

Policy Memo

Washington's Gas Tax in Historical Perspective

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Introduction

In 2005 the Washington state legislature approved an increase in gasoline and other transportation taxes to fund \$8.5 billion in transportation improvements over the next 16 years. On July 1, 2005, the gas tax went up 3 cents per gallon to 31 cents. The tax is scheduled to rise in increments through 2008 to a total of 37.5 cents. Every region of the state is expected to benefit from seismic upgrades, safer travel, and better flow of produce and goods to and from ports.¹ No one disputes that Washington's transportation infrastructure is in crying need of repair and upgrading. However, some have questioned whether more taxes are really necessary, especially at a time of soaring gas prices. Opponents have launched an initiative campaign to overturn the increase.

The decision by Washington lawmakers to raise the gas tax appears politically risky following a decade when tax reduction initiatives seemed to dominate the polls. From a longer historical perspective, however, public investment in infrastructure has declined dramatically since the early 1970s. Even when the new tax is fully implemented in 2008, Washington's gas tax will remain lower than the rates that prevailed in the 1950s and 1960s, when adjusted for inflation.² In those earlier decades, both the state and the federal government invested large amounts in transportation and other basic infrastructure, setting the stage for broad-based economic growth. The question remains whether today's voters, having grown accustomed to cheap gas and low tax rates, are willing to pay for the upgrades the state's transportation system needs.

The History of Gas Taxes in Washington

Washington began collecting a penny per gallon gasoline tax in 1921, 16 years after the state's highway department was organized and 9 years after the first concrete road in the state was constructed in Lewis County. The era when Granges and town merchants organized work parties of local men to build and maintain farm-to-market roads was just coming to an end.³ The tax doubled 2 years later. At that time there were fewer than 200,000 cars and trucks owned by the state's 1.4 million residents.⁴

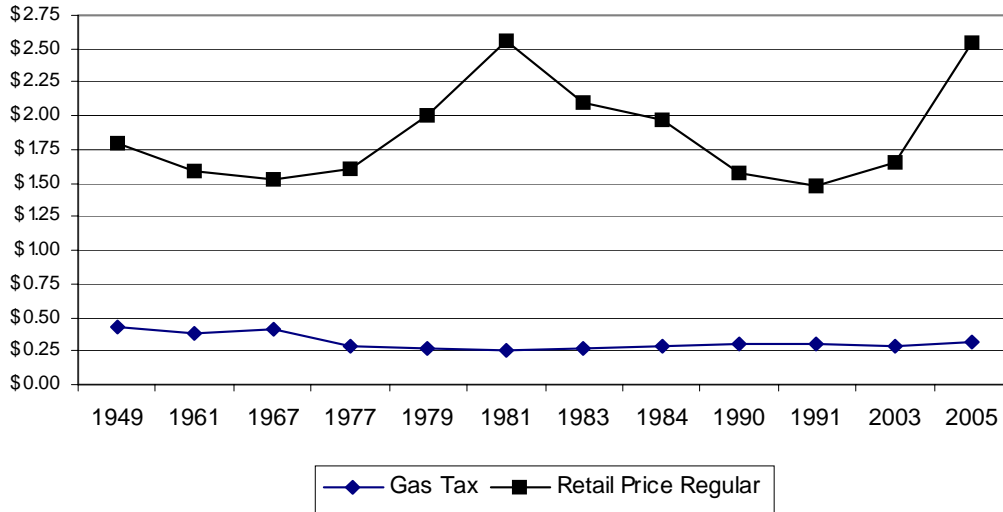
In 1944, Washington voters adopted a constitutional amendment dedicating motor fuel taxes to road purposes.⁵ By 1949, the gas tax was up to 6.5 cents, or 24% of the average 26.8-cent cost of a gallon of gas. Adjusted to year 2005 dollars, a gallon of regular in 1949 cost \$1.80 and the gas tax was equal to 43.7 cents.⁶



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**Average Retail Price Per Gallon of Regular Gas*
and Washington State Gas Tax (in 2005 Dollars)**



*1949-2003 prices are U.S. averages. 2005 price is Washington state average for August 8, 2005.
Sources: U.S. Department of Energy, Energy Information Administration; Washington State Department of Revenue

