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Mike Seeborg on Illinois Gas Tax, July 9, 2019

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WGLT Sound Ideas Interview with Mike Seeborg, July 9, 2019

WGLT: An economist predicts the state's recent gas tax increase of 19 cents per gallon will impact how much we drive; maybe not short-term, but likely over the next few years. Mike Seeborg is an Economics professor at Illinois Wesleyan University; he says that could change how we pay for our roads and bridges in the future and how we address climate change. Seeborg tells WGLT's Eric Stock he too was among the many lined up at the gas station last week, hours before the tax went into effect, hoping to save a few bucks.

Mike Seeborg: Just as aggravated I think as a lot of others were with the increase in the prices.

Eric Stock: The price of gas state-wide only went up about five cents in the first day according to GasBuddy, and it's trickled upward since then. Does that mean that station owners are absorbing the cost temporarily, are they just looking to gradually do it to avoid that sticker shock?

Seeborg: Yeah—now, there's a lot of things that affect gas prices, even from day-to-day. But for sure the gas tax is permanent and—at least in the short run—I would expect that to make its way into prices that consumers pay.

Stock: How close before the entire 19 cents is passed on to the consumer?

Seeborg: Oh, not long. No—no, the—it's a fairly inelastic—what we call an inelastic demand relationship. And so the—that means that the incidents of these kind of taxes almost always are borne by consumers.

Stock: At what point does price fluctuation impact driving habits—whether people drive out of town for the holiday and those types of decisions that people make with their daily lives?

Seeborg: I don't think it's so much the short-term fluctuations, but I think it's—if an increase in gas prices is permanent and is sustained for several years then gas habits are certainly affected. We saw this back in the 1970s for instance and—with gas prices going up because of conflicts in the Middle East mostly. And those were fairly long-term increases in price and consumers made adjustments—we started buying smaller, fuel-efficient cars—the Japanese really benefited from this because they made a lot of those cars and were able to export them to the United States. So the adjustment—if the price increase is sustained, then we can expect adjustments. I think as consumers we're used to short-run fluctuations in gas prices and we don't make adjustments that much in the short-run.

Stock: Well if you look over the last ten years, those fluctuations have continued; gas is cheaper than it has been at times in the past, but that could be short-lived.

Seeborg: It could be, yeah. It could be. We could see increases in gas prices and then I would expect some adjustments. The other thing that's happening at the same time that gas taxes are going up, pushing up gas prices, is registration fees are going up. That's kind of an overlooked aspect of all of this.

Stock: Because it's a one-time, once a year—

Seeborg: It's one time every year and so—and so if you own two vehicles, then the registration fee on both of those will go up by 50 dollars and so that's roughly a hundred dollar increase in fees—which is a tax—right there. And that'll be roughly equivalent to what you're paying in increased gas taxes. And so the fees sort of double the impact…(laughs)…

Stock: That increase would seem harder to avoid, unless you're going to trade a vehicle in, get rid of it, sell it—whatever. Maybe not a lot of people are gonna do that, they're just gonna have to eat it, right?

Seeborg: But some may. And—

Stock: Over the 50 dollar increase?

Seeborg: Um—if you have two cars, let's see, and you're on a—a low income, budget income—I think most drivers in Illinois would drive roughly 12,000 some odd miles per year, okay, and that would put you into about a hundred dollar increase in gas taxes. If you have two vehicles, then you're paying 200 additional dollars in gas taxes and a hundred additional dollars in registration fees for a total of 300 dollars. So that would take quite a hit on a lower income family.

Stock: Sure, when you combine those two things.

Seeborg: Yeah—and so it might pay that family then to get rid of the gas-guzzler and to hang on to the more fuel-efficient car and to try to make do.

Stock: And so because of those considerations, is it plausible to suggest that the increase in the gas tax and registrations could lead to significant changes in driving habits to the extent that this tax does not generate all the revenue that it is projected and the state is counting on for infrastructure?

Seeborg: It could lead to some changes, I think, at the margin as people who are deliberating on whether to keep that second car are facing the different additional expenses, they get rid of the second car, or maybe shorten your trips a little bit to save on expenses. So yeah, there will be some adjustments over time—this is a permanent change in the cost of gasoline and so we would expect some adjustments at the margin. It also puts the United States—it puts the state of Illinois in sort of the unenviable position of having among the highest gas taxes in the United States. I think we rank maybe third right now, third-highest, but if cities follow suit and increase—like Bloomington has—and increase their gas taxes, then that would probably move us up into the number one or number two position nationally of highest gas taxes.

