for expenditure, that both in terms of miles that can be built and maintained per dollar available, and the speed with which that could be accomplished, that it would be more likely accomplished with a greater devolution to the States.

I wonder if you have any comments as to whether that devolution, in your judgment, would be advantageous to meeting our highway transportation needs.

Mr. DONOHUE. Senator, I think you raised three or four quick issues, and I will be very brief. It is clear that today we pay more fuel taxes and highway taxes to the States, truckers do, than we do to the Federal Government.

We pay a total of $22-scme odd billion, we pay the Federal Government someplace around $8 billion. But we must maintain a highway system of continuity and connectivity.

People cannot visit Florida if they cannot drive through South Carolina and Georgia. People cannot move products to California if they cannot get through Nevada and Utah. It is a difficult issue.

The second question is, there is a mentality that says, you know, we have built our highways. But if you look at the recent study that has been done by DRI, McGraw-Hill, it says that if we maintain an economic growth of about 2.6 percent—and we were 2.8 last quarter—from now until under around 2003, we will have on our roads, just to keep up with that economic growth, just to provide jobs for those grandchildren, which we want to do for our children too, we will have additional trucks on the road of about 14 percent, driving 29 percent more miles, carrying another billion pounds of freight, and alongside of them will be eight million more cars.

The bottom line is, whether we pay this money to the Federal Government and they send it to the State or we pay more of it to the State—and I am always in favor of getting things as local as possible, as long as we keep continuity and connectivity—wherever we pay the money, we must build the roads, we must improve the roads, we must improve the roads for safety and productivity or those grandchildren, yours and mine, will not have the benefits that we have had.

Senator GRAHAM. Thank you.

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Mr. Donohue, let me ask you—and I am sure you had it in your statement—with the repeal of the 4.3-cents-per-gallon tax, how much would that save your industry annually?

Mr. DONOHUE. It would save about $1.7 billion. When you consider that this is an industry that operates about 2 percent profit margin and that that is disappearing with this tremendous increase in oil prices, it would be very helpful to the continuance of many of those small companies.

Senator D'AMATO. Now, let us address the question as to whether or not this is reflected in the price, because a number of members indicated they did not believe that to be the case.

The reduction of 4.3 cents per gallon, which is a tax, you are saying that your industry would then save $1.7 billion, is that correct?

Mr. DONOHUE. Yes, sir. The way we have looked at this is to say that the taxes imposed by the Federal and State government are a constant. They are required on every barrel or gallon of fuel that moves through whatever the checkpoint is at which the tax is paid.

I want to congratulate this committee, and others; in moving that point up far higher in the daisy chain, we are saving a billion dollars in fraud. Our assumption is that if you take away 4.3 cents of that cost, that as the product is moved down to the retail or the wholesale distribution level, that that reduction in cost will accompany the overall price.

I think Senator Breaux and others have made an interesting point, that one never knows what happens in oil prices. I just know that if you cut the constant, the absolute assured tax, by 4.3 cents, we have a hell of a lot of leverage to reduce those costs and to save truckers $1.7 billion.

Senator D'AMATO. I am glad we had an opportunity to explore that, because I share that sentiment. This business of saying, well, if you cut the taxes you are not going to necessarily cut the price, the fact of the matter is, that is a constant.

If you lower the constant, the price will be reduced by that constant. We start on that. So this is fallacious to try to somehow say, well, it does not matter because the energy costs will go up or will go down. Those are market forces, and certainly we want to see that the market is not being manipulated, and that is the reason for the congressional call and the administration looking into that.

There is a very interesting story today by Charles Krauthammer in *The Washington Post* that talks about a Nation of crybabies. We bring about some of these things by sometimes well-meaning legislation, sometimes necessary legislation, and sometimes our own use patterns, and then we cry about the impact.

You know, you are driving bigger vehicles, faster, guzzling more gas. You are making it more difficult to refine product. You are making it more difficult to explore for new energy. What do you think is going to take place? So, we are reaping this.

Ms. Hallett, and it is good to see you again, Commissioner, let me ask you, how much will this save the airline industry? And if you can give me an approximate, what is your profit margin, what margins do you work on?

Ms. HALLETT. Well, first of all, Senator D'Amato, it is such an important issue for us because it is approximately $550 million a year in additional taxes that people pay.

Senator D'AMATO. This is a new tax that you got hit with.

Ms. HALLETT. This is a new tax that we were hit with on the 1st of October, the beginning of the new fiscal year. As you know, that is a tax that we were exempted from paying from 1993 until the beginning of the fiscal year. We were given an extension of the exemption in the Budget Reconciliation package, which was, of course, vetoed by the President.

As a result of that, we actually started paying the tax the 1st of October with the hope that it would be refunded, or at least rescinded when the budget passed, with the support of this committee and the entire Congress. That, obviously, was not the case.

The overall margin is, in fact, a very key issue. To give you the precise figure, I could not, and I will report that back to you. However, I will tell you that we have a very tight margin.

Due to the expiration of the excise taxes on January 1, we have been able to pass that savings not only to our customers, but it has also enabled us to have more customers fly and we are now finding that we have had a very good first quarter. So there is a direct correlation to the elimination of taxes and the increase in the number of people who fly.

[The information appears in the appendix.]

Senator D'AMATO. Well, I would like to be able to speak to the other panelists, because I know, Ms. Perry, you do not have profit margins in some cases.

Ms. PERRY. That is right. In most cases, unfortunately. The last numbers that we have from——

Senator D'AMATO. This is the intercity buses.

Ms. PERRY. Right. Right. On the intercity side.

Senator D'AMATO. That carries the poor.

Ms. PERRY. Yes.

Senator D'AMATO. The elderly.

Ms. PERRY. Yes.

Senator D'AMATO. The young.

Ms. PERRY. Yes.

Senator D'AMATO. People who have no other transportation.

Ms. PERRY. Very good. Yes.

Senator D'AMATO. And these companies are losing money.

Ms. PERRY. Yes. Yes. To a great extent, you just answered your question. To a great extent, they are. The last figures that we had from the ICC for the first half of 1995, the operating ratio of the top 10 of these companies, combined operating ratio, was 104 percent. So they were, indeed, losing money. Greyhound, for that first half of 1995, was 107 percent.

Senator D'AMATO. Yes.

Ms. PERRY. A bus company, I think, considers it doing well if its operating ratio is 98 percent. So it is marginal, at best. You are absolutely right.

Senator D'AMATO. Mr. Chairman, with your indulgence and that of the Ranking Member, I would like to make an observation before I conclude.

The CHAIRMAN. Please proceed.

Senator D'AMATO. It seems to me that somehow we lose the idea that these are resources that people are using, spending. Now, we can always get into the idea of whether you are better off taxing a consumption or another tax, but I think that is for another day. The fact of the matter is, this is almost $5 billion a year that consumers, that people are paying; $5 billion a year. That is a lot of money.

Provided that we can find an offset, which means we will be spending less, it seems to me that we ought to give to the American taxpayers, the working men and women of this country, this tax reduction. I believe that that would be appropriate.

Now, finding that reduction or that area to cut spending is never easy. It is never easy. But that is our charge. That is our responsibility. It seems to me, this bill is going to pass. It is going to pass. What we should do is be responsible. Everyone can join and take credit. It makes sense.

It was, I believe, contentious and wrong when it passed. Having said that, it does not mean that we abandon deficit reduction, because I think the real answer is not raising taxes, the real answer in terms of balancing the budget and reducing the deficit is to reduce spending. That is hard. That is not easy. Anyone can tell you it is easy, but it is not.

The real answer is getting a hold of the growth of the entitlement programs. Boy, we do not have the courage. I am not going to mention that, collectively, that we fail at that task, but that is the answer. Otherwise we are going to continue to nickel and dime industries and the American people to death. We will come back with other taxes in another Congress, another group of Congressmen and Senators. But certainly I think the time to act is now.

Maybe the pressure of an election is good. Sometimes even good things come out of a campaign, believe it or not. Sometimes, you know, the benefit of looking good in front of the American people——

Senator MOYNIHAN. You would not want to give an example, would you? [Laughter.]

Senator D'AMATO. Sure. We would never be considering rolling back this tax if it were not, maybe, the factors of an election. So, it is not so bad. We even got to the business of beginning to be very serious, Democrats and Republicans, about deficit reduction. We never would have had that before. I think it was the last couple of elections, this year, et cetera.

I will close on this note. There was a candidate for office—and I am not going to tell you who; you guess—who in the 1992 election said, a gas tax increase is wrong because "it sticks it to the lower-income and middle-income retired people in the country, and it is wrong."

The fact is, it was wrong then and it is wrong now. We have an opportunity to do something, and we also have an obligation to find the offset so we continue the process of reducing the deficit. We should not do one and abandon the other.

So I commend the Chairman and will be supportive, and hope that we can move this legislation as quickly as possible, with less acrimony than necessary. I think in this particular case we can do that.

Thank you, Mr. Chairman, and thank you, Senator Moynihan.

The CHAIRMAN. I will just make two or three observations, and then I think we are ready to complete this hearing. I think it is important that there be no misunderstanding that in the report of the Joint Tax Committee, they made it very clear that generally economists believe that, in the long run, few excise taxes are borne by consumers in the form of higher prices. Likewise, reduction in those excise taxes could be expected to result in lower fuel prices.

What I understand you to be saying, Mr. Sherbert, is that you will be a force for the reduction if we reduce the taxes. Is that correct?

Mr. SHERBERT. Yes, Senator.

The CHAIRMAN. Now, my good friend, Senator Moynihan, quoted from *The Wall Street Journal.* I would like to do the same. *The Wall Street Journal,* on May 1, pointed out that a study of the economic package of 1993 determined that because of the total tax increase of $268 billion, our economy lost approximately $208 billion in output. Two hundred and eight billion dollars—that is the equivalent of $2,100 for every American household.

Now, I do not agree with a comment that I think was made on the other side, that our basic goal is just to balance the budget. I think the purpose of our policy should be to create growth, jobs, and opportunity.

That is what concerns me about this $268-billion tax increase, the fact that it has resulted in a loss to our economy of roughly $208 billion. This was a model developed by Lawrence Meyer, an economist who was recently appointed to the Federal Reserve Board by President Clinton. So, it is based on a model he created.

The important point, I think, is that we do think the elimination of this fuels tax will benefit the people, particularly those on the low end of the economic scale. This proposal has bipartisan support.

I would just close by saying that Senator Max Baucus, in his statement that he included as part of the record, says that some of these problems are pretty complex, but we can start with a few simple solutions that will put more money in an ordinary working man or woman's pocket, and that is what repealing the gas tax will do. To that, I say amen.

The CHAIRMAN. Thank you, members of the panel. It has been a pleasure to have you here today.

