Pennsylvania Budget and Policy Center

PENNSYLVANIA
Budget and Policy Center

412 N. 3rd St, Harrisburg, PA 17101 • www.pennbpc.org • 717-255-7156

Time to Help People not Oil Companies

By Marc Stier March 25, 2022

Pennsylvania families and our economy are currently being stressed by a rise in prices that is the result of an unexpectedly quick economic recovery the supply chain issues it created, the gas price spike created by Russia's war on the Ukraine, and the determination on the part of multi-national corporations to take advantage of these conditions to maximize their profits. As we have shown elsewhere, the state will have an accumulated surplus of $10.2 billion at the end of the current fiscal year. The Republican-controlled General Assembly has left much ARP money unspent and added far more of it than necessary to the General Fund to balance the budget. It's time to use that money to deal with the current difficulties faced by Pennsylvania families—including the rise in gas prices—which in turn threaten to slow our economic recovery.

To do that, we urge the General Assembly to enact three key elements of the Brighter PA program put forward recently by Governor Wolf and House and Senate Democrats:

- $200 million for the Property Tax Rebate program, which would give a one-time bonus to low-income renters and homeowners. This program would give an estimated 466,000 Pennsylvanians an average additional rebate of $475.
- $500 million for the PA Opportunity program to provide grants that average about $700 for a family of four to 3 million low- and moderate-income Pennsylvania families.
- $225 million for the COVID Relief Statewide Small Business Assistance Program, which would provide grants ranging from $5,000 to $50,000 to 11,000 small businesses that have been hurt by the pandemic. Business owners could use these grants to cover operating expenses and access technical assistance, including training and guidance, to stabilize and relaunch their businesses. The program would prioritize women- and minority-owned businesses and rural communities.

In addition, we propose that the state use ARP funds to send the owners of registered cars and light trucks a $250 rebate check per vehicle to offset the temporary increase in the cost of gas. We include light trucks because we recognize that many families and small businesses, especially in rural areas, rely on trucks rather than cars for their transportation needs. We would exclude all government- and corporate-owned fleet vehicles from this program. Our estimate is that, after excluding fleet vehicles—which make up roughly 15% of the cars and light trucks registered in Pennsylvania—this program would cost the state about $1.8 billion.

The total cost of these four programs would be $3.2 billion. It should be paid for by ARP funds, including those uncommitted and those that were unnecessarily added in June to the General Fund which, at the end of this fiscal year, will have a surplus of more than $4.7 billion.

Republicans in Harrisburg have recently called for cutting Pennsylvania's gas tax to soften the blow of higher gas prices. An effort to offset higher gas prices is a good idea, both because it would help Pennsylvania workers and families and because it would keep the economic our economic recovery going. But a temporary gas tax cut is the wrong policy for four reasons.

First, the record is clear: when gas taxes go down, wealthy oil companies do not reduce prices at the pump at the same rate, if at all. Instead, oil companies take their time reducing prices or do so less than would be justified by the reduction in taxes. That's even more likely to be true in Pennsylvania (where our gas tax is a wholesale, not retail, tax) than in other states where the gas tax is a consumer tax.

The lack of relationship between the costs paid by oil companies and the price of gas is widely known. A 2014 St. Louis Federal Reserve report showed that gas prices tend to rocket but then fall like a feather when oil prices increase and then decline. This occurs because oil companies have leverage over both wholesale and retail prices. When supply chain disruptions raise oil prices, refineries "use pricing to control inventories." Because "gasoline has finite supply, refineries can accommodate anticipated gasoline shortages by raising prices…" And then when oil prices fall, the lack of competition in retail markets for gasoline allow oil companies to adjust prices downward slowly as costs decline "because consumers" are "already accustomed to higher prices." This allows the ratio of gas to oil prices to rise.

The same economic mechanisms that make gasoline prices unresponsive to a decline in oil prices would also lead them to fall slowly in response to a reduction in gas taxes. And, again, that would be more likely when the tax is applied at the wholesale level, not the retail level, as is the case in Pennsylvania.

Second, cutting gas taxes would provide an unnecessary handout to oil companies that are already making windfall profits. This is especially unfair in Pennsylvania because our deeply flawed corporate tax system allows wealthy, multinational companies to escape corporate net income taxes entirely. Giving oil companies a break by lowering gas taxes would add insult to the injury of not taxing their extraordinary profits. A gas tax holiday is a plan to bail out the same wealthy corporations that already get away without paying their fair share of taxes to the state.

Third, using state funds to reduce gas taxes would subsidize wealthy corporations that use substantial amounts of gas such as large trucking companies, delivery companies like FedEx, and the online retailers like Amazon that use delivery companies. With a limited supply of funds, the state should be targeting relief from high gas prices to regular Pennsylvania families, not wealthy corporations that are already passing higher prices on to consumers.

Fourth, any reduction in gas taxes would threaten to disrupt ongoing work to fix our roads and bridges. This is bad for Pennsylvania workers engaged in that work, and it's bad for consumers as well. Even if the gas tax were to lead to a small reduction in gas prices, it wouldn't help Pennsylvania families if the pothole tax were to go up and cost people money at the mechanic's for repairing shock, struts, and springs damaged by Pennsylvania roads and bridges in a bad state of repair.

Unlike a gas tax reduction, our four proposals—especially sending Pennsylvania car and light truck owners a $250 check per vehicle to offset the temporary increase in the cost of gas—are policies that target state funds to help Pennsylvania families that are dealing with temporarily high prices for gas and other goods, such as child care and housing. And the provision to help small businesses would focus ARP funds on helping small, local businesses not wealthy, multinational corporations. Helping Pennsylvania families and individuals deal with temporary increases in prices would also ensure that the state's economic recovery does not falter.

Pennsylvania can use ARP funds to help families and our economy as a whole It's time for the General Assembly to act.