The inflation-adjusted value of the state gas tax remained close to 40 cents per gallon through the 1950s and 1960s. The value fell to about 27 cents per gallon by the late 1970s. Periodic increases after that brought the inflation-adjusted value of the gas tax back to up to a little under 30 cents through the early 1990s. The “nickel tax” approved by Washington’s legislature in 2003 bumped the gas tax up to 28 cents after a 12-year period of no increase. When the 2005 tax increase is fully implemented in 2008, the 37.5-cent tax rate will remain below the rate that prevailed in the 1950s and 1960s, adjusted for inflation.⁷

The price of gasoline has risen sharply in the past year, but the 3-cent addition to the gas tax that was instituted on July 1 played only a minor role. On August 8, 2005, the average price of a gallon of regular gas in Washington state was 62 cents higher than the previous year and 20 cents higher than on July 4.⁸ According to the U.S. Energy Information Administration, the cost of crude oil is the biggest factor in the price of gas, contributing about 54% of the cost. Refining, distributing, and marketing add another 25% to the price, with federal, state and local taxes constituting the remaining 20% of the price.⁹ The average price of a barrel of crude oil nearly doubled from 2003 to July 2005, from \$28.50 to \$53.¹⁰

Washington State Gas Tax and Price of Gas, 1949-2005

Year of Tax Increase	Washington State Gas Tax		Retail Price of Regular, U.S. Avg.		State Gas Tax as % of Retail Price
	Cents per Gallon	in 2005 Cents	Price per Gallon	in 2005 Dollars	
1949	6.5	43.7	\$0.27	\$1.80	24.0%
1961	7.5	38.7	\$0.31	\$1.59	24.4%
1967	9.0	41.4	\$0.33	\$1.53	27.1%
1977	11.0	28.2	\$0.62	\$1.60	17.7%
1979	12.0	26.6	\$0.90	\$2.00	13.3%
1981	13.5	25.1	\$1.38	\$2.56	9.8%
1983	16.0	26.9	\$1.24	\$2.09	12.9%
1984	18.0	29.2	\$1.21	\$1.97	14.9%
1990	22.0	29.7	\$1.16	\$1.57	18.9%
1991	23.0	29.9	\$1.14	\$1.48	20.2%
2003	28.0	29.1	\$1.59	\$1.66	17.6%
2005	31.0	31.0	\$2.55*	\$2.55*	12.2%

*Washington state average, week of 8/8/2005

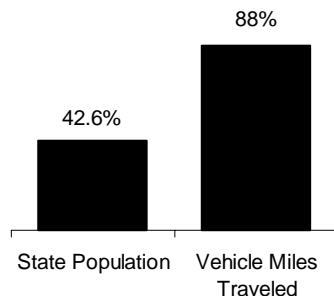
Source: U.S. Department of Energy, Energy Information Administration

When the gas tax was first instituted in 1921, there was one vehicle for every seven Washington residents. The number of vehicles in Washington and vehicle miles driven have increased at a much faster rate than population, adding to the pressure on the transportation infrastructure.¹¹ The number of registered vehicles has exceeded the number of state residents since 1990.¹² Between 1980 and 2000, the state's population increased by 42.6% while the number of vehicle miles driven increased by 88%.¹³

Of course, more driving results in higher gasoline consumption and increased gas tax revenues. However, gas tax collections have not grown as quickly as vehicle miles traveled and the consequent wear and tear on roads. In 1980, the state collected nearly 1.8 cents of motor fuel tax per mile driven (in 2004 dollars), compared to 1.6 cents in 2004.¹⁴

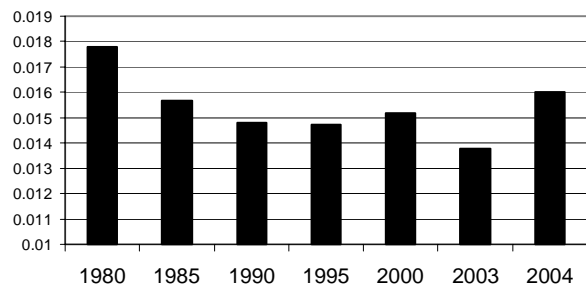
Meanwhile, personal income in Washington has grown much more quickly than total motor fuel tax collections. In 1970, gas tax collections