Senator MOYNIHAN. Thank you, Mr. Chairman. Thank the panel very much.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 11:57 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MAX BAUCUS

Mr. Chairman: Thank you for calling this hearing on the proposal to cut the gas tax by 4.3 cents over the rest of this year. This is a very important subject, and I am glad to see the Committee giving it the attention it deserves.

PUT REVOLUTIONARY IDEOLOGY ASIDE

Folks are hurting at home. Wages are stagnant. Cattle prices are down. But the cost of housing, the cost of college, and a lot of other necessities are going up. And we should be here to do something about it.

All too often, this Congress has done just the opposite. It's government shutdowns, which cut off heating oil assistance to rural counties and Indian reservations during a blizzard. Proposals to eliminate the Clean Air Act, gut the Clean Water Act and slash student loans. Extreme attempts to cut Medicare by $270 billion.

So it's very refreshing to see the Congress put revolutionary ideology aside and focus on a limited, positive step that will help put some more money in an ordinary working man or woman's pocket. That is what repealing the gas tax will do.

Probably alone that should be enough reason to repeal it. But fairness and principle also say that a gas tax not devoted directly to transportation funding is a bad idea and ought to be repealed.

GAS TAX IS UNFAIR

The price of gas in Montana is up from $1.29 a gallon in March to $1.42 today. As part of that $1.42, Montanans pay 27 cents a gallon under the state gas tax, and 14.1 cents a gallon for transportation under the federal gas tax. The rest of it—4.3 cents on the gallon—is an excise tax that goes to the general revenues.

Like most single-product excise taxes, ~~this~~ 4.3 cent tax is unfair and narrowly based. And it is grossly unfair to the West, where we have to drive a long way to work, to the grocery store, or to the hospital.

That is why I have opposed gas taxes. I opposed the gas tax hike in 1990. And I remember back in 1993, the Administration proposed a gas tax of 9.3 cents on the gallon. I spent nearly a month fighting them down, tenth of a cent by tenth of a cent, to the present 4.3 cent level. And as I said then:

> "I will vote for the $500 billion deficit reduction plan because I don't want to let perfection be the enemy of the good. The deficits we run up have already laid a four trillion dollar debt on the backs of our children. And fast action on the deficit is the best way to increase business confidence and keep interest rates low so jobs will be created by expanding business and people can refinance their mortgages . . . But make no mistake about it—the gas tax is a weak point in this package."

The Majority Leader's proposal is relatively modest. It does not cure the weak point in that 1993 package completely by repealing the gas tax. Instead, it is a temporary, seven-month reduction—essentially a limited, constructive response to an emergency caused by the sudden increase in gas prices last month.

There's a little work ahead. We need to balance the budget, so we need to make sure that the gas tax cut is offset and does not widen the deficit. The offset needs to be a fair one that does not simply put a new burden on working people. And we need to be sure the oil companies do not simply use the gas tax cut to raise prices again. I can very easily see some folks jumping the price at the pump by 4.3 cents as soon as this tax comes off.

But that aside, it is a good idea. As historians mull over the government shutdowns and otherwise pick through the debris left by the revolutionary Congress, they will be able to say, "At least they got one thing right."

So I fully endorse the proposal to get the gas tax cut by Memorial Day. And while we're at it, we ought to get the minimum wage raised by Memorial Day too.

I hope people in both parties will take a fair, independent look at these ideas. They are good ideas that help an ordinary person make ends meet. And that's what we're here to do.

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

Mr. Chairman, I am very pleased that you scheduled this hearing today to discuss repealing President Clinton's 1993 gas tax increase of 4.3 cents-per-gallon. An increase that is costing American consumers over $4 billion each and every year.

Prior to the election in 1992, then "candidate" Bill Clinton assailed proposals calling for a gas tax increase, saying that ". . . it sticks it to the lower-income and middle-income retired people in the country and it's wrong." With that in mind, and the fact that there have been sharp increases in the price of gasoline in a short period of time, why hasn't Mr. Clinton taken the lead in repealing this tax?

Mr. Chairman, the President claims that he only raised taxes on the "rich" in 1993. But the reality is that it hurt the middle class, the poor, and anyone else who relies on transportation that uses gasoline. Our distinguished Majority Leader, Senator Dole, is going in the right direction by calling for a repeal of the Clinton gas tax increase.

Mr. Chairman, I look forward to hearing the views of our panel today.

PREPARED STATEMENT OF HON. ROBERT DOLE

GAS TAX REPEAL STATEMENT

Thank you, Chairman Roth for holding this hearing and responding so quickly to put the Clinton gas tax repeal in the fast lane.

As we all know, gas prices are at their highest level since the Gulf War, and we are here to provide much-needed tax relief to American travelers.

Last week I wrote to President Clinton inviting him to join my efforts to repeal the 1993 increase in the gas tax, which was part of his $265 billion tax increase—the largest in history.

The 1993 tax increase raised fuel taxes on all modes of transportation by 4.3 cents-per-gallon. This tax increase was not dedicated to the highway trust fund to maintain and to improve our nations highways, roads, and bridges.

Rather than cut wasteful government programs and cut the size of government, the President chose instead to raise gas taxes, as well as income, estate, and Social Security taxes. This $265 billion tax increase passed without a single Republican vote in either the House or the Senate.

The 1993 tax hike illustrates a fundamental difference between Democrats and Republicans. As Ronald Reagan said in 1982, "[w]e don't have a trillion dollar debt because we haven't taxed enough; we have a trillion dollar debt because we spend too much.' Democrats raise taxes to fund a bigger and more intrusive federal government. Republicans cut wasteful spending to reduce the size and pervasiveness of the federal government—and cut taxes, too.

I look forward to the testimony of the witnesses. While they may not have agreed with the President in 1993 when he raised their taxes, he may agree with him now that he thinks he may have raised them too much.

The witnesses know all too well that gas prices are skyrocketing across the country. I understand that some families in California are forced to pay more than $2.00 per gallon -spending money they may otherwise need to feed, clothe, and educate their children.

While there are many factors contributing to the high gas prices, we know that 4.3 cents for each gallon is the 1993 gas tax hike. As Memorial Day approaches, and the start of the summer driving season, I am determined to repeal the 4.3 cents-per-gallon tax increase.

This tax hike has not only hurt Americans who drive to work, school, worship, or on vacation, it penalizes truckers and others who drive for their livelihood. Repealing this gas tax immediately will lower transportation prices, help to keep inflation in check and help to protect the jobs of millions of Americans who work in transportation-related businesses.

Repealing the 1993 gas tax is the fastest and surest way to lower gas prices. It will provide immediate relief—especially to American families who drive to their summer vacations. The President's call for yet another government study will hardly help Americans traveling this summer—especially since the study is not even due until mid-June.

I understand that the President is prepared to discuss repealing his 1993 gas tax hike. I welcome him to join my efforts to immediately cut transportation costs for American families and American businesses. Americans are over-taxed and need relief that will allow them to keep more of what they earn to spend as they see fit.

Before the

UNITED STATES SENATE
COMMITTEE ON FINANCE

Statement of the

AMERICAN TRUCKING ASSOCIATIONS
on
FUEL TAX REPEAL AND FUEL PRICES

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by
THOMAS J. DONOHUE
President and Chief Executive Officer

May 3, 1996

The American Trucking Associations (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 30-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 do not burden nontransportation 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 began last Friday at ATA's request to conduct 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 1, showed the national average was still $1.286. (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. At current federal tax rates of 24.3 cents per gallon for diesel fuel and 18.3 cents for gasoline, that means 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. 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.

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.

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 30 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 30-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
26-Apr-96	1.287	1.277	1.265	1.213	1.358	1.459
29-Apr-96	1.285	1.269	1.260	1.214	1.357	1.479
01-May-96	1.286	1.269	1.257	1.214	1.375	1.491

	National	East Coast	Midwest	Gulf Coast	Rocky Mts	West Coast
Last Year	1.119	1.113	1.094	1.080	1.143	1.259
Year_Lo	1.093	1.095	1.069	1.055	1.140	1.211
Year_Hi	1.305	1.299	1.301	1.265	1.375	1.491
1996 Low	1.130	1.141	1.104	1.088	1.174	1.228
% ch. to May 1s	13.81%	11.22%	13.86%	11.58%	17.12%	21.42%

FIGURE 1: RETAIL DIESEL PRICES

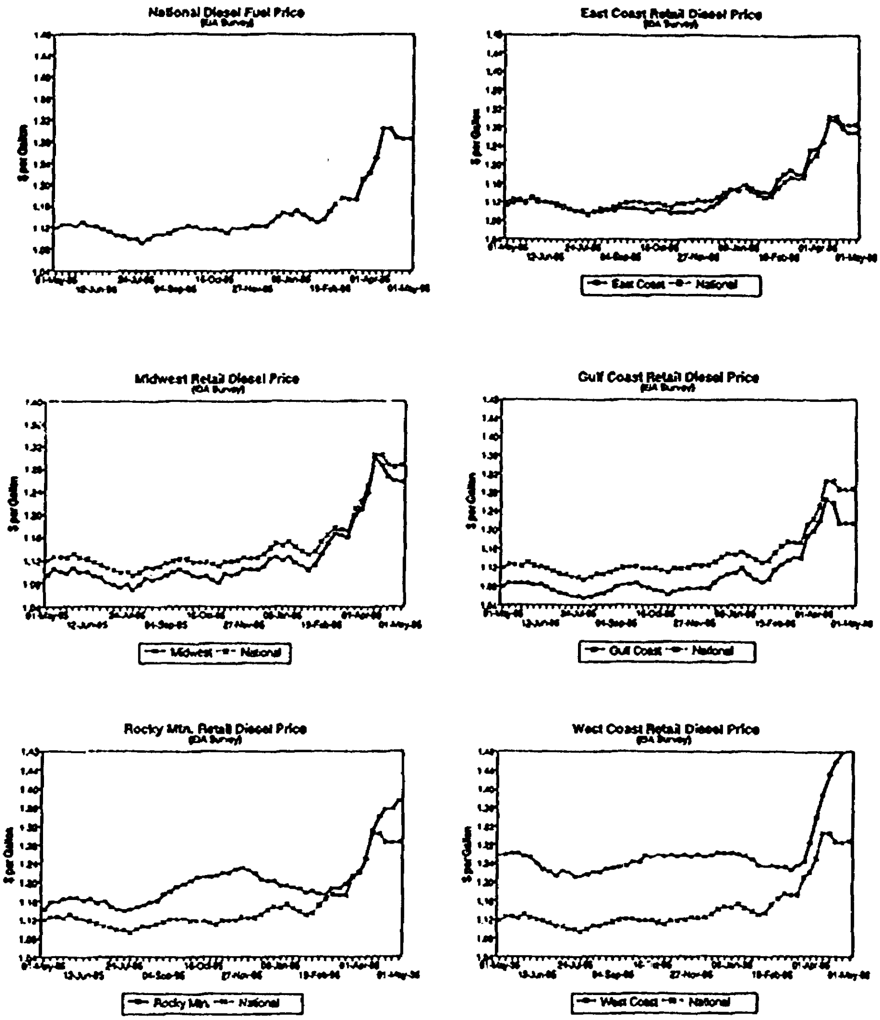
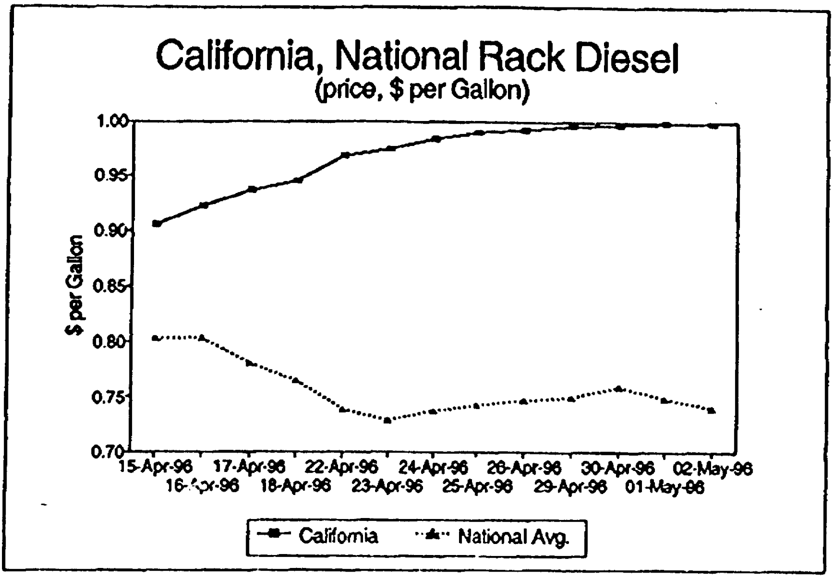


