



REAGAN DEVOLUTION:

The Real Story of the
1982 Gas Tax Increase

Foreword and Acknowledgements

Foreword

Federal transportation policy in the U.S. has been struggling with a funding crisis for over a decade. Though our Highway Trust Fund (HTF) did not actually require a general fund bailout until 2008, there were concerns about insufficient funding and the need for a gas tax increase to support the program as early as 2002. Congress created two commissions, trade associations launched lobbying efforts, and think-tanks like Eno churned out reports. Yet despite all of these efforts, Congress continues to be in the same place it has been all of that time – unable to increase the gas tax, unable to cut transportation funding, and bailing out the HTF on a regular basis.

In all of the analysis that has been done on this issue, it is difficult to avoid the hard fact that transportation is not an issue that generates widespread public demand for tax increases. In fact, there has not been an increase in the gas tax exclusively for the purpose of funding transportation since 1982 (the 1990 and 1993 increases initially helped fund deficit reduction). This fact often makes people in transportation even more depressed. But there is a bright side – it was somehow possible, at one time, for Congress and the President to agree to increase taxes in order to pay for transportation.

In this research, Jeff Davis, Eno Senior Fellow and Editor of *Eno Transportation Weekly* takes a closer look at how this ever happened. Jeff has conducted painstaking and groundbreaking research on this topic to help all of us better understand the circumstances that led to this remarkable event in 1982, and we can all learn something from what he has found. What we have learned may not enable anyone to engineer a tax increase, but hopefully it can thoughtfully inform all of us as we attempt to tackle this critical issue.

Joshua Schank, Ph.D., *President and CEO*

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(Much of this paper is based on original documentary research done at the Reagan Library and at the Manuscript Division of the Library of Congress. A 506-page PDF compilation of the original documents, many of which have never been made public, can be found on the Eno Center for Transportation website at www.enotrans.org/publications.

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Reagan Devolution: The Real Story of the 1982 Gas Tax Increase

By Jeff Davis, Senior Fellow, Eno Center for Transportation

Overview. The Highway Revenue Act of 1982 has now passed into transportation industry folklore as a triumph of bipartisanship – a Republican President who had recently passed the largest tax cuts in living memory joined with a Democratic House of Representatives and a Republican Senate to more than double (from 4 cents per gallon to 9 cents per gallon) federal motor fuels taxes and to use that money to provide large increases in federal spending on highways and bridges and, for the first time, to provide a permanent federal role in funding urban mass transit. Crumbling infrastructure would be repaired; jobs would be created; and economic recovery would be advanced. As the legend goes, people of goodwill in both political parties saw a great national need and came together to find a politically challenging, bipartisan, common-sense solution. The reality is a bit messier. New research into the documentary history of the 1982 motor fuels tax increase reveals that:

- Senior Cabinet, White House, and Treasury Department officials were exploring a much larger motor fuels tax increase as early as October 1981, but for deficit reduction purposes, not for transportation.
- President Reagan originally approved doubling motor fuels taxes in January 1982 as a means of financing his New Federalism Initiative, with the goal of eventually turning back, or “devolving,” most federal transportation programs to the states, but he changed his mind and canceled the tax increases two days later.
- All of Transportation Secretary Lewis’ proposals to the White House for motor fuels tax increases in 1982 were framed as furthering the cause of the New Federalism, and the eventual devolution to states of many existing federal highway and mass transit programs and were further justified as providing short-term reductions in the unified federal deficit.
- Republicans on the Senate Finance Committee held a secret vote in a closed caucus session in June 1982 and agreed to double the gas tax to pay for deficit reduction – but the Reagan Administration talked them into reversing that vote.
- The decision to extend expiring federal highway and transit programs into the 1982 post-election lame-duck Congressional session was unintentional, as a power struggle between House chairmen prevented Congress from passing a planned one-year highway bill. Having a one-year extension in place would have made enactment of a gas tax increase in a lame-duck session more difficult.
- Reagan’s decision to request a 5-cent-per-gallon gas and diesel tax increase in November 1982 was predicated on the assumption of an eventual devolution of a large part of the highway program back to states and on the understanding that the gas tax would not be used to finance “new starts” of subway systems.