Growth in Washington Population and Vehicle Miles Traveled, 1980-2000



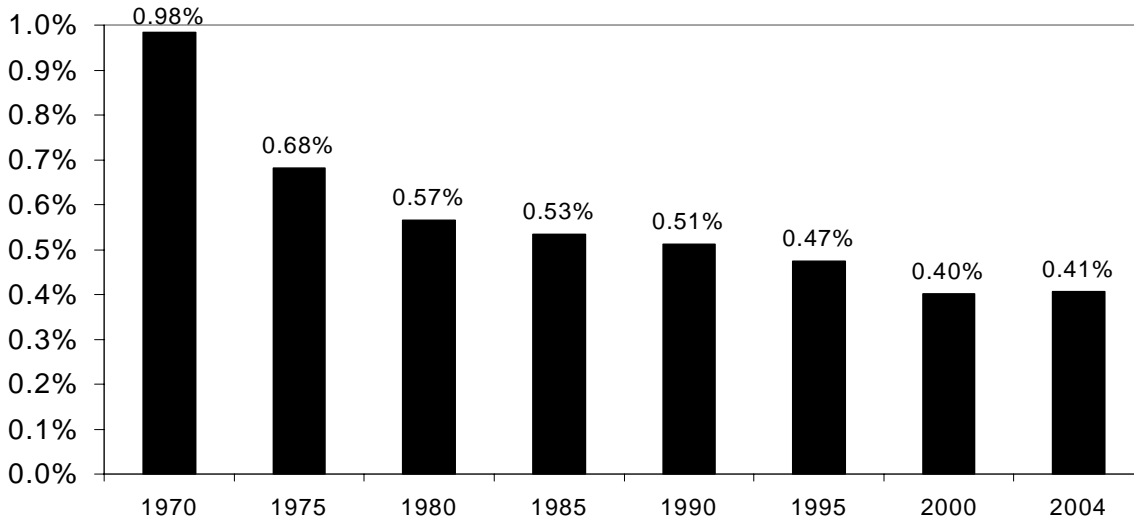
Source: Washington Office of Financial Management

Motor Fuel Tax Collected per Vehicle Mile Traveled in Washington (in 2004 dollars)



Sources: Washington State Departments of Transportation and Revenue

Gas Tax Collections as Percentage of Washington State Personal Income



Sources: Washington Department of Revenue, U.S. Bureau of Economic Analysis

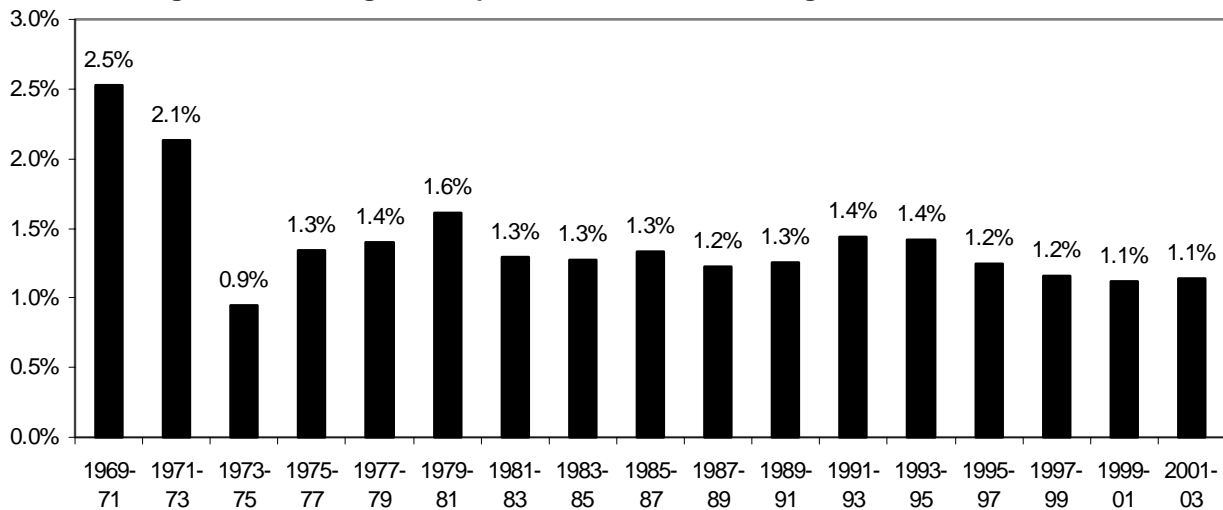
represented 1% of the total personal income in the state. It had fallen to 0.5% of state personal income by 1990 and to 0.41% by 2004.¹⁵