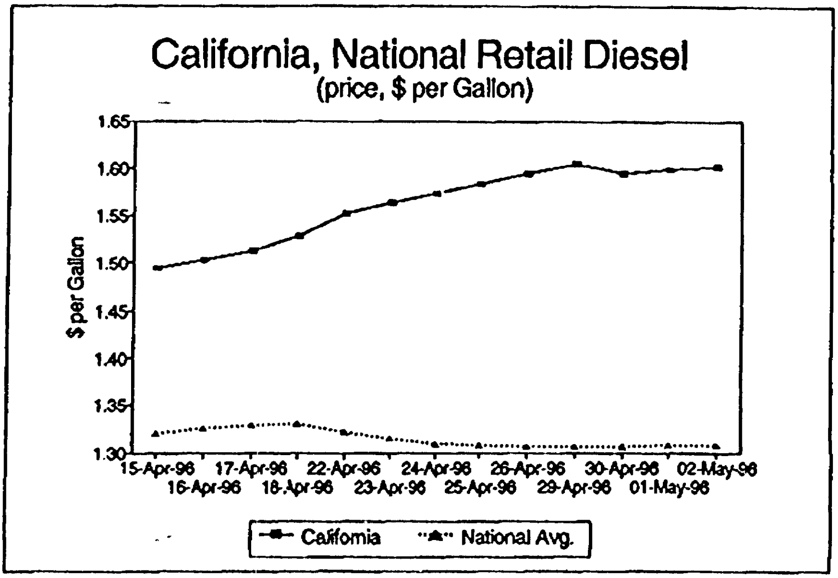
Table 2: California & National Daily Average Rack & Retail Diesel Prices
($ per Gallon)

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
% Change from 4/15 to 5/2	10.15%	-7.87%	7.13%	-0.92%

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

AMERICAN TRUCKING ASSOCIATIONS, INC.

THOMAS J. DONOHUE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

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(703) 838-1800

May 24, 1996

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter of May 16 requesting additional information regarding Senator Bob Graham's question, "What is the estimated interest payment that the members that you represent pay each year?"

The most comprehensive data on trucking industry costs comes from ATA's Motor Carrier Annual Report. This volume includes annual financial and operating statistics for all trucking firms filing reports with the Interstate Commerce Commission (now Surface Transportation Board). The most recent volume, covering 1994, included data for 512 large and medium-sized carriers whose revenue totaled $34.7 billion, or about 10% of total trucking revenue. For these 512 carriers, interest expense amounted to $330 million, or 0.95% of total revenue. Assuming that all trucking businesses have the same ratio of interest expense to total revenue implies that the total interest expense for the industry is around $3.3 billion. Because this expense is tax-deductible from federal and state income taxes, the after-tax cost is closer to $2 billion.

I hope this is responsive to your request. Again, thank you for giving me the opportunity to appear before your Finance panel in support of repealing the 4.3 cent fuel tax.

Sincerely yours,

Tom

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PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

I want to thank the Chairman for calling this hearing to discuss the swift repeal of the Clinton gas tax of 1993. In 1993, The Committee on Ways and Means estimated that automobile drivers from Iowa drive an average of 12,396 miles per year. I have to think that the Committees estimate does not include farmers and Iowa's other rural people. I think that this mileage estimate for rural Iowans is conservative. Those people often drive a very long way just to get their children to school and back every day.

Nonetheless, the Committee further estimated that President Clinton's 4.3 cent per gallon fuel tax increase costs each Iowan an extra twenty-six dollars and sixty-six cents ($26.66) per year. Two driver families thus spend and extra fifty-three dollars and thirty-two cents ($53.32) per year.

I think that families with children have better uses for their fifty-three dollars and thirty-two cents ($53.32) than reducing the President's deficit. Now, in 1996, Iowa families desperately need Congress to repeal President's fuel 1993 fuel tax increase.

The American Farm Bureau Federation agrees with the need to repeal the tax. The President of the American Farm Bureau, Richard Newpher, wrote to me in support of the rollback on behalf of farmers. Mr. Newpher notes that the President Clinton gas tax increase is the first time that fuel taxes have ever been used for anything other than transportation funding. President Clinton especially frustrates Iowa farmers who must use bridges to move heavy farm equipment. Many roads and bridges used by farmers do not currently meet accepted engineering standards.

Mr. Chairman, because I find the support of the Farm Bureau to be particularly useful, T would like to submit Mr. Newpher's letter for the record of this hearing.

I agree that fuel tax revenues should go only to the highway trust fund, and I further agree that the highway trust fund should be used only to maintain and improvement of our system of roads and bridges. If President Clinton wants to help reduce the deficit, then he should agree to cut spending by enacting a balanced budget like the Balanced Budget Act of 1995, which President Clinton vetoed.

The President should not seek deficit reduction on the backs of the families of motorists. Because the deficit reduction gas tax is inherently regressive, I am especially grateful for the Chairman's having called this hearing to discuss the tax, and I eagerly anticipate the Senate's swift repeal of this and other Clinton taxes.

AMERICAN FARM BUREAU FEDERATION®
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600 MARYLAND AVENUE S.W. • SUITE 800 • WASHINGTON, D.C. • 20024
(202) 484-3600 • FAX (202) 484-3604

May 2, 1996

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

The American Farm Bureau Federation urges your support for a rollback of the 4.3 cents per gallon gas tax increase that was enacted in 1993.

The quality of roads and bridges is very important to agriculture. Many roads and bridges used by farmers are not currently meeting accepted engineering standards. The enactment of the tax in 1993 marked the first time the gas tax had been used for something other than transportation funding. We strongly believe that the gas tax collections should be placed in the Highway Trust Fund for highway improvement.

Most of our 4.5 million member families live in rural areas and drive longer distances than the average citizen living in a more urban setting. This gasoline tax strikes rural America very hard. The farm bureau opposed the tax increase in 1993 and strongly supports its repeal.

Sincerely,

Richard Newpher
Executive Director, Washington Office

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PREPARED STATEMENT OF CAROL HALLETT

Mr. Chairman, Majority Leader Dole, 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 the support of this 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 to pay 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 an approximate $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.

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.

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.

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*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.

**STATEMENT OF EDWIN L. HARPER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ASSOCIATION OF AMERICAN RAILROADS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
HEARING ON THE 4.3 CENTS-PER-GALLON
TRANSPORTATION MOTOR FUELS TAX
MAY 3, 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 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

[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.)

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 -- 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 eliminated. 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, the 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. 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.

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

BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

MAY 3, 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. For example, 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, and as of May 1, 1996 the average price was $1.286 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 this committee on the federal fuel tax, I asked for equity between 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 serves 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.

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

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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.

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.

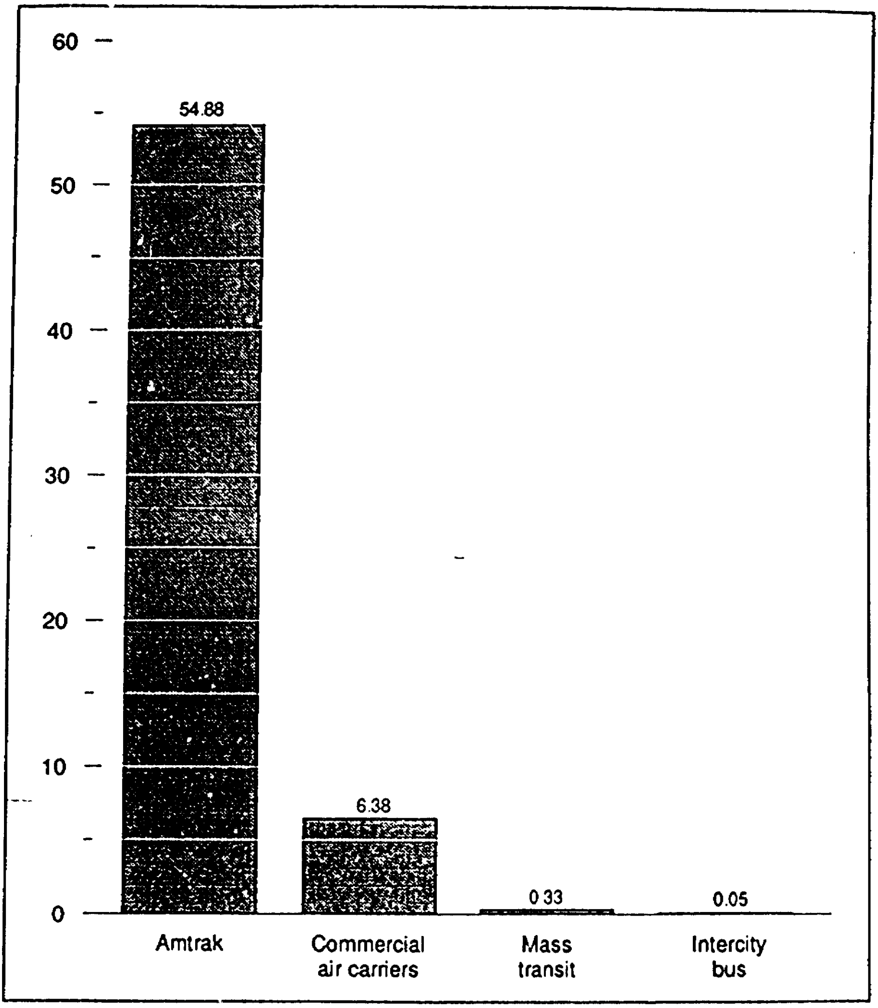
For all of these reasons, it is time for Congress to repeal this mistake made in 1993.