As today’s policymakers search for revenue options to put the Highway Trust Fund back on a path to solvency, the lessons of how a politically divided Congress dealt with the issue are still relevant more than 30 years later. The full story of the 1982 gas tax increase – and how it was intertwined with deficit politics and the “New Federalism” – follows.

Timeline

February 22, 1981

Sec. Lewis and Office of Management and Budget (OMB) Director Stockman suggest a temporary 2 cents per gallon gas tax increase but no formal proposal is ever made.

March 1981

USDOT submits a proposed 5-year highway bill with no tax increase.

October 1981

White House and Cabinet officials discuss a gas tax increase as high as 10 cents per gallon in the context of deficit reduction but are rebuffed by the President.

November 1981

White House and Treasury staff rapidly assemble a “federalism initiative” that would double or triple excise taxes (including gasoline) immediately to finance a gradual turnback of many federal programs to states and localities. The plan would also reduce federal deficits in the short term.

December 15, 1981

Lewis proposes increasing highway user taxes by an equivalent of 5 cents per gallon, with 1 cent going to transit.

December 22, 1981

A Cabinet Council meeting defers action on Lewis’ proposal.

January 20, 1982

President Reagan agrees to double the gas tax as part of the New Federalism pay-for.

January 22, 1982

Reagan changes his mind and orders all tax increases removed from the New Federalism package.

February 18, 1982

Drew Lewis sends a revised, Federalism-friendly proposal for a 5 cents gas tax increase to the President’s close advisor Ed Meese.

March 9, 1982

A Cabinet Council meeting defers Lewis’ proposal for further review.

May 18, 1982

At another Cabinet Council meeting, President Reagan decides “not to support, at this time” Lewis’ proposal but tells him to try again next year in formation of the FY 1984 budget.

June 29, 1982

Republican members of the Senate Finance Committee hold a closed-door caucus to draft a deficit reduction tax bill. The Senators tentatively agree to include a 5 cents per gallon gas and diesel tax increase, but are talked out of it by the White House and the Treasury Secretary.

November 10, 1982

The Cabinet Council once again discusses Lewis’ gas tax proposal, and this time the President takes it “under advisement.”

November 23, 1982

In the presence of his full Cabinet, President Reagan formally decides to ask Congress for the 5 cents motor fuels tax increase in the lame-duck session of Congress.

November 30, 1982

President Reagan formally transmits his revised transportation bill (with the tax increases) to Congress.

December 21-23, 1982

The House and Senate agree to the final conference report version of the surface transportation bill (H.R. 6211).

January 6, 1983

President Reagan signs the Surface Transportation Assistance Act (which contains the Highway Revenue Act with the tax increase) into law as Public Law 97-424.

Part I: 1981 - Balanced Budgets and the “New Federalism”

Election and transition. As President-elect Ronald Reagan prepared to take office in January 1981, the federal excise tax rates of 4 cents per gallon on gasoline and diesel fuel had not been increased since 1959. The December 1980 annualized inflation rate was 12.5 percent, and the Federal Highway Administration’s (FHWA) estimate of the cost of highway and bridge construction projects (a composite index of excavation costs, pavement, and structures) had more than doubled between 1972 and 1980, rising 152 percent.¹ Yet the tax receipts of the Highway Trust Fund, tied as they were to flat rate excise taxes, had only grown by 38 percent over the 1972-1980 period (see Figure 1).

The coattails of Reagan’s 1980 election had a particular effect on transportation finance policy in the House of Representatives. Public Works and Transportation Chairman Harold “Bizz” Johnson (D-CA), whose rural district in Northeast California was the size of Indiana, lost handily and his successor as chairman was Jim Howard (D-NJ), who represented the northern third of the Jersey Shore. The 1980 election also claimed the career of Ways and Means Chairman Al Ullman (D-OR), who represented a rural district larger than New England, and his replacement was Dan Rostenkowski (D-IL) of the North Side of Chicago. In both cases, chairmen who were reluctant supporters of mass transit were replaced with enthusiastic

supporters. Also, the Democratic losses tended to fall amongst legislators from rural districts, who were by nature more pro-highway and less pro-transit, leaving the remaining Democratic Caucus more pro-transit.

