



Jumping prices not a gas for Midwestern lawmakers

by Tim Anderson

When gas prices soared earlier this summer, motorists fumed. Inevitably, that anger made its way to state legislatures, as governors and lawmakers mulled ways to drive down prices at the pump.

Midwestern states responded in various ways to what some deemed a crisis situation, and by July, people began seeing significant declines in the cost of gasoline. But while the price drop provided relief for consumers, it didn't completely ease the minds of lawmakers left with many unanswered questions. Was it sound public policy for Illinois and Indiana to temporarily eliminate their gas taxes? What caused the dramatic rise in prices? Can anything be done to avoid future problems? Why do Midwestern states have some of the highest prices in the United States?

Indiana became the first state in the region to respond to high gas prices when, on June 27, Democratic Gov. Frank O'Bannon suspended the state's 5 percent gas sales tax for 60 days. According to Indiana statute, a governor can sign an emergency executive order if gas supplies diminish to the extent that life, health or property may be jeopardized.

In signing the executive order, O'Bannon noted that gasoline stocks and blending component inventories were at their lowest level in the Midwest since the federal government began collecting data in 1981.

Some Indiana lawmakers, though, believe O'Bannon improperly stretched the intent of the state law for political gain, costing the state about \$12 million in revenue in the process.

The governor's decision traveled fast to neighboring Illinois. A few days after O'Bannon's announcement, Illinois lawmakers met in special session and, by a near-unanimous vote in both legislative chambers, approved a six-month repeal of the sales tax on gasoline.

"Clearly, O'Bannon's decision had an impact on our decision," says state Democratic Sen. Lisa Madigan of Chicago, who voted for the repeal. "You can't even find a gas station within 15 miles of the Indiana border because everybody goes to Indiana to buy their gas. So there is some competitive issue regarding gas prices in Illinois."

She agrees that politics played a role in the decision as well. With many of her colleagues up for re-election this year, voting against the repeal would not have made

political sense. But did voting for it make sound policy sense?

"It is a tax that impacts everybody, everybody from the people who are lucky enough to have an SUV to the people who have a 15-year-old car that they absolutely need to drive to their job," Madigan says. "The flipside is that the 5 percent gas tax we have isn't the reason gas prices are high. The reality is that there are so many other big-picture issues that the Legislature can't control."

The repeal will cost Illinois between \$150 million and \$180 million in tax revenue, an amount that Republican Gov. George Ryan says will be covered by budget surpluses. Community health care workers in Illinois had expressed concern that elimination of the gas tax would wipe out their previously promised cost-of-living increases.

The gas tax will be restored early next year unless the Legislature votes for an extension. "There will be continuing pressure to provide a permanent repeal, which would create a permanent hole in the budget," Madigan adds.

In states where fuel and/or gas levies go directly toward road projects, governors and lawmakers were more hesitant to repeal their taxes.

The pitch for ethanol

State leaders around the region are promoting greater ethanol use as way of solving fuel problems throughout the United States.

Kansas Republican Gov. Bill Graves wrote a letter to President Bill Clinton stating that a greater reliance on ethanol could help "meet clean air standards ... benefit our Midwest economy and help consumers at the gas pumps."

By increasing the use of ethanol, the United States would reduce its dependence on foreign oil and better be able to control gas prices, adds Illinois Rep. Bill Mitchell.

"It does not harm the environment, and it is a product that could revitalize the farm industry in Illinois," the Republican from Forsyth says.

Comparing gas prices

The following chart shows the average cost of regular gasoline per gallon in the 11 Midwestern states along with the national average.


State	July 17, 2000	June 17, 2000	July 17, 1999
Illinois	\$1.62	\$1.98	\$1.22
Indiana	\$1.44	\$1.77	\$1.10
Iowa	\$1.56	\$1.73	\$1.10
Kansas	\$1.50	\$1.74	\$1.10
Michigan	\$1.72	\$1.97	\$1.17
Minnesota	\$1.49	\$1.76	\$1.14
Nebraska	\$1.61	\$1.77	\$1.18
North Dakota	\$1.65	\$1.79	\$1.19
Ohio	\$1.48	\$1.71	\$1.16
South Dakota	\$1.65	\$1.79	\$1.19
Wisconsin	\$1.58	\$1.91	\$1.20
Nation	\$1.59	\$1.63	\$1.18

Source: AAA Daily Fuel Gauge Report

In Iowa, Democratic Gov. Tom Vilsack introduced a plan that would give every resident with a driver's license a \$10 coupon to purchase gasohol. But while ethanol was being touted by many Midwestern leaders, its required use in reformulated gas was being cited as one of the reasons for rising prices in parts of the Midwest (namely Chicago and Milwaukee). Problems with pipelines and refineries and the combination of a reduced supply of crude oil and increased demand by consumers also have been blamed for higher costs.

Some believe the Clinton administration, by not tapping into the nation's strategic oil reserves and reducing U.S. reliance on foreign oil, caused the high prices at the pump. Wisconsin Republican Gov. Tommy Thompson, an outspoken critic of President Bill Clinton's energy policy, also chided the Environmental Protection Agency for not granting Milwaukee a waiver from the mandated use of reformulated gas.

Other state leaders point the finger at the oil industry. Investigations into possible price gouging have been launched in numerous states, and Democrats in the Michigan House of Representatives proposed a package of bills aimed directly at the oil industry.

"The grip that big oil companies have over retail prices is the root of the problem," says Michigan House Democratic Leader Michael Hanley of Saginaw. As part of Michigan Democrats' plans, oil corporations would have to sell the 1,500 service stations they own in Michigan to independent owners. The corporations also would be prohibited from entering into exclusive purchase agreements with independent service station owners. 

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Sen. Lisa Madigan
Illinois