45-871 98 - 3

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.

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May 24, 1996

Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
Washington, D. C. 20510

Dear Senator Roth:

In response to Senator Graham's question to me (during the May 3, 1996 hearing regarding repeal of 4.3 cents per gallon of the federal fuel tax), "What is the estimated interest payment that the members that you represent pay each year?", I have been able to gather the following information:

The several publicly held intercity bus companies paid a total of $30 million in interest in 1995, and they estimate approximately the same amount for 1996.

These entities comprise approximately 25 percent of the industry. The remaining companies are privately held and do not divulge proprietary information such as specific interest payments.

I hope that this response will be useful to you and the Committee.

Once again, Mr. Chairman, let me express our thanks for having the opportunity to testify.

Sincerely,

Susan Perry

Susan Perry
Senior Vice President
Government Relations

70th Year 1926-1996

The Trade Organization of the Intercity Bus Industry

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 American 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.

SSDA
SERVICE STATION DEALERS OF AMERICA AND ALLIED TRADES

9420 Annapolis Road, Suite 311
Lanham, Maryland 20706
(301) 577-4956 Phone
(301) 731-0039 FAX

May 22, 1996

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Roth:

Thank you for your very kind letter of May 16. I appreciated the opportunity to testify and I thank you for making me feel so comfortable and welcome.

Senator Graham's question regarding the interest payment that our members pay each year is very difficult to address. We have never formally requested or collected that type of information.

As you know, most banks and lending institutions are reluctant to make loans to service station dealers because of environmental regulations and potential liabilities. Dealers do make loans for automobiles, tow trucks, and equipment. Such loans could total $30,000-$40,000 and financing would vary depending on the type of lending institution (i.e., credit unions, banks, etc.). An unscientific rule of thumb may be two points over prime or around ten percent.

Again, SSDA-AT would like to thank you for the opportunity you afforded us to testify in support of the 4.3 cents per gallon fuel tax repeal.

Sincerely,

Melvin Sherbert

Melvin D. Sherbert
Chairman
SSDA-AT Legislative Committee

cc: Ms. Gail Galvan, Tax Staff Assistant

PRESENT LAW AND BACKGROUND RELATING TO FEDERAL EXCISE TAXES IMPOSED ON TRANSPORTATION MOTOR FUELS

Scheduled for a Hearing

Before the

SENATE COMMITTEE ON FINANCE

on May 3, 1996

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

May 2, 1996

JCX-17-96

CONTENTS

INTRODUCTION

The Senate Committee on Finance has scheduled a hearing on May 3, 1996, on a proposal by Senator Bob Dole to repeal the 4.3-cents-per-gallon General Fund transportation motor fuels excise tax enacted by the Omnibus Budget Reconciliation Act of 1993. The proposal was made in a letter to President Clinton on April 26, 1996. This proposal was amplified in a Joint Statement by Senator Dole and House Speaker Newt Gingrich on April 30, 1996. The Joint Statement proposes immediate repeal of the 4.3-cents-per-gallon transportation motor fuels excise tax through December 31, 1996, with permanent repeal being considered in the context of Fiscal Year 1997 budget legislation. The transportation motor fuels excise tax applies to motor fuels used in all transportation sectors: highway, aviation, rail, inland waterway shipping, and recreational boating.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the present-law taxes imposed on transportation motor fuels (Part I), background information on historical use of revenues from these taxes to finance General Fund and Federal trust fund activities (Part II), a description of Senator Dole's proposal (as amplified by the Joint Statement) and associated effective date issues (Part III), estimated revenue effects (Part IV), and distributional effects of the excise tax (Part V).

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[1] This document may be cited as follows: Joint Committee on Taxation, Present Law and Legislative Background Relating to Federal Excise Taxes Imposed on Transportation Motor Fuels (JCX-17-96), May 2, 1996.

I. PRESENT-LAW FEDERAL EXCISE TAXES IMPOSED ON TRANSPORTATION MOTOR FUELS

Separate Federal excise taxes are imposed on specified transportation motor fuels. Taxable fuels include gasoline, diesel fuel and special motor fuels used for highway transportation, gasoline and diesel fuel used in motorboats, diesel fuel used in trains, fuels used in inland waterway transportation, and aviation fuel (gasoline and jet fuel). Motor fuels used by all of these transportation sectors are subject to a permanent 4.3-cents-per gallon excise tax, enacted by the Omnibus Budget Reconciliation Act of 1993. Revenues from this excise tax are retained in the General Fund of the Treasury.

The aggregate tax rate varies for each transportation sector. For example, diesel fuel used in trains is subject to an aggregate General Fund tax rate of 5.55 cents per gallon. Transportation sectors that benefit from Federal public works and environmental programs also are subject to additional tax rates (beyond the 4.3-cents-per-gallon General Fund rate) to finance Federal trust funds established as a financing source for those programs. All motor fuels excise taxes other than the 4.3-cents-per-gallon transportation motor fuels excise tax are temporary (i.e., have scheduled expiration dates)

In addition to the taxes imposed on actual transportation motor fuels, excise taxes formerly were imposed on crude oil (and imported refined petroleum products) to finance the Federal Hazardous Substance Superfund program (before January 1, 1996) and the Oil Spill Liability Trust Fund program (before January 1, 1995). A further excise tax on motor fuels, the Leaking Underground Storage Tank Trust Fund tax, expired after December 31, 1995.

Between 1956 and 1991, motor fuels excise taxes generally were imposed only for Federal Trust Fund financing. The Omnibus Budget Reconciliation Act of 1990 imposed a temporary (through September 30, 1995) General Fund motor fuels excise tax of 2.5 cents per gallon on highway and rail transportation. Table 1, on the following page, summarizes the present-law Federal excise tax rates on transportation motor fuels, by trust fund and General Fund components.

Table 1. Present-Law Federal Motor Fuels Excise Tax Rates on Various Transportation Sectors

(rates shown in cents per gallon)

Transportation Sector	Trust Fund	General Fund	Total Tax
Highway Transportation[1]			
In general (trucks, automobiles)			
Gasoline	14.0	4.3	18.3
Diesel fuel	20.0	4.3	24.3
Special motor fuels[2]	14.0	4.3	18.3
Intercity bus			
Gasoline	no tax	no tax	no tax
Diesel fuel	3.0	4.3	7.3
Rail Transportation	no tax	5.55	5.55
Water Transportation			
Inland waterway	20.0	4.3	24.3
Recreational boats			
Gasoline	14.0	4.3	18.3
Diesel fuel	no tax	24.4	24.4
Air Transportation			
Commercial aviation	no tax[3]	4.3	4.3
Noncommercial aviation			
Gasoline	14.0[4]	4.3	18.3
Jet fuel	no tax[5]	4.3	4.3

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[1] Reduced highway motor fuels excise tax rates apply to mixtures of taxable fuels with ethanol and methanol produced from renewable sources (i e , "gasohol") and to certain "neat" (at least 85 percent pure) methanol fuels produced from natural gas.

[2] Examples of special motor fuels are propane, liquefied natural gas ("LNG"), other liquids used as a fuel in highway transportation, and compressed natural gas ("CNG") CNG, a gaseous fuel rather than a liquid fuel, is subject only to a General Fund tax of 48.54 cents per thousand cubic feet.

[3] Before January 1, 1996, commercial aviation trust fund taxes consisted of a 10-percent domestic passenger tax, a $6 dollar international passenger departure tax, and a 6.25-percent domestic air cargo tax

[4] Before January 1, 1996, an additional 1-cent-per-gallon tax was imposed on noncommercial aviation fuel.

[5] Before January 1, 1996, a 17.5-cents-per-gallon tax was imposed.

II. LEGISLATIVE BACKGROUND OF TRANSPORTATION MOTOR FUELS EXCISE TAXES

Use of motor fuels excise taxes for deficit reduction

Beginning with the establishment of the Federal Highway Trust Fund in 1956 and extending through 1990, excise taxes on transportation motor fuels generally were imposed exclusively to finance Federal trust fund programs, and imposition of the taxes was limited to beneficiaries of the trust funds. In 1990, and again in 1993, transportation motor fuels tax rates were increased as a deficit reduction measure, with revenues from the increases being retained in the General Fund of the Treasury. Unlike the 1990 General Fund tax rate and the various trust fund rates, the 1993 General Fund rate is permanent.

1993 transportation motor fuels excise tax and extension of 1990 taxes

A 4.3-cents-per-gallon transportation motor fuels excise tax was imposed as a deficit reduction measure by the Omnibus Budget Reconciliation Act of 1993 (the "1993 Act"). This excise tax was enacted as an alternative to a broad-based energy ("BTU") tax proposed by President Clinton. The transportation motor fuels tax applies to fuel used in all domestic transportation: highway, aviation,[2] rail, inland waterway shipping, and recreational boating. The tax is imposed on all fuels otherwise subject to excise tax (liquid fuels), plus CNG. Statutorily, the tax is imposed as an add-on to the other excise taxes. Thus, uses of motor fuels that are wholly exempt from other excise tax (e.g., State and local government and farm use) are exempt from this tax.

In addition to imposing the 4.3-cents-per-gallon transportation motor fuels excise tax, the 1993 Act extended the 5-cents-per-gallon excise tax imposed on highway transportation in 1990 and the 1990 tax on diesel fuel used in trains (at a reduced rate of 1.25 cents per gallon), both through September 30, 1999. The 1993 Act provided that revenues from extension of this tax on highway motor fuels would be deposited in the Federal Highway Trust Fund during the extension period (October 1, 1995-September 30, 1999). Revenues from the tax on diesel fuel used in trains continue to go to the General Fund as there is no Federal rail construction trust fund

1990 transportation motor fuels excise tax

The Omnibus Budget Reconciliation Act of 1990 (the "1990 Act") increased the existing highway motor fuels taxes by 5 cents per gallon. This tax also was imposed on diesel motor fuel used in trains at a reduced rate of 2.5 cents per gallon to reflect the General Fund portion of the

[2] Fuel consumed in commercial aviation was exempt from this tax prior to October 1, 1995.

highway fuels taxes (explained below). The excise taxes on noncommercial aviation fuel were increased by 25 percent by the 1990 Act as part of a general extension of and increase in Airport and Airway Trust Fund taxes. As enacted, these increases were temporary: the additional highway and rail taxes were scheduled to expire after September 30, 1995, and the additional noncommercial aviation fuel taxes were scheduled to expire after December 31, 1995 (when all other Airport and Airway Trust Fund taxes were scheduled to expire).