During the energy policy debates of 1977, both Howard and Rostenkowski offered amendments on the House floor to increase gasoline taxes and dedicate part of the proceeds to mass transit. But solid Republican opposition, as well as a lack of support from many Southern and rural Democrats and a diffident White House, caused both amendments to fail by huge margins.²

In 1979, when President Carter proposed to alleviate gasoline shortages by deregulating petroleum prices and impose a “windfall profits tax” on the increased oil prices, Howard introduced a bill to deposit 25 percent of that crude oil tax into a new Public Transportation Trust Fund (H.R. 6207, 96th Congress) and then use that trust fund to pay for massive increases on transit spending, but the Ways and Means Committee ignored the proposal.

Congress then tried throughout 1979 and 1980 to enact a mass transit reauthorization bill relying on general revenues (H.R. 6417 and S. 2720, 96th Congress), putting transit on a separate reauthorization timetable from the highway bill, but reconciling House and

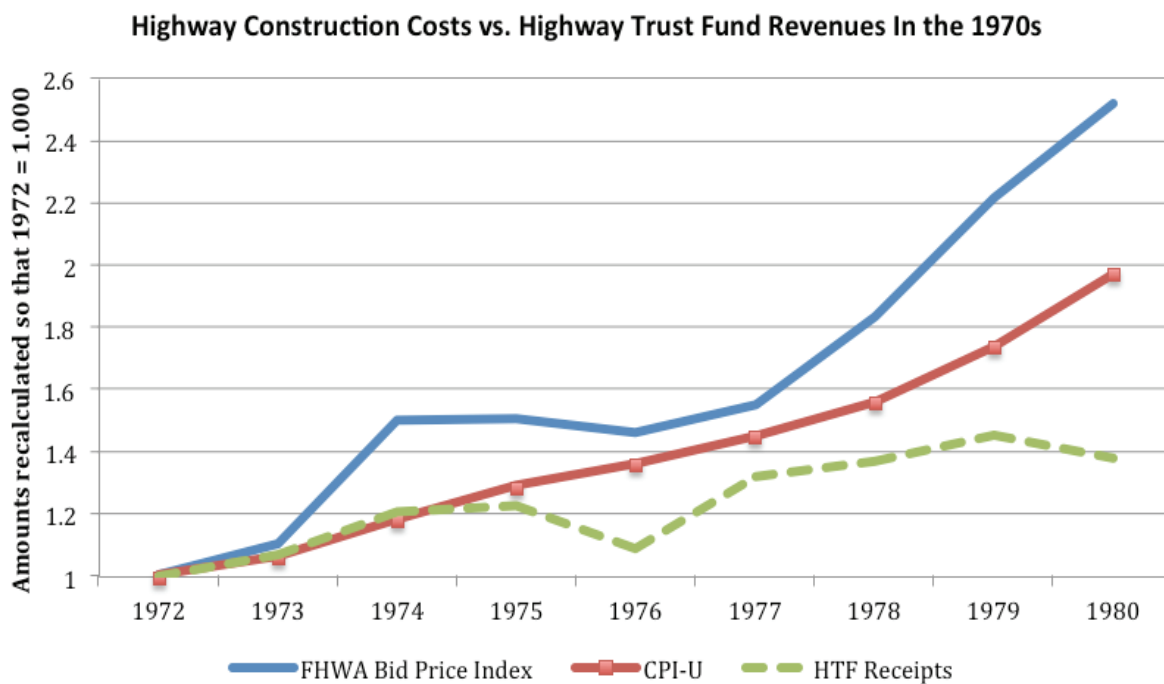


Figure 1

Senate versions of the bill was left until the 1980 lame duck session, and the change in Senate control in the 1980 elections led the incoming chairman of the Senate transit subcommittee, Richard Lugar (D-IN), to kill the bill via filibuster so he could write a new bill in the next Congress.³

Transit advocates had been trying to open up the Highway Trust Fund (HTF) to transit projects for a decade, with varying degrees of incremental success in 1973, 1976 and 1978. But the failure of a separate transit bill in the 96th Congress meant that the highway and transit programs would both have to be reauthorized by the 97th Congress, with the most pro-transit House Democratic Caucus in history and with pro-highway legislators potentially needing urban votes to increase funding (or tax resources, or both) for highways.