The higher level of gas taxes in earlier decades meant that Washington could invest more in its highway system. Since the early 1970s, capital investment by Washington state has declined as

a percentage of state personal income, which is a good measure of state economic growth.¹⁶

Budgeted capital funds, including highway and other transportation investments, represented 2.5% of total state personal income in the 1969-71 biennium. Capital spending totaled about 1.3% of personal income between 1975 and 1990 and has held at 1.1% in recent biennia.¹⁷

Washington State Budgeted Capital Funds as a Percentage of State Personal Income



Sources: Wash. Legislative Evaluation and Accountability Program, U.S. Bureau of Economic Analysis

Comparison with Other States

When all state and local taxes on gas are considered, Washington and Rhode Island were tied for 7th place among the states in July 2005. Hawaii, which adds retail sales tax and local taxes to its gas tax, tops the list at 41 cents. Illinois, California, New York, Nevada, and Wisconsin also have higher total rates than Washington.¹⁸ Of course, as the price of gas rises, those states that add retail sales tax or otherwise tax a percentage of the price of gas, see an automatic increase in their tax per gallon. Washington does **not** add such a variable tax. Washington's total tax rate on gasoline is currently in the middle of the western states.¹⁹

State and Local Combined Gas Tax Rate of Western States, July 2005

State	Tax in Cents per Gallon
California	37.39
Nevada	33.81
Washington	31.00
Montana	27.75
Oregon	27.00
Idaho	25.00

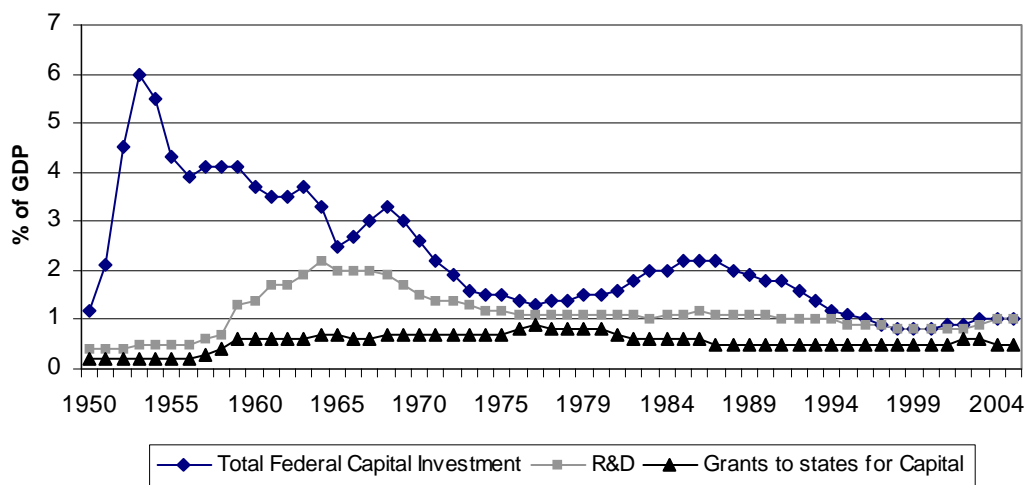
Source: Washington State Department of Transportation

The Context of Federal Investment

During the 1950s and 1960s when Washington's gas tax was at its highest level, the federal government also made significant investments in capital projects, including transportation. The Cold War was part of the impetus for federal spending on both capital projects and research and development. When President Eisenhower signed the Federal Aid Highway Act in 1956, it was in the name of national defense. Regardless of the rationale, the act launched the freeway system which is the core of our modern transportation infrastructure.²⁰