Highway transportation motor fuels tax revenues from this 1990 increase were divided equally between the Federal Highway Trust Fund and the General Fund of the Treasury. Revenues from the noncommercial aviation fuels tax increase were retained in the General Fund for a two-year period, followed by three years in which revenues were deposited in the Federal Airport and Airway Trust Fund. Revenues from the 2.5-cents-per-gallon excise tax on train diesel fuel were retained in the General Fund.

Use of transportation motor fuels excise taxes for Federal trust fund financing

Highway Trust Fund

The Highway Trust Fund was established in 1956 to provide a financing source for the then-new Interstate Highway System and for continuation of other Federal-aid highway programs The other highway-aid programs previously had been financed through the General Fund Existing General Fund excise taxes on gasoline, diesel fuel, and special motor fuels were increased from 2 cents per gallon to 3 cents per gallon, through 1958, with the revenues being dedicated to the Trust Fund The Trust Fund tax rate was further increased to 4 cents per gallon in 1959 The tax rates remained at that level until 1983 following enactment of the Surface Transportation Assistance Act of 1982, which increased these excise tax rates to 9 cents per gallon

Beginning in 1985, the diesel fuel excise tax rate (but not the gasoline excise tax rate) was increased by an additional 6 cents per gallon, to a total of 15 cents per gallon The 1985 increase was enacted as a revenue offset for a reduction in an annual use tax; imposed on heavy trucks, the primary users of diesel fuel No further increases in the highway motor fuels excise tax rates were enacted until 1990

Inland Waterways Trust Fund

Federal excise taxes have been imposed on motor fuels used in vessels operating on a designated inland waterway system since 1980. The initial tax rate was 4 cents per gallon. Following a series of scheduled, phased increases, the tax currently is imposed at a permanent rate of 20 cents per gallon Revenues from this tax are dedicated to the Inland Waterways Trust Fund to finance construction and rehabilitation expenditures for navigation of 26 specified inland and intracoastal waterways.

Aquatic Resources Trust Fund and Land and Water Conservation Fund

Revenues from the gasoline excise tax imposed on motorboat use are dedicated to the Aquatic Resources Trust Fund (the "Aquatic Fund") and the Land and Water Conservation Fund. The Land and Water Conservation Fund receives $1 million per year of these revenues. The balance of the revenues is allocated between a Boat Safety Account in the Aquatic Fund and a Sport Fish Account. The Boat Safety Account finances boat safety programs conducted by the U.S. Coast Guard; the Sport Fish Account funds fish restoration grant programs of the Federal Government.

A sub-account in the Sport Fish Account separately receives the portion of highway motor fuel taxes attributable to small engines (e.g., lawnmowers and snowblowers). Amounts in this sub-account are dedicated to coastal wetlands restoration programs.

Airport and Airway Trust Fund

Since establishment of the Airport and Airway Trust Fund (the "Trust Fund") in 1970, excise taxes on commercial and noncommercial aviation generally have been dedicated to programs of that Trust Fund. The majority of the revenues for the Trust Fund are produced by passenger ticket and air cargo taxes imposed on commercial air travel. The noncommercial aviation sector's contribution to the Trust Fund takes the form of motor fuels excise taxes. From 1970 through 1980, both aviation gasoline and jet fuel were taxed at 7 cents per gallon. Following a period when rates were temporarily reduced (because of failure to extend scheduled expirations), the taxes were set at 14 cents per gallon (jet fuel) and 12 cents per gallon (gasoline) until enactment of the 1990 increase described above

Leaking Underground Storage Tank Trust Fund

A 0.1-cent-per-gallon excise tax was imposed on all otherwise taxable transportation motor fuels (other than propane) from 1987 through December 31, 1995. Statutorily, this tax was structured as an add-on rate to the existing taxes. Revenues from the tax were dedicated to remediation of ground pollution from underground oil storage tanks

National Recreational Trails Trust Fund

Highway motor fuels excise tax revenues attributable to fuel consumed in recreational trail vehicles are dedicated to the National Recreational Trails Trust Fund to finance Federal programs promoting recreational trail construction and maintenance.

III. DESCRIPTION OF PROPOSED REPEAL OF GENERAL FUND TRANSPORTATION MOTOR FUELS EXCISE TAX AND EFFECTIVE DATE ISSUES

Description of proposal

On April 26, 1996, Senator Bob Dole proposed repeal of the 4.3-cents-per-gallon General Fund transportation motor fuels excise tax enacted in 1993. Senator Dole's proposal was contained in a letter to President Clinton.

On April 30, 1996, Senator Dole and House Speaker Newt Gingrich issued a Joint Statement amplifying Senator Dole's original proposal. The Joint Statement proposes immediate repeal of the 4 3-cents-per-gallon transportation motor fuels excise tax through December 31, 1996, with permanent repeal of this tax being considered in the context of Fiscal Year 1997 budget legislation.

Effective date and associated issues

No effective date for repeal was specified in Senator Dole's proposal; however, the Senator has indicated that early repeal is desired. The tax reduction could be made effective as early as one to two weeks after enactment of the legislation

Failure to provide such an early effective date could contribute to consumer-level shortages if wholesale distributors and retail dealers delayed fuel purchases pending implementation of the tax reduction However, because the 4.3-cents-per gallon excise tax statutorily is imposed at different points in the distribution chain for different transportation sectors (as an add-on to other motor fuel excises), the degree to which the proposed excise tax reduction is enjoyed by consumers through price reductions will be dependent on market forces beyond the purview of the proposed tax legislation This dependence on market forces is particularly strong in the case of gasoline and diesel fuel because, as described below, the excise taxes on these fuels generally are imposed at least two levels in the fuel distribution chain away from the consumer, and the taxes are not separately stated items on consumer bills

The points in the fuel distribution chain at which the transportation motor fuels excise tax is imposed vary by transportation sector Different points of imposition raise present different issues on timing of the proposed repeal if Senator Dole's stated goal of consumer price decreases is to be achieved rapidly. The 4 3-cents-per-gallon excise tax is imposed at the following points in the distribution chain

Taxable Fuel	Point of Imposition
Gasoline and diesel fuel (all taxable uses except trains and intercity buses using dyed diesel fuel)	Generally, removal from pipeline or barge terminal
Train and intercity bus diesel fuel	Retail use (if dyed); otherwise, removal from terminal facility
Inland waterway	Retail use
Aviation jet fuel	Wholesale sale[3]

The first issue to be addressed in setting an effective date is the speed with which persons actually paying the tax are made aware that the tax has been repealed (i.e., a law has been signed by the President). In all cases, this could be expected to be accomplished in less than a week. For example, gasoline and diesel fuel terminal facilities (where a substantial majority of the transportation motor fuels excise tax is collected) are required to register with the Internal Revenue Service ("IRS") as a condition of holding non-tax-paid fuel. The IRS could be instructed to notify all registered facilities immediately upon enactment of the legislation

The second issue involves the speed with which the tax reduction can be expected to be reflected in lower consumer prices. There is no technical tax barrier to immediate flow-through to consumers of the tax reduction The extent to which the tax reduction is enjoyed by consumers is determined by market forces of supply and demand. Generally, economists believe that in the long run, fuels excise taxes are borne by consumers in the form of higher fuel prices Likewise, reductions in those excise taxes could be expected to result in lower fuel prices.

In the short-term, the collection structure of the gasoline and diesel fuel excise taxes could mean that a rate reduction is not immediately reflected in price changes. Gasoline and diesel fuel generally are distributed in bulk from refineries (or port of importation) to terminals Computerized record keeping systems track the removal of fuels from terminals, and the price charged Wholesale distributors remove the fuels by truck, with tax being collected on removal as a part of the fuel price they pay. (The tax is imposed on owners of record of the fuel inside the terminal facility, not on wholesale distributors) Wholesale distributors subsequently deliver the fuel they remove to retail outlets, service stations, truck stops, and fleet purchasers. Stocks of fuel on which tax already has been paid generally are held for sale beyond that point at all times Owners of this fuel may be reasonably expected to attempt to recoup all costs already incurred However, new lower-taxed fuel being removed from terminals beginning on the

[3] Most major airports are served by wholesale distributors that deliver aviation fuel directly into airplanes, with tax being collected at what is substantively the retail level

effective date of the excise tax reduction may mitigate their ability to charge the cost of these past taxes to consumers.

Present law includes refund provisions that could assist in rapid delivery to consumers of price reductions on fuels taxed at the higher, present-law rates. The present-law Highway Trust Fund gasoline and diesel fuel excise tax rates are scheduled to expire after September 30, 1999. The Internal Revenue Code provides that persons holding fuel on which those taxes have been paid for sale on October 1, 1999, can apply to the person who actually paid the tax (e g , owners of gasoline and diesel fuel within terminal facilities) for a refund. The actual taxpayers in turn could apply to the Internal Revenue Service for a refund of amounts they pay to their customers No refunds are provided for fuel held at retail or for use by a consumer. The proposal could make these "floor stocks refund" provisions applicable to repeal of the 4.3-cents-per-gallon transportation motor fuels excise tax to encourage immediate reductions in fuel tax prices to consumers.