In late 1980, the Government Accounting Office was consulting with the staff of the U.S. Department of Transportation (DOT) and with state DOTs to analyze the effects of inflation and of aging infrastructure on the U.S. transportation system. The report recommended Congress consider “Revising the Federal motor fuel tax and other highway revenue sources to be more responsive to highway needs and the inflationary trends in highway costs.”⁴ The Department of Transportation comments on the report noted that the Federal Highway Administration had already concluded that “There is a need to revise the existing financing mechanism.”⁵

The transition briefing book prepared for the incoming Treasury Secretary in November 1980 had a page on the Highway Trust Fund, warning him that “About 75 percent of the \$7 billion in annual revenue comes from the 4 cents a gallon tax on motor fuels...DOT is the key agency. They have been considering raising annual user tax revenues to \$13 billion by 1985.”⁶

The Reagan transition task force for the Department of Transportation was populated with former Nixon-Ford Administration transportation officials, academics, and private sector experts in various fields. They gave their report to Reagan’s staff on November 28, 1980. The report said that the task force agreed to be guided by four principles. Three of those were pretty standard

stuff for Republicans: restrict the federal role to areas where the private sector and state/local government clearly could not do the job; keep economic regulation to a minimum; and use lots of benefit-cost analysis. But the fourth principle was: “When federal expenditures are used to finance transportation investment or operations, these expenditures should be recovered from the beneficiaries in a manner that is appropriate to the costs incurred on their behalf, unless widely accepted national policy directs otherwise.”⁷

(The issue of how to properly allocate the construction and maintenance costs of the highway system amongst different classes of users was an old and difficult one. A dispute over the mix of truck taxes was a key factor in the defeat of the original Interstate highway bill in 1955 in the House of Representatives, and after debating the future of the Highway Trust Fund in 1978, Congress required DOT to undertake a comprehensive new study of the costs imposed by each class of users on the highway system. That study was due to be completed in 1982.)

Where the Highway Trust Fund was concerned, the task force’s report recommended, “Although the Fund does not expire until 1984, its current rate of expenditures exceeds its collections. The Task Force endorses the continued use of a Trust Fund as the proper method to support the federal aid highway system; it recommends that the tax structure, currently cents a gallon, be modified appropriately so that the Fund remains solvent and each class of beneficiaries pays the share of costs incurred on its behalf. It may be necessary to shift to some sort of tax ‘indexing’.”⁸

Drew Lewis. One of the members of the transportation transition task force was business management consultant Drew Lewis, who Reagan named to be the next Secretary of Transportation on December 11, 1980. Reagan knew Lewis for his integrity – back in 1976, Lewis had chaired the Pennsylvania GOP delegation and had been a Ford supporter when Reagan was challenging Ford for the presidential nomination. Reagan then promised that, if nominated, he would name Lewis’ friend, Sen. Richard Schweiker (R-PA) to be his Vice Presidential nominee, but Lewis said that he could not go back on his word and stayed loyal to Ford.⁹

When 1980 came around, Reagan named Lewis his Keystone State chairman. Lewis was so high up in the 1980 campaign that it was Lewis who was in Reagan's hotel room at the Republican Convention and placed the call to George H.W. Bush so that Reagan could offer



Transportation Secretary Drew Lewis.

Bush the Vice Presidency.¹⁰ (Another member of the transportation transition task force was Reagan's 1976 Texas campaign chairman, Ray Barnhart, who would become Reagan's first Federal Highway Administrator.)

White House Budget Director David Stockman played a key role in Reagan's first year and was in charge of implementing the domestic spending cuts that Reagan had promised in his campaign. Stockman wrote in his memoir *The Triumph of Politics: Why the Reagan Revolution Failed* that when he was proposing budget cuts in early 1981, he especially wanted to get rid of mass transit operating subsidies (which he called "a special abomination") and kill federal funding for local roads and bridges. Stockman wrote that "Drew Lewis, Secretary of Transportation and probably the most astute politician in the Cabinet, turned completely white when I first laid out my plans to scrap the local highway and transit subsidies...Lewis finally said, okay, why not raise the federal gasoline tax modestly and let the states preempt a share of it? He felt this compromise would make it politically feasible to eliminate \$20 billion – nearly 30 percent of the built-in spending on these programs – over the next five years."¹¹