Stock: And I was going to segue into that now; here on Sound Ideas I'm Eric Stock with Mike Seeborg, the Robert S. Eckley distinguished professor of Economics at Illinois Wesleyan University. As you alluded to, Bloomington increased its portion of the Motor Fuel Tax by four cents, making it eight cents. Normal did not do that, however. Does that create this double-whammy, that could impact driving habits here in our community?

Seeborg: Yeah the local—the Bloomington tax is, as you mentioned, is an increase of only four cents—the state tax increase is nineteen cents. So it does add to the cost of a gallon of gasoline, that's for sure. But…[laughs]…it also generates 2.3 million dollars of revenue for the city of Bloomington, which they can use—

Stock: Annually, yeah.

Seeborg: Annually—which they can use for much needed street repair and some improvement, probably.

Stock: Now when the city first talked about this, city manager Tim Gleason had dismissed concern that drivers would just travel across Division Street to gas up because over time gas prices would eventually reach parity anyway in the Twin Cities. Is that typically what happens?

Seeborg: Yeah—a four-cent difference is hardly noticeable, I think, and so it's unlikely that there'll be a lot of driving across city lines to fill up. There's more of a problem…[laughs]…with the state line, where—

Stock: People in Danville and border-communities would more likely go across into Indiana, or Kentucky, or Missouri.

Seeborg: Missouri, where gas prices are quite low right now, relative to Illinois, and so you'd expect some of that, but I don't think it'd be a major impact state wide. Virtually none in Bloomington and Normal.

Stock: If the four-cent difference is not that much, would that—would we presume then that Normal will at some point take that on and add it?

Seeborg: I think that's a pretty good guess if Normal is in need of some street repairs and some improvements then it would be a wise thing to do, I think.

Stock: well and of course, fuel powers so much of our economy, there's hardly a business out there that's not impacted in some way by this—in particular, trucking companies, transit agencies, even Uber, other ride-sharing services. How much do you expect they'll be able to absorb some of this and, ultimately, do we all end up paying for it as customers?

Seeborg: We do all end up paying for it as customers. A major part of the cost of ride-sharing for instance is fuel cost; it's an important part of the cost of it. Food delivery, especially, which is picking up in popularity now also is much affected by the cost of fuel.

Stock: And so what are the economic impacts for the state and for us as consumers? We're paying the 19-cent tax additionally for driving to work, driving to school, etcetera, and then there's also this second attack that comes from the companies we work with because they're not able to pay this entire fare themselves.

Seeborg: That's exactly right. To the extent that the cost of production of say an Uber service goes up, then eventually that'll show up in the fares that we pay.

Stock: Governor Pritzker has said that the state's infrastructure has been terribly neglected for a long time; roads, bridges, so much of that, has been underfunded for such a significant period of time. While they feel that they'll be able to save money in the long run by having proper maintenance as opposed to going back after the fact—after accidents, you know, after bridges fail and other sort of cataclysmic type events that the state has been neglecting.

Seeborg: That's an excellent point. So the positive side of these higher taxes that we're paying for fuel — the positive side of course is that they're going into infrastructure improvement. They're going into that 45 billion dollar...what is it called? Rebuild—

Stock: The capital bill? Rebuild Illinois.

Seeborg: The Rebuild Illinois Program. And most of that goes to transportation improvements and to the extent that we fill those potholes...[laughs]...and improve the quality of roads and bridges, especially, we're gonna have fewer repairs on cars—fewer busted tires and problems like that.

Stock: What do you feel about the economic case that the governor has made on this, that yes, we're gonna pay a little more but it's gonna put us ahead in the long run?

Seeborg: I think it's a good case and we're sorely in need of infrastructure improvements, that's for sure. All you have to do is drive on Illinois roads and drive in other states and you can see the —you can feel the differences.

Stock: Because of the emergence of electric vehicles and hybrid vehicles and those that are meant to cost less to fuel, there's been talk in Springfield of moving to a miles driven format to determine how much taxes you pay. That would involve everyone getting a tracking device that can monitor their mileage and aside from "big brother" reservations about that—if that were to happen, what kind of impact might that have in terms of peoples' driving habits?

Seeborg: Well, it could have an impact. There are other ways, though, of incentivizing less driving, and one of them is the tax itself. And there's been a lot of talk within the economics profession about a carbon tax generally as a way of dealing with global warming and climate change. And so in an instance at the micro level, that's what we're seeing is sort of a carbon tax on gasoline, which should cause us to drive somewhat more conservatively because of the higher gas prices. I think the monitoring idea is a lot more bureaucratic, it's gonna require a lot more expense than say the straight tax and probably will have a similar effect.

WGLT: That was Illinois Wesleyan University professor Mike Seeborg with WGLT's Eric Stock. This is Sound Ideas.