45-871 98 - 4

IV. ESTIMATED REVENUE EFFECTS OF TRANSPORTATION MOTOR FUELS EXCISE TAX REPEAL OPTIONS

Fiscal Years 1996 - 2005

[Millions of Dollars]

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-00	1996-02	1996-05
1. Repeal 1993 tax increase of 4 3 cents per gallon on transportation motor fuels (sunset after 12/31/96)	6/1/96	-1,655	-1,285	26	9	3	1	---	---	---	---	-2,903	-2,902	-2,902
2. Repeal 1993 tax increase of 4.3 cents per gallon on transportation motor fuels														
a. Highway gasoline	6/1/96	-1,221	-3,848	-3,853	-3,876	-3,940	-4,035	-4,136	-4,239	-4,345	-4,454	-16,738	-24,909	-37,947
b Highway diesel fuel	6/1/96	-247	-772	-761	-756	-764	-781	-799	-818	-837	-856	-3,300	-4,880	-7,391
c. Railroad diesel fuel	6/1/96	-39	-124	-123	-123	-124	-124	-124	-124	-124	-124	-533	-781	-1,153
d. Inland waterway diesel fuel	6/1/96	-2	-18	-18	-18	-18	-18	-19	-19	-19	-20	-74	-111	-169
e. Aviation gasoline	6/1/96	-3	-8	-8	-8	-8	-8	-8	-8	-8	-8	-35	-51	-75
f. Noncommercial jet fuel	6/1/96	-8	-25	-25	-26	-27	-27	-28	-29	-29	-30	-111	-166	-254
g. Commercial jet fuel	6/1/96	-135	-439	-458	-474	-489	-504	-520	-536	-553	-571	-1,905	-3,019	-4,679
Subtotal		-1,655	-5,234	-5,246	-5,281	-5,369	-5,498	-5,634	-5,773	-5,916	-6,063	-22,785	-33,917	-51,669
3. Suspend or repeal the remaining 1 25 cents per gallon tax on railroad diesel fuel:														
a. Suspend tax through 12/31/96	6/1/96	-12	-9	---	---	---	---	---	---	---	---	-21	-21	-21
b. Permanent repeal [1]	6/1/96	-12	-36	-36	-36	---	---	---	---	---	---	-121	-121	-121

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding

[1] The 1.25 cents per gallon tax on railroad diesel is schuduled to expire on 9/30/99

#D-96-10
1-May-96

V. DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 1996

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$245	-3.6%	$7	0.6%	$6	0.6%	6.9%	6.6%
10,000 to 20,000........	-448	-1.3%	34	3.0%	34	3.0%	9.2%	9.1%
20,000 to 30,000........	-447	-0.7%	69	6.0%	68	6.0%	14.3%	14.3%
30,000 to 40,000........	-481	-0.5%	96	8.5%	96	8.4%	17.0%	16.9%
40,000 to 50,000........	-411	-0.4%	99	8.7%	99	8.7%	18.3%	18.3%
50,000 to 75,000........	-630	-0.3%	234	20.6%	234	20.6%	20.7%	20.6%
75,000 to 100,000........	-331	-0.2%	173	15.2%	173	15.2%	23.3%	23.3%
100,000 to 200,000......	-285	-0.1%	215	18.9%	215	18.9%	24.7%	24.7%
200,000 and over..........	-84	0.0%	212	18.6%	212	18.6%	29.5%	29.5%
Total, All Taxpayers....	**-$3,363**	**-0.3%**	**$1,139**	**100.0%**	**$1,136**	**100.0%**	**20.7%**	**20.6%**

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996

(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.

(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 1997

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$509	-7.7%	$7	0.6%	$6	0.5%	6.9%	6.4%
10,000 to 20,000.......	-930	-2.7%	35	2.9%	34	2.9%	9.1%	8.8%
20,000 to 30,000.......	-930	-1.3%	71	6.0%	70	5.9%	14.2%	14.0%
30,000 to 40,000.......	-1,002	-1.0%	100	8.4%	99	8.3%	16.9%	16.7%
40,000 to 50,000.......	-856	-0.8%	103	8.7%	102	8.7%	18.1%	18.0%
50,000 to 75,000.......	-1,311	-0.5%	243	20.4%	241	20.5%	20.4%	20.3%
75,000 to 100,000.......	-690	-0.4%	183	15.5%	183	15.5%	23.2%	23.1%
100,000 to 200,000......	-594	-0.3%	227	19.2%	227	19.2%	24.7%	24.6%
200,000 and over.........	-176	-0.1%	219	18.4%	219	18.5%	29.6%	29.6%
Total, All Taxpayers...	-$6,998	-0.6%	$1,187	100.0%	$1,180	100.0%	20.5%	20.4%

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996.
(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.
(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.
(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 1996

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$510	-7.5%	$7	0.5%	$6	0.5%	7.1%	6.6%
10,000 to 20,000.......	-931	-2.6%	35	2.8%	34	2.8%	9.0%	8.7%
20,000 to 30,000.......	-931	-1.3%	73	5.8%	72	5.8%	14.1%	13.9%
30,000 to 40,000.......	-1,004	-1.0%	103	8.3%	102	8.3%	16.9%	16.7%
40,000 to 50,000.......	-857	-0.8%	107	8.6%	107	8.6%	17.9%	17.8%
50,000 to 75,000.......	-1,313	-0.5%	251	20.2%	250	20.2%	20.2%	20.1%
75,000 to 100,000.......	-692	-0.4%	195	15.6%	194	15.7%	23.1%	23.1%
100,000 to 200,000......	-597	-0.2%	244	19.6%	243	19.6%	24.7%	24.7%
200,000 and over.........	-178	-0.1%	231	18.5%	230	18.6%	29.7%	29.7%
Total, All Taxpayers....	-$7,013	-0.6%	$1,246	100.0%	$1,239	100.0%	20.5%	20.4%

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996.

(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.

(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 1999

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$515	-7.4%	$7	0.5%	$6	0.5%	7.2%	6.7%
10,000 to 20,000.......	-938	-2.6%	35	2.7%	35	2.7%	8.9%	8.7%
20,000 to 30,000.......	-938	-1.2%	75	5.8%	74	5.7%	14.0%	13.9%
30,000 to 40,000.......	-1,012	-0.9%	107	8.2%	106	8.2%	16.8%	16.6%
40,000 to 50,000.......	-864	-0.8%	111	8.5%	110	8.5%	17.7%	17.6%
50,000 to 75,000.......	-1,324	-0.5%	261	19.9%	260	19.9%	20.0%	19.9%
75,000 to 100,000.......	-698	-0.3%	207	15.8%	206	15.8%	23.0%	22.9%
100,000 to 200,000......	-603	-0.2%	261	19.9%	260	20.0%	24.7%	24.7%
200,000 and over.........	-180	-0.1%	244	18.7%	244	18.7%	29.8%	29.8%
Total, All Taxpayers....	-$7,071	-0.5%	$1,308	100.0%	$1,301	100.0%	20.5%	20.4%

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996.

(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.

(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 2000

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$524	-7.4%	$7	0.5%	$7	0.5%	7.3%	6.8%
10,000 to 20,000.......	-954	-2.7%	36	2.6%	35	2.5%	8.9%	8.7%
20,000 to 30,000.......	-955	-1.2%	78	5.7%	77	5.6%	13.9%	13.7%
30,000 to 40,000.......	-1,030	-0.9%	112	8.1%	111	8.1%	16.7%	16.5%
40,000 to 50,000.......	-879	-0.8%	116	8.4%	115	8.4%	17.6%	17.5%
50,000 to 75,000.......	-1,348	-0.5%	271	19.7%	270	19.7%	19.8%	19.7%
75,000 to 100,000.......	-711	-0.3%	219	15.9%	218	16.0%	22.9%	22.9%
100,000 to 200,000......	-615	-0.2%	276	20.1%	275	20.1%	24.7%	24.7%
200,000 and over.........	-183	-0.1%	259	18.9%	259	19.0%	29.9%	29.9%
Total, All Taxpayers....	**-$7,200**	**-0.5%**	**$1,373**	**100.0%**	**$1,366**	**100.0%**	**20.5%**	**20.4%**

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996.
(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.
(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.
(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO REPEAL THE 1993 TRANSPORTATION MOTOR FUELS EXCISE TAX (4.3 CENTS PER GALLON) (1)
Calendar Year 2001

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Effective Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000........	-$537	-7.3%	$7	0.5%	$7	0.5%	7.5%	7.0%
10,000 to 20,000........	-977	-2.7%	36	2.5%	35	2.5%	8.9%	8.7%
20,000 to 30,000........	-978	-1.2%	81	5.6%	80	5.6%	13.8%	13.7%
30,000 to 40,000........	-1,055	-0.9%	116	8.1%	115	8.0%	16.6%	16.4%
40,000 to 50,000........	-900	-0.7%	121	8.4%	120	8.3%	17.5%	17.4%
50,000 to 75,000........	-1,380	-0.5%	280	19.4%	279	19.4%	19.6%	19.5%
75,000 to 100,000........	-729	-0.3%	235	16.2%	234	16.3%	22.9%	22.8%
100,000 to 200,000......	-630	-0.2%	292	20.2%	292	20.3%	24.7%	24.7%
200,000 and over.........	-188	-0.1%	275	19.0%	275	19.1%	30.0%	30.0%
Total, All Taxpayers....	-$7,375	-0.5%	$1,443	100.0%	$1,436	100.0%	20.5%	20.4%

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

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(1) The proposal would be effective July 1, 1996.

(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 1996 levels.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. The indirect effects of excise tax changes are not included.

(4) The effective tax rate is equal to Federal taxes described in footnote (3) divided by: income described in footnote (2) plus additional income attributable to the proposal.

APPENDIX: History of Federal Excise Tax Rates on Highway Motor Fuels, 1955 - 1996

(rates shown in cents per gallon)

Year	General Fund Rate	Highway Trust Fund Rate		"LUST" Tax Rate[1]	Total Fuels Tax Rate
		Gasoline and special motor fuels	Diesel fuel		
1955	2	no tax	no tax	------	2
1956[2]	------	3	3	------	3
1960	------	4	4	------	4
1983	------	9	9	------	9
1985	------	9	15	------	9 (gasoline) 15 (diesel)
1987	------	9	15	0.1	9.1 (gasoline) 15.1 (diesel)
1990	2.5	11.5	17.5	0.1	14.1 (gasoline) 20.1 (diesel)
1993	6.8	11.5	17.5	0.1	18.4 (gasoline) 24.4 (diesel)
1995	4.3	14.0	20.0	0.1	18.4 (gasoline) 24.4 (diesel)
1996	4.3	14.0	20.0	no tax	18.3 (gasoline) 24.3 (diesel)

[1] Tax for the Leaking Underground Storage Tank Trust Fund ("LUST") was applicable 1987-1995.

[2] Highway Revenue Act of 1956 established the Highway Trust Fund

COMMUNICATIONS

The American Highway Users Alliance represents a broad cross-section of business and individuals who rely on good highways to carry them and their customers, employees, and products to their destination safely and on time. We appreciate the opportunity to submit this testimony during the Finance Committee's hearings regarding fuel taxes.

Whereas Americans readily understand the role of highways, bridges and other essential components of transportation infrastructure, they do not understand the funding process related to construction, maintenance and repair thereto. In order for Congress, transportation agencies and private companies to best serve Americans on the go, it is vital to understand public attitudes toward transportation issues. To this end, during the summer of 1995 the Highway Users commissioned a series of focus groups to talk about transportation. The information gathered and analyzed from these groups provides a crucial first look into what Americans think and feel about the roads they use and how they are funded. The study showed that -- as taxes go -- the American public is willing to pay fuel taxes, *but only if they are dedicated to investments in safer roads and bridges*. We have enclosed a copy of this study, *"Americans Talk About Highways,"* for consideration by the Committee.