Lewis and Stockman went as far as to take that idea before the National Governors Association on February 22 as a trial balloon, proposing a temporary 2

cent per gallon increase for two years, but that the tax would not be charged in any state that increased its own gas tax by the same amount. But the governors pushed back, with California Gov. Jerry Brown (D) saying that at the end of two years, states would be "leveraged into a position where they have to pick up the taxes."²

Nothing came of the gas tax discussion at the time. On March 17, 1981, Lewis submitted to Congress a proposal for a five-year surface transportation reauthorization that contained no tax increases and reflected the highway cuts sought by Stockman.¹³ (See Table 1.¹⁴) The bill would have maintained existing tax rates and would have spent HTF balances down to \$1.4 billion by the end of the proposal (new obligations would have risen from 114 percent of 1982's HTF income up to 147 percent of 1986's HTF income, a clearly unsustainable trend).

At a House hearing on April 28, in response to questioning from fellow Pennsylvanian Bud Shuster, Lewis said:

It is very clear, with a 4 cent gasoline tax, that we can complete the Interstate system with somewhat of a depletion of the Highway Trust Fund; we can complete the ongoing programs we are recommending. There are not going to be enough funds, and they must come from the State or Federal level, to fund rural and urban roads as we get into 1983, 1984, and 1985.

Therefore, it will be a matter of imposing a particular tax, a user tax for gasoline on highways, whether it takes place at the Federal or the State level. We feel it should take place at the State level...The money should not come down to our department, and then be sent back to the States, 75 or 70 cents on the dollar. The money should be kept locally. That is really our philosophy.⁵

Reagan's California experience. Reagan dealt with both motor fuel taxes and mass transit subsidies during his time as Governor of California from 1967-1975. The state excise tax rate on gasoline stayed at a flat 7 cents per gallon from 1963 to 1983, but Reagan signed a law in 1971 providing a permanent revenue stream for mass transit outside the excise tax system (one which many other states are still imitating).

Table 1

The Reagan Administration's Proposed March 1981 Highway Reauthorization Plan

(Millions of dollars.)

	HTF Authorizations			HTF	HTF Cash Flow		
	Interstate	Other	Total	Obligations	Income	Outlays	Balance
FY 1957-1980	77,977	45,998	123,975	117,959	116,236	105,237	10,999
FY 1981	3,900	5,336	9,236	9,236	7,935	8,759	10,175
FY 1982	4,100	4,744	8,844	8,844	7,763	8,142	9,795
FY 1983	4,925	4,504	9,429	9,429	7,860	8,774	8,881
FY 1984	5,625	4,165	9,790	9,790	7,570	9,327	7,124
FY 1985	5,725	4,215	9,940	9,940	7,230	9,678	4,675
FY 1986	6,325	4,265	10,590	10,590	7,180	10,466	1,389

The Reagan Administration's first plan for reauthorizing the highway program contained no tax increase and paid for a significant increase in Interstate construction funding with a 20 percent decrease in non-Interstate funding and a spend-down of HTF balances from \$10.1 billion down to \$1.3 billion by the end of the bill, a trend which would clearly have led to the bankruptcy of the Trust Fund if the bill were extended into 1987.

When Reagan took office, all of California's 7 cents per gallon gasoline and diesel taxes were reserved by the state constitution for highway construction and maintenance. A ballot initiative (Proposition 18) that would have set aside 25 percent of the 7 cents per gallon for mass transit (justified to the public as an anti-smog initiative) was defeated, 54 percent -46 percent in November 1970. (The powerful "highway lobby" spent heavily to defeat Prop 18.)¹⁶

With the voters having spoken on the issue of dedicating part of the cent-per-gallon excise tax to mass transit, legislators looked elsewhere. At the time, California had a 5 percent sales tax, split 80-20 between state funds and local funds. And sales of motor fuels were exempt from the sales tax.

