1-11-2006

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Jan. 11, 2006

DURHAM, N.H. – Americans may be feeling the pain of rising prices at the gas pump, but one University of New Hampshire professor advocates increasing gas taxes in regions such as New England, which he says could have positive effects on regional economies and environments.

Richard England, professor of economics and natural resources at the UNH Whittemore School of Business and Economics, details his latest research, "Motor Fuel Taxation And Economic Development: A Regional Approach," in the Dec. 26, 2005, issue of State Tax Notes. According to England, increasing gas taxes could raise per capita income and boost employment in conjunction with improving air quality and other environmental factors.

Americans are the most mobile people in history. In 2003, they logged 2.89 trillion miles in their vehicles, the equivalent of more than 6 million round trips between Earth and the moon. Along the way, those vehicles burned 169.6 billion gallons of gasoline and diesel fuel.

In addition to the private costs of operating vehicles, such as gas, insurance and repairs, social costs such as highway fatalities and injuries, noise pollution, and urban road congestion are incurred. In 2000 more than 40,000 people died in traffic accidents and 3.1 million people were injured. Road congestion led to 3.7 billion hours of travel delay in 85 metropolitan areas during 2003, and the U.S. Environmental Protection Agency has logged nearly 449,000 leaks from underground tanks, many of them at gas stations.

"The difference between the private and social costs of motor vehicle transport points to a major misallocation of resources within the U.S. economy. The best public policy would be to reform and increase the excise tax on retail purchases of motor fuels," England says.

"Metropolitan areas with lower air pollution levels tended to attract a net flow of migrants from 1990 to 2000. Hence, if a region were to improve its relative environmental quality by restraining its motor fuel consumption, it could expect a positive effect on labor supply growth, especially for more educated labor," he says.

In addition, reducing automotive emissions could help prevent tighter federal regulations on factories, power plants, and other stationary emitters of ozone precursors – regulations that could threaten a region's future industrial competitiveness in national and global markets.

For oil-importing areas such as New England, higher gas taxes could have another competitive benefit for the regional economy – creating a sort of buyers' coalition. "If several New England states were to raise their fuel taxes simultaneously, they could function as a buying cartel and thereby lower the import price of refined oil products shipped into the region. Lowering both the import price and the quantity consumed of motor fuels would improve the region's trade balance with the rest of the world and also reduce its vulnerability to the growing volatility of gasoline prices in the U.S. market," England says.

The New England region is ideal for higher gas taxes for a number of reasons.

- Refined oil products are imported into the region so most revenue from retail fuel purchases presently flows to other states or regions.
- A gas tax increase would likely induce a relatively large amount of energy conservation, even in the short run, because southern New England is a highly urban region and offers commuters relatively good public transit service, suggesting the price elasticity of demand for gasoline is higher in parts of New England than the national average.
- Most New England states have relatively high per capita incomes. Despite their relative affluence, these states have been experiencing slow population growth, with the exception of New Hampshire. Because county-level rates of employment growth are positively associated with environmental quality, reducing the environmental costs of motor vehicle transportation could help New England to attract and retain skilled employees who could easily locate in other regions.
- The region's governors declared in 2001 that they want to reduce greenhouse gas emissions and implement actions that result in higher efficiency in the transportation of passengers and goods.

England proposes the gas tax increase be combined with a rebate to the state's registered vehicle owners, a provision that would eliminate any regressive features of his gas tax proposal.

"As a higher gas tax rate is introduced in a state, the incremental revenues from that tax increase could be rebated in equal shares to its registered vehicle owners. This idea is hardly new: In a 1975 speech on energy policy, President Gerald Ford advanced a similar plan. A 2004 study found that a $1 increase in the federal gas tax combined with a lump sum transfer of the extra revenues to households would have a decidedly progressive incidence," he says.

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