In 1956 President Dwight Eisenhower established the Federal Highway Trust Fund Account and entered into a contract with the driving public, that user fees levied on motorists would be dedicated exclusively to making our roads safer. Since 1956, only those who use the nation's roads and bridges pay into the Trust Fund through user fees, which in turn are spent to construct, repair and rehabilitate roads and bridges as they wear out. That user fee concept began to break down when the Highway Trust Fund was incorporated into the unified budget in 1969 and when the Congress began in 1982 to divert highway user fees to non-highway expenditures. Thus, while the current (May, 1996) federal gasoline tax is 18.3 cents-per-gallon, only 12 cents-per-gallon is deposited into the highway account with two cents-per-gallon distributed to the mass transit account and 4.3 cents-per-gallon distributed to the general fund. The Highway Users opposed and still opposes the 1993 4.3¢-per-gallon tax on motor fuels because revenues from that tax are deposited into the general fund and used for general government (non-highway) purposes.

The Committee is now considering a complete repeal of the 4.3¢ tax. We applaud the Committee for recognizing that nearly $6 billion in taxes collected exclusively from highway users is being diverted to non-highway programs. However, instead of an outright repeal, the Highway Users strongly urges the Committee to consider transferring the 4.3¢ into the Highway Account of the Highway Trust Fund where it can be used for badly needed road and bridge improvements.

Our roads and bridges are in deplorable condition -- the result of under investment. Last November, the Federal Highway Administration reported that the nation would need to invest an additional $20 billion annually *just to maintain current road and bridge conditions*. The number jumps to $40 billion *if we want to improve conditions*. Our nation's productivity, competitiveness and economy rely on a safe network of highways. If we continue to neglect our most basic transportation infrastructure, transportation costs will rise, productivity growth rates will fall, and American jobs will be lost. The $6 billion per year now being diverted to the General Fund won't close the highway investment gap, but it would make a significant difference. It would also restore President Eisenhower's contract with America's highway users.

We thank the Committee for bringing to light the fundamental inequity of imposing a tax on highway users but not spending it for highways. The Highway Users hope that the Committee will consider modifying the proposal to help meet the documented needs for increased highway investments.

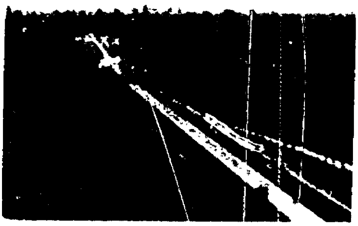
Sincerely,

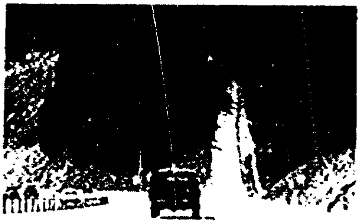
William D. Fay

William D. Fay
President and CEO

Enclosure

Americans Talk About Highways





A Study Sponsored by the
Highway Users Federation

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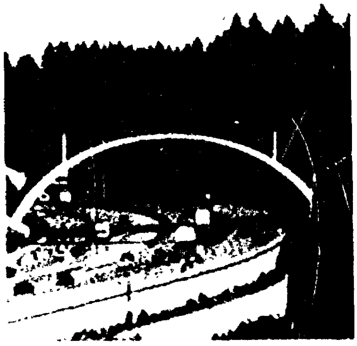
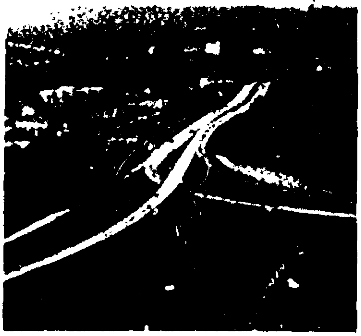
Americans Talk About Highways



Few things are as important to modern American culture as the ability to get on the road and go. Whether commuting into the nation's cities for the daily grind, shuttling the kids to ball practice, or driving to Grandma's, highways provide a vital link between an individual and the world in which they live, work and play.

As Congress debates funding levels and programs for transportation, it is in effect deciding which modes of transportation have the most importance to Americans. Whereas Americans readily understand the role of highways, bridges and other essential components of transportation infrastructure, they do not understand the funding process related to the construction, maintenance and repair thereto. In order for Congress, transportation agencies and private companies to best serve Americans on the go, it is vital to understand public attitudes toward transportation issues.

To this end, the Highway Users Federation (HUF) commissioned a series of focus groups to talk about transportation in Seattle, San Diego, St. Louis, and Jacksonville. These sites were chosen specifically for their demographic representation and geographic uniqueness, as well as their recent experiences with developing infrastructure systems.



Focus Group Overview

While the focus groups revealed regional concerns and variances, their commutes and attitudes towards commuting and highways were similar. Participants overwhelmingly used their cars to commute, and spent an average of 30 minutes a day commuting.

Because of an increasing dependence on their cars during the workday, mass transit or car pooling is not an option, but traffic congestion, length of commute, and concern for safety are drawbacks to the solo commuter.

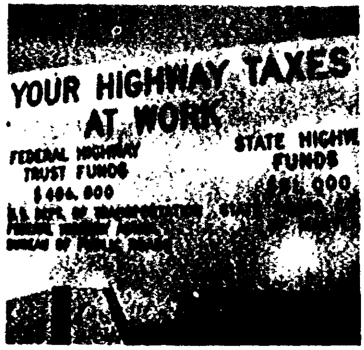
When asked about their attitudes toward transportation funding, participants volunteered highways, bridges and infrastructure as critical areas which need government attention and resources. The construction, maintenance and repair of roads and bridges is a top priority.

Few participants knew of the Highway Trust Fund (HTF) or that they contributed to it each time they purchased gasoline. But they are pleased to learn about it, as they believe that roads and bridges are a top priority of government, and therefore a wise use of their tax dollars.

People view the 18.4 cents per gallon federal tax as fair because it is being paid by those who actually use the highways.

Americans view the federal deficit as a moral shortcoming of government, yet acknowledge some element of sacrifice to eliminate it. But participants believed that infrastructure should not be cut in order to balance the budget — roads are that important.

Highway Funding

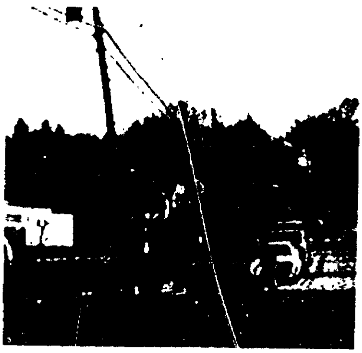


The information gathered and analyzed from these groups provides a crucial first look into what Americans think and feel about the roads they use and how they are funded. The HTF enjoyed unanimous support among the participants for its role in maintaining America's highways. Because highway users directly contribute to the funding process, they are angered by diversions of the HTF funds to other government spending, as well as to mass transit or local transportation spending. Uppermost in their minds is the commitment of the federal government to spend moneys collected for their intended purpose, and the intended purpose only. To them, this is the latest example of the government's breach of a public trust.

For this reason, legislation which allows the federal government to divert funds to social programs, or allows state governments to divert highway funds to mass transit, will meet taxpayer opposition as they become aware of the government's "breach of contract."

Americans bring to the focus group table their own perceptions whether highway dollars are being allocated efficiently — seemingly endless highway construction is often believed to be the result of poor long-term planning. Attitudes on highway spending typify the popular sentiment of all government spending — it is not how much is spent, but how.

At the same time, Americans do believe there is enough money to take care of our highways and bridges. They believe it is the federal government's mismanagement of highway funds -- not a lack of funding — that is directly responsible for poor physical



Highway Funding

road conditions, antiquated bridges and the irritating congestion and potential threats to safety which they cause.

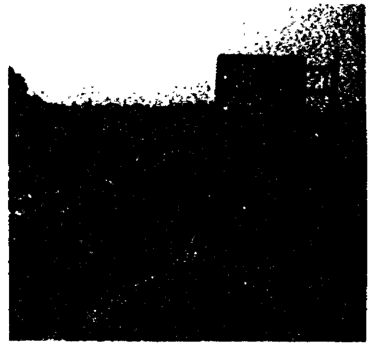
This anger is further exacerbated when participants learn of the government estimates which say that there is a $290 billion backlog on necessary repairs to our nation's roads and bridges, and second, that the backlog would be much smaller had Highway Trust Fund money been allocated to and spent only on highways.

People initially understand HTF diversions to mass transit and bike paths as sharing trust fund money with "first cousins." However, when they are informed of other mass transit subsidies, as well as the charter purpose of the HTF, support for any diversions drops precipitously. In a similar vein, people did not view mass transit or bike paths as federal issues. They were skeptical of the role the federal government could play in local transit planning and needs, and thus were angry that these programs were receiving federal highway funds.

Traffic & Safety

To today's highway users, the primary concern related to poor road conditions, toll booths, construction, or even fender benders is the congestion they cause. Participants also commented on the time of day construction is planned, and despise seeing their "tax dollars at work" taking a coffee break while traffic inches by the site.

Traffic & Safety



Perceived inefficiencies in the construction of roads reflect badly on the state or federal government. As participants became aware of HTF funds, the negative reflection on the federal government intensified.

Excessive traffic is the core complaint concerning daily use of highways. Delays for construction are more tolerable to drivers if the stated end result is that highway expansion will alleviate traffic or make the roads safer to use.

Driving carries with it inherent dangers which drivers accept as a fair trade-off from the freedom of movement it provides. It is presumed that poor road conditions relate more to increasing traffic than to accidents. Moreover, even accidents are seen more as congestion causing events than as an indication of road condition. When considering what to do to improve the highway system for its users, people are not thinking "safety" — they already expect it. Like electricity or running water, safe and convenient roads are taken for granted. By the same token, highways can never be "too safe."

Safety concerns are somewhat personal in nature — lap restraints and air bags were mentioned along with driver responsibility and physical condition of the roads. Overall highway safety was tied to congestion and accidents caused by increased traffic.

Mass Transit & Amtrak

Mass transit, in the abstract, resonates as a "feel-good" idea. However, on a personal level mass transit is too restrictive and inconvenient. People hope others will utilize mass transit, to make their own commute easier. Generally, they'll agree that mass transit must be made a more attractive option to become a more viable one, but don't consider it a viable alternative for themselves.

Mass transit is strongly viewed as a local concern, not one the federal government should be mandating, designing or building. Trains are perceived as working well when huge numbers of people need to go from a concentrated population center to a concentrated business center.