California's Transportation Development Act (TDA) of 1971 (the Mills-Alquist-Deddeh Act, or SB 325) ended the motor fuels exemption from the 5 percent sales tax and then altered the state-local split of sales tax receipts from 80-20 to 75-25 (from 4.00 percent - 1.00 percent to 3.75 percent - 1.25 percent). The increased state revenues from extending the sales tax to gasoline (\$133 million per year) would be matched by the reduction in the state's share of the overall tax proceeds (a loss of \$129 million per year).¹⁷

The increased local share of the sales tax had to be spent by the county (or local transportation district) on mass transit and "was not very local; expenditure of these funds was made subject to state statutes and administrative code of the TDA."¹⁸ Reagan insisted that each of California's 58 counties be forced to hold a vote on whether or not to accept the money (he had originally wanted the whole bill to go to a statewide

vote, but the bill's sponsors were reluctant to take that step in the aftermath of the Prop 18 vote).¹⁹ Sales taxes collected in one county could not be transferred to another, and counties with a population under 500,000 could use the money for roads instead.

Upon signing the bill, Reagan spoke of the local control aspect, saying that the TDA put "directly in the hands of locally elected officials the responsibility of assessing the overall public transportation needs of the communities they know and represent."²⁰ The *Los Angeles Times* noted that the enactment of the TDA "cracked, at least slightly, the tight hold that the so-called highway lobby has held on revenue raised from gasoline for many years" and that motorist organizations actually supported the bill, whereas petroleum interests did not fight it nearly as hard as they had fought Prop 18.²¹

The TDA is still on the books and is still the Golden State's primary method of funding mass transit. (And the population threshold of 500,000 was set based on the 1970 Census, so all counties that qualified to use the money on highways in 1971 still qualify today, no matter how much they have grown since then.)

"Revenue enhancement." Legislatively, the first six months of Reagan's presidency were almost exclusively devoted to the budget (with a hiatus for the attempt on Reagan's life and his recuperation). On August 13, Reagan signed his tax cut bill and his budget reconciliation bill into law, and the latter of those contained slight cuts in highway and mass transit funding. Also in August 1981, the air traffic controllers' strike took place, the aftermath of which monopolized most of Lewis' time for several months.

By all accounts, Lewis' performance during the strike and aftermath cemented his position in the President's high esteem.

By September 1981, a worse-than-expected recession had begun and while Congress had enacted Reagan's tax cuts, the full range of spending cuts were meeting with more resistance. In particular, Congress had already killed the President's plan for Social Security reform. A September 21, 1981 OMB memo for Reagan laid out stark numbers, telling the President that although they had hoped to balance the budget by FY 1985, the combination of the "magic asterisk" (savings to be named later in the earlier iterations of the Reagan budget) and Congressional rejection of Administration proposals now promised a \$60 billion deficit in 1985 instead.²²

By October 6, Treasury was working on a "revenue enhancement" package of non-controversial items (accounting changes, changes to energy tax credits and tax-exempt bonding, etc.) that would raise an extra \$21.3 billion over three years. But an internal memo to Treasury Secretary Donald T. Regan on October 8 warned that "it is clear that the Administration's proposal to raise \$22 billion in revenue has provided Congress a rationale, a vehicle, and an excuse for opening up the tax bill. Because of the resistance to further deep spending cuts, there is very little doubt that Congress will attempt to reduce the budget deficit by raising revenues."²³

A Senate Budget Committee staff analysis dated October 7 in anticipation of the committee's markup of the second FY 1982 budget resolution (in those days, Congress had to adopt two budget blueprints each year, the second to reconcile the goals of the first resolution with the facts on the ground after the August recess) contained a list of "Potential Excise Tax Increases" which listed options for doubling a variety of excise taxes, including taking the gasoline tax from 4 cents per gallon to 8 cents.²⁴ On October 16, the Tax Policy staff at Treasury sent Secretary Regan a memo entitled "Possible Options for Large Revenue Raisers" that talked about raising \$33 billion over three years from a \$3 per barrel oil tax, or raising \$18.8 billion from a natural gas windfall profits tax, or raising \$36 billion from a change in the deductibility of health insurance. The memo also listed options for doubling several excise taxes – but not gasoline.²⁵

During its first term, the Reagan White House

developed domestic policy through a series of sub-cabinet groupings called Cabinet Councils first established in February 1981, each of which would be led (in the President's absence) by a chairman *pro tempore* and would be coordinated by a White House domestic policy staffer who would also answer to the chairman *pro tem*.²⁶ At the time, Presidential counsellor Ed Meese explained that the structure would fulfill Reagan's campaign pledge to have Cabinet secretaries rather than White House staff take the lead in policy formation and to reduce infighting between agencies and the White House.²⁷