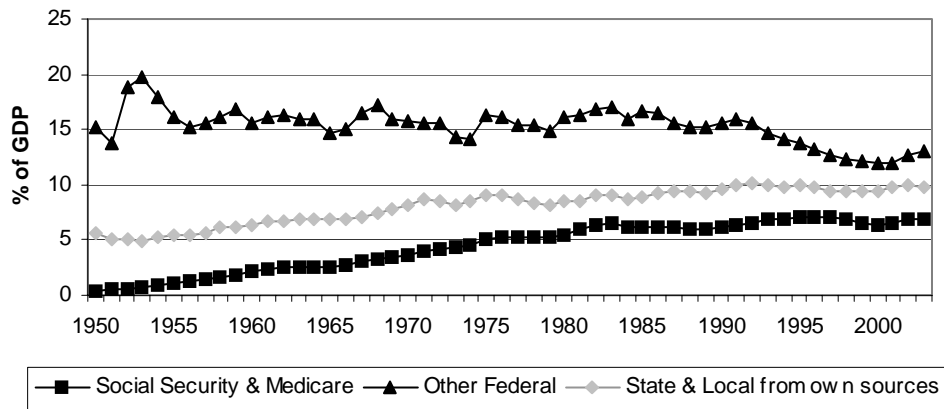
Since 1970, federal capital investment has declined substantially. At the peak in 1953, the federal government spent 6% of gross domestic product (GDP) on capital investment. In most years through 1970, federal capital spending totaled 3% or more of GDP. The rate fell rapidly after that, with a modest rebound during the Reagan era. For the past decade, federal capital spending has hovered at about 1% of GDP. Federal spending on research and development, another spur to long-term economic growth, more than doubled in the 1960s from less than 1% of GDP to 2%; it has remained at about 1% since the mid-1970s.²¹

Federal Capital and R&D Investments as Percentage of Gross Domestic Product



Source: United States Budget, <http://www.gpoaccess.gov/usbudget/fy05/hist.html>

Federal, State, and Local Government Spending as Percentage of Gross Domestic Product



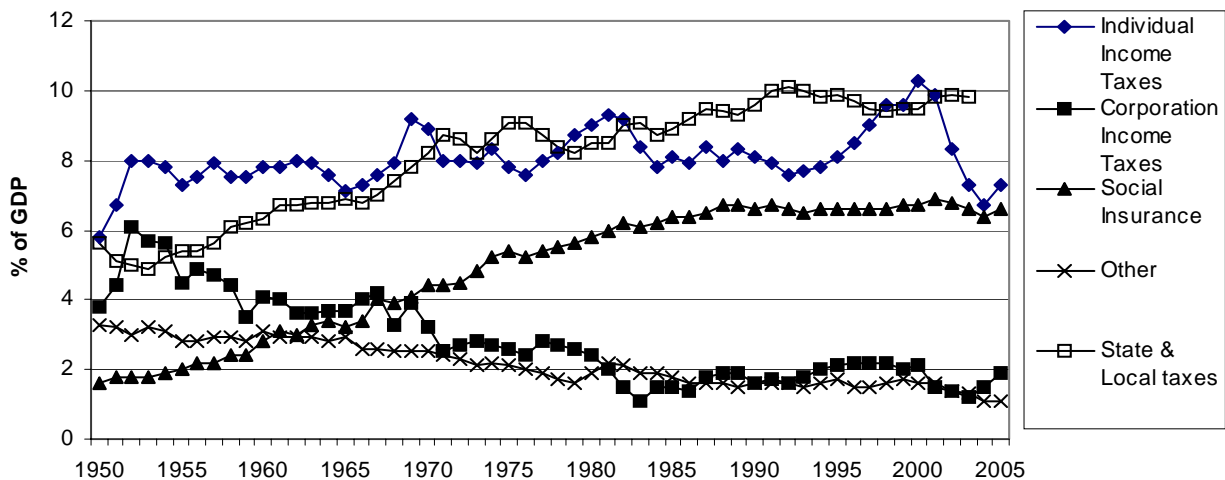
Source: U.S. Budget, www.GPOaccess.gov

Over the past 15 years, government spending has declined. Between 1955 and 1992, total federal spending outside of Social Security and Medicare held steady at between 15% and 17% of gross domestic product. That level fell to 12% by the end of President Clinton's tenure in 2000 and has since edged up a bit. Meanwhile, Social Security and Medicare spending rose from the early 1950s to the early 1990s, reflecting the creation of Medicare and the expansion of Social Security to most of the nation's workforce. The total of all state and local government spending across the nation also rose from the mid-1950s to 1990. Since 1990, state and local spending has remained

level at about 10% of GDP, even as federal spending declined.²² The largest category of spending by state governments is for public education.²³