With more dual wage earners and single parents, having a personal car to run errands while at work or get the kids back and forth is becoming more of a necessity. Most mass transit plans are too restrictive to successfully get people out of their cars. There is support for mass transit to the extent that it is feasible, and for most commuters it is not.

The unacceptability of mass transit as an alternative to single driver commuting is most pronounced in the context of funding; ultimately people believe that highway money and mass transit subsidies are not interchangeable and should not be commingled.

Participants expressed nothing short of sticker shock at the suggestion that Amtrak receives $1 billion each year to service a small fraction of Americans. In a climate where budget deficit

Mass Transit & Amtrak

reduction is uppermost in people's minds, continued subsidies to a bureaucratic and inefficient mass transit system are unacceptable to many Americans. People view the HTF as a fair system because those who utilize the roads are contributing to their maintenance; the diversion of these funds to subsidize Amtrak angers them because non-riders are effectively being taxed in an unfair manner.

Generally, there is a great deal of confusion as to whether Amtrak is a private or a federal program. Most respondents believe Amtrak should remain available to the public as a form of transportation, but they know neither how it is funded nor what percentage of Americans actually use it each year.

Conclusions

People are supportive of the Highway Trust Fund — the more they hear, the more they like, particularly since it is revenue neutral. They are upset that Congress is diverting HTF funding to support other programs — their roads are important to them and they are willing to contribute to the effort to maintain them.

The priority people give to highways and bridges is indicative of what they perceive to be the appropriate role of the federal government in transportation issues — coordinate a way to keep people and goods moving around the nation.

For the millions of Americans who do not live in urban areas, and do not commute on a daily basis, highways are even more important in their daily lives and their ability to function in their communities.

The Highway Users Federation

The Highway Users Federation traces its origins to 1932, when its predecessor organization was formed by General Motors President Alfred P. Sloan Jr. to advocate good, all-weather roads in every state to "get the farmers out of the mud." HUF continues to advocate safe and accessible highways . Many industries are dependent on highways to be successful, including automotive, travel and shipping. Almost 80 percent of all U.S. expenditures for passenger and freight transportation – $800 billion annually – are highway-related. Highway passengers spend over $350 billion per year on their travel – about 12 percent of the nation's GDP. And, freight movement over highways counts for 80 percent of all shipping.

HUF works for better, safer highway transportation through public policy analysis, public information and education, and legislative and regulatory advocacy. It believes that good highways are essential to a strong economy and the costs of improving highway transportation should be borne by the users. HUF also believes that taxes collected to pay for better highways should be spent for that purpose, and that purpose only.

HUF has over 200 individual and 100 corporate/association members, including the American Automobile Manufacturers Association, the American Automobile Association, the American Bus Association, the American Petroleum Institute, the Travel Industry Association of America and the American Trucking Associations.

Americans Talk About Highways was produced for the Highway Users Federation by the polling company, a firm specializing in survey research, focus groups and strategic counsel for political, corporate and public affairs clients. Polling company President Kellyanne Fitzpatrick coordinated and conducted focus groups in Seattle, San Diego, St. Louis, and Jacksonville to discover Americans' opinions about highways and mobility.

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Page 1 – Capitol Boulevard Bridge, Olympia, Washington, Federal Highway Administration photo.

Page 2 – I-440, Nashville, Tennessee, Federal Highway Administration photo.

Page 3 -- I-95, Maryland, Highway Users Federation photo.

Page 4 -- Maryland construction site, Highway Users Federation photo.

Page 5 -- I-270, Gaithersburg, Maryland, Highway Users Federation photo.

Page 6 -- Metro station, Washington, D.C., Highway Users Federation photo.

Page 7 -- Amtrak station, Hatboro, Pennsylvania, Highway Users Federation photo.

Back Cover -- Route 395, Sacramento, California, Federal Highway Administration photo.

Statement of
James L. Kolstad
Vice President, Public & Government Relations
American Automobile Association
to the
Senate Finance Committee

May 7, 1996

Mr. Chairman, the American Automobile Association appreciates this opportunity to present the latest information on the current runup in retail gasoline prices and how it affects the motoring public.

AAA serves more than 38 million members and, on their behalf, I'd like to commend your effort to consider a roll back of the 4.3-cent excise tax on gasoline to lessen the impact of this current gasoline price spike on consumers.

AAA opposed the 4.3-cent gasoline tax when it was proposed, because of our strong belief that gasoline excise taxes should not be imposed for deficit reduction. The federal gasoline tax historically has been dedicated to building and maintaining the nation's highway system. The gas tax has been a true user fee: because motorists have directly paid for highway programs through a dedicated tax, there has been no negative budget impact. General revenues have not been used to construct the federal-aid highway system we all enjoy. In fact, because the federal government has withheld spending of accumulated gas tax revenues in the Highway Trust Fund, motorists have contributed their dedicated federal gas tax revenues to balancing the budget as well. Moreover, the 2.5-cent gasoline tax enacted in 1990, combined with the 4.3-cent tax approved in 1993, result in a total of $30 billion motorists have directly contributed to deficit reduction.

AAA believes eliminating the latest 4.3-cent federal gas tax is a step in the right direction for one simple reason:

It restores integrity to the gasoline tax as a user fee, and it helps restore public trust in the federal government and integrity to the Highway Trust Fund.

AAA has been publishing gasoline price surveys since the 1970s and we've rarely seen pump price increases like those we've witnessed so far this year. Our most recent surveys show the following effects of the runup on gas prices on drivers:

** The sudden sharp increases in pump prices we've seen so far this year -- rising 20 cents a gallon nationally, and by more than 25 cents in California in the past month alone -- have reached their highest levels since January 1991: the start of Operation Desert Storm. (See attached graph)

** Retail prices as of Easter, for instance, were the highest AAA has recorded in 12 years.

** AAA's latest monthly survey showed unleaded self-serve regular gasoline selling for $1.24 per gallon nationwide, up 6 cents from March and 11 cents above February's prices.

** Today's price for unleaded regular nationwide -- $1.29 per gallon -- is up another 5 cents in the past two weeks.

** AAA estimates for a motorist who drives 12,500 a year in a vehicle that gets 20 miles per gallon, a 20-cent per gallon increase could cost between $10 and $12 a month.

** As seen on the graph, the highest prices are occurring in California, where the latest survey shows unleaded regular is up by more than 25 cents in the past month to $1.58 a gallon in the northern part of the state.

** Conversely, the lowest prices are occurring in the Southeast, where recent AAA surveys showed regular self-serve gasoline selling for less than $1.20 per gallon.

** The current runup in retail prices began in March, following a major increase in crude oil prices to $24 a barrel from $19 a barrel on the spot market. This represents a 12-cent per gallon increase that was passed immediately to retail pumps.

** This runup in oil and gasoline prices has occurred at the same time that oil and gasoline inventories have reached historically low levels. As the graph shows, crude oil and gasoline stocks have been 5% and 10% lower in March and April than in any previous year.

** Actual demand for gasoline is said to be running at 3% to 4% higher than last year at this time, although these estimates have yet to be finalized and published.

** The Department of Energy and other oil industry analysts are forecasting lower gasoline prices this summer. However, gasoline price historically have gone up and down about 12 cents to 15 cents every summer driving season -- so prices may fluctuate widely this summer, especially if inventories remain tight.

In summary, AAA opposes the 4.3-cent gasoline tax and favors its repeal. Longstanding AAA policy states federal gasoline taxes should be used for their intended purpose -- to support highway and bridge construction and maintenance. AAA opposed federal gasoline taxes for deficit reduction in 1990 and 1993 and we continue to take the position that gasoline taxes should not be used for deficit reduction.

Congress should recognize that taxes comprise a large share of the cost of a gallon of gasoline. To the extent these taxes pay for better and safer highways, they are a fair tax on the user by obviating the need for such expenditure from general revenues. Raising the gasoline tax for deficit reduction -- as is the case with the current 4.3-cent gasoline tax, constitutes unfair, unwise public policy.

Again, thank you for the opportunity to present our views.

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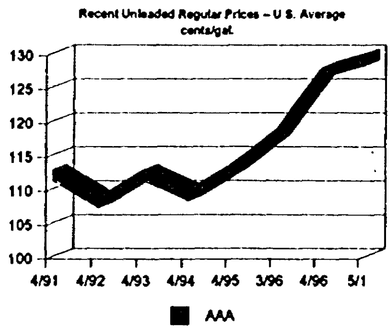
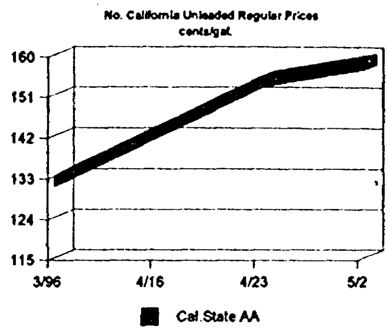
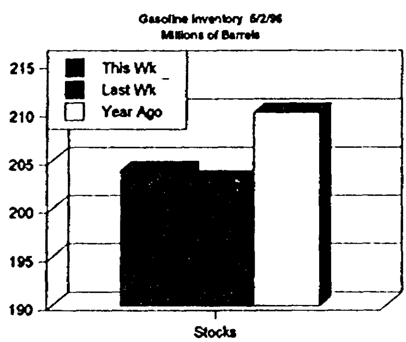
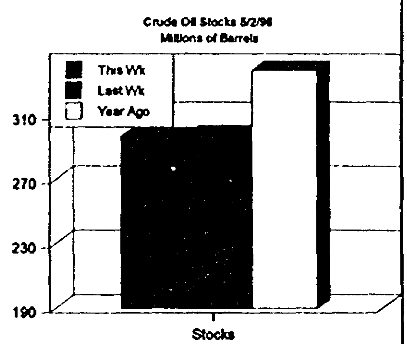




The national average pump price of Regular Unleaded for the U.S. has seen a dramatic increase totaling 20 cents so far this year. Northern California's pump prices have risen by more than 25 cents just in the past month due to new state Reformulated Gas standards and several refinery problems, according to industry officials.





Current inventories of gasoline and crude oil, meanwhile, remain 5% and 10% below year ago levels respectively.

(AAA Graphic; Sources: CPC, API)

STATEMENT
on
PROPOSALS TO
REPEAL THE 4.3-CENTS-PER-GALLON
FUELS EXCISE TAX
for submission to the
SENATE COMMITTEE ON FINANCE
for the
U.S. Chamber of Commerce
by
William T. Sinclaire
Senior Tax Counsel and Director of Tax Policy
May 3, 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.

THE CONCORD COALITION CITIZENS' COUNCIL

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202 467 6222 ◆ (Fax) 202 467 6333

STATEMENT BEFORE THE FINANCE COMMITTEE ON LEGISLATION TO REPEAL THE FUEL TAX

May 3, 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.