The foremost of these was the Cabinet Council on Economic Affairs (CCEA), which was chaired *pro tem* by Treasury Secretary Don Regan and whose members also included the Secretaries of State, Commerce, Labor, and Transportation, the OMB Director, the U.S. Trade Representative, and the head of the Council of Economic Advisers. The Vice President, White House Chief of Staff Jim Baker, and Presidential Counsellor Ed Meese were *ex officio* members of the CCEA and the staff coordinator was Roger Porter. The CCEA was by far the busiest Cabinet Council early on – between February 1981 and June 1982 the CCEA met 100 times, at which Secretary Regan was present 95 times and the other principal members (including Drew Lewis) averaged 53 percent attendance. (President Reagan himself turned up seven times.)²⁸

On October 20, the CCEA met to discuss revenue enhancement. Porter wrote that there was support for the revenue raisers presented so far, but:

What was most important though was the discussion that followed. Secretary [of Health and Human Services] Schweiker [who Reagan had picked to be his running mate in 1976] began by asking about other possible measures that might be included in the package, such as increasing the excise tax on alcohol and tobacco. Drew Lewis then observed that there was growing need for the highway trust fund and that we could easily, in his view, pick up additional revenue through a gasoline tax. His initial recommendation was for a 3 cents a gallon increase in 1982, another 3 cents increase in 1983, and a 4 cents increase in 1984. He observed that one gets about \$1 billion in revenue for each 1 cent of increased tax.

Moreover, he said that he felt it was in fact a user fee. Schweiker then observed that with the escalating federal payments for medical care that the alcohol and tobacco taxes were also user fees and that the federal alcohol and tobacco taxes have not been increased since 1951.

[U.S. Trade Representative] Bill Brock then observed that he thought we should be talking about raising another \$40 billion in revenue and that for starters he thought we should consider a 25 cents a gallon increase in the gasoline tax and possibly a value added tax.²⁹

(The “unified budget” concept implemented in 1969 meant that operating surpluses in trust funds served to offset the deficit run by the general fund and thus lower the overall size of the unified federal deficit.)

By October 28, 1981, the Treasury options paper for excise tax increases now included two gas tax options: doubling the tax effective April 1, 1982 (\$7.8 billion over three years) and the 10 cent plan (3¢-3¢-4¢) mentioned by Lewis with the same effective date (\$10.6 billion over three years). In a list of pros and cons attached to that document, the Office of Tax Analysis noted that if the tax were doubled, “The effective rate would still be only about 10 percent [of the price of a gallon of gas], as compared to 11 percent in 1975 and 23 percent in 1970” but also that “The present Federal gasoline tax is a user charge to help pay for highway construction and maintenance. An additional tax for the general fund has no such rationale” and that “The tax would be regressive by income class.”³⁰

But Reagan refused to countenance any more tax increases that would begin in fiscal year 1982, so any hope of enacting a November/December 1981 tax package died. However, at about this time (early November), something else interesting started happening: senior White House staff began searching for ways to get the President to accept something he hated (a tax increase to reduce the federal deficit) by packaging it as a pay-for for something he loved (devolving federal programs back to states and localities).

Raising taxes for Federalism. President Nixon had first proposed a “New Federalism” in an August 1969 address to the nation, but the initial version did not

address transportation programs. By 1970, Nixon’s New Federalism had morphed into “revenue sharing,” where the federal government would just write checks to state and local governments and pay them to carry out programs that had previously been carried out by the federal government. President Nixon’s 1971 State of the Union message proposed implementing revenue sharing as a series of six massive block grants, one of which would have been a \$2.6 billion per year transportation block grant for all non-Interstate federal highways, all mass transit, and airport grants, paid for by existing federal highway and aviation taxes and general revenues – but Congress completely ignored that proposal.³¹ A form of revenue sharing became law in 1972, but by that point it had nothing to do with transportation.

As a candidate for President in February 1976, Reagan had issued a white paper on “The Transfer of Federal Programs and Revenue Sources to State and Local Governments.” It proposed transferring a variety of federal programs back to states in broad areas like welfare, education, housing, and