Revenue sources for all levels of government in the United States have followed the spending trends. The growth of Social Security, Medicare, and state and local government from 1950 to 1990 has contributed to a shift toward more regressive taxes. Federal policies have exacerbated the shift. Social insurance taxes rose between 1950 and the mid-1980s from less than 2% of GDP to 6.6%. Generally regressive state and local government revenues also grew

Sources of All Government Revenue as Percentage of GDP, 1950-2005



Source: U.S. Budget, www.GPOaccess.gov

between 1953 and 1992 from 5% to 10% of GDP, with a modest decline since then.²⁴ Meanwhile, corporate income taxes fell from 6% of GDP in the early 1950s to 2% or less in recent years. Personal income taxes have been volatile, reflecting both economic swings and policy changes, with a sharp drop between 2000 and 2004 reflecting the tax cuts and recession of the current Bush administration.

Conclusion

Washington's latest gas tax increase comes at a time when gas prices are soaring. After years of cheap gas, the average price of a gallon of gas has risen by 62 cents for Washington state consumers over the past year.²⁵ The 3-cent boost in Washington's gas tax that went into effect on July 1, 2005, contributed only a small percentage to the overall price increase at the pump. Higher prices do not yet appear to be pushing the majority of Americans to change their driving habits. In fact, retail sales of all grades of gasoline were up over 2% between May of 2004 and May of 2005, according to the U.S. Department of Energy.²⁶

Once adjusted for inflation, Washington's current 31-cent per gallon gas tax is still well below the level that prevailed through the 1950s and 1960s

and only about one penny more than we paid in the early 1990s.

Americans have grown accustomed not only to cheap gas, but also to government on the cheap. In the 1950s and 1960s, the state and federal governments made major investments in transportation and other basic infrastructure. State revenue from the gas tax represented 1% of total state personal income in 1970, and the state invested the equivalent of 2.5% of state personal income in capital projects. In recent years the gas tax has only totaled 0.4% of personal income, and state capital spending has held at 1.1%. The federal government spent at least 3% of the United States gross domestic product on capital projects from the early 1950s until 1970, but has spent only 1% in the past decade.

Washington state and the United States as a whole prospered in the late 20th century because of those earlier investments in transportation and other infrastructure. As solid as concrete is, it eventually crumbles. Our economy has grown and technology has advanced in large part due to the government investments made half a century ago. Without another round of investment, we cannot expect the next 50 years to be as good as the last. ◀◀◀

Notes

¹ Washington State Department of Transportation, "What does the 2005 Funding Package promise for future transportation investment in Washington?" <http://www.wsdot.wa.gov/NR/rdonlyres/34E01CEF-06C7-42AE-8C68-7C355739D5CC/0/NewFundingPackage2005.pdf>.

² For average gas prices, see US Department of Energy, Energy Information Administration, "Retail Motor Gasoline and On-Highway Diesel Fuel Prices, 1949-2003," www.eia.doe.gov. For Washington gas tax rates, see Washington Department of Revenue, *Tax Reference Manual 2005*, p. 19, www.dor.wa.gov.

³ Marilyn P. Watkins, *Rural Democracy: Family Farmers and Politics in Western Washington, 1890-1925*, (Ithaca, NY: Cornell University Press, 1995), p. 81-83, 102.

⁴ Washington State Department of Transportation, "A Brief History of Highways & Transportation," <http://www.wsdot.wa.gov/research/History/chron.pdf>; U.S. Census Bureau, <http://www.census.gov/population/censusdata/table-16.pdf>.

⁵ Washington Department of Revenue, Tax Statistics 2004, "Notes for Historical State Tax Collection Tables," www.dor.gov.

⁶ For average gas prices, see US Department of Energy, Energy Information Administration, "Retail Motor Gasoline and On-Highway Diesel Fuel Prices, 1949-2003," www.eia.doe.gov.

⁷ DOE, EIA, "Retail Motor Gasoline and On-Highway Diesel Fuel Prices, 1949-2003," www.eia.doe.gov. For Washington gas tax rates, see Washington Department of Revenue, *Tax Reference Manual 2005*, p. 19, www.dor.wa.gov. For conversion to 2005 dollars using the implicit price deflator, see EIA, "Population and U.S. Gross Domestic Product, 1949-2003," www.eia.doe.gov/emeu/aer/txt/stb1601.xls; and Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/fred2/series/GDPDEF/18>.

- ⁸ DOE, EIA, "Weekly U.S. Retail Gasoline Prices, Regular Grade," week of 8/8/2005, http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html.
- ⁹ DOE, EIA, Gasoline and Diesel Fuel Update, 8/8/05, <http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp>.
- ¹⁰ EIA, "A Primer on Gasoline Prices," http://www.eia.doe.gov/pub/oil_gas/petroleum/analysis_publications/primer_on_gasoline_prices/html/petbro.html; "This Week in Petroleum," Crude Oil Estimate Contract Prices, 7/29/05, http://tonto.eia.doe.gov/oog/info/twip/twip_crude.html.
- ¹¹ WSDOT, *Key Facts, 2002*, http://www.wsdot.wa.gov/keyfacts/key_facts.pdf. For 2005 implicit price deflator see Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/fred2/series/GDPDEF/18>.
- ¹² WSDOT, "A Brief History of Highways & Transportation," <http://www.wsdot.wa.gov/research/History/chron.pdf>; Washington Office of Financial Management, "State Data Book," <http://www.ofm.wa.gov/databook/pdf/transportation.pdf>.
- ¹³ WSDOT, *Key Facts*.
- ¹⁴ Motor fuel revenue figures are from Washington Department of Revenue, Tax Statistics 2004, www.dor.gov. For conversion to 2004 dollars, see EIA, "Population and U.S. Gross Domestic Product, 1949-2003," www.eia.doe.gov/emeu/aer/txt/stb1601.xls; and Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/fred2/series/GDPDEF/18>. Annual vehicle miles traveled from Washington State Department of Transportation, Pat Whittaker.
- ¹⁵ Washington Department of Revenue, Tax Statistics 2004, www.dor.gov; U.S. Bureau of Economic Analysis, Personal Income, <http://bea.gov/bea/regional/>.
- ¹⁶ Personal income in the state has grown at the same pace as the economy in recent decades. State personal income and gross state product information is compiled by U.S. Bureau of Economic Analysis, <http://bea.gov/bea/regional/>.
- ¹⁷ Washington state capital budget figures were provided by Washington Legislative Evaluation and Accountability Program. Personal income figures are from the U.S. Bureau of Economic Analysis, <http://www.bea.gov/bea/regional/spi/drill.cfm>.
- ¹⁸ While Washington and Rhode Island share the distinction of having the highest gas tax alone at 31 cents, as far as the consumer is concerned, the important comparison is of all taxes added to the price per gallon of gas. Washington Department of Revenue, "Comparative State and Local Taxes," "Comparison of State Cigarette and Gasoline Taxes, Rates Effective in July, 2004," <http://dor.wa.gov/docs/reports/2002/Compare02/Table15.pdf>. See also Federal Highway Administration, "Tax Rates on Motor Fuel – 2003," www.fhwa.dot.gov.
- ¹⁹ Of course, sales tax amounts vary along with the price of gas. This analysis was conducted by Washington State DOT based on the average price of gasoline for January through June, 2005. WSDOT, "Fuel Taxes: A State-by-State Comparison," http://www.wsdot.wa.gov/accountability/fueltax/GasTaxComparisonReport_Jun05.pdf.
- ²⁰ WSDOT, Centennial Timeline, <http://www.wsdot.wa.gov/Centennial/1941-1960.htm>.
- ²¹ U.S. Budget, Historical Tables, <http://www.gpoaccess.gov/usbudget/fy05/hist.html>.
- ²² U.S. Budget, Historical Tables.
- ²³ Education accounts on average for 35% of all state general funds, and 54% of Washington's general fund. U.S. Census, State Government Finances 2003, <http://www.census.gov/govs/state/0300usst.html>.
- ²⁴ According to a comprehensive study by the Institute on Taxation and Economic Policy, state and local taxes overall are regressive. Washington state, one of only 7 states with no form of income tax, is the most regressive of all. Institute on Taxation and Economic Policy, *Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States*, 2nd Edition, January, 2003, <http://www.itepnet.org/wp2000/text.pdf>. U.S. Budget, Historical Tables, <http://www.gpoaccess.gov/usbudget/fy05/sheets/hist09z3.xls>.
- ²⁵ EIA, Gasoline and Diesel Fuel Update, 8/8/05, <http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp>.
- ²⁶ EIA, Refiner Sales Volumes by Grade, http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_marketing_monthly/current/pdf/pmmtab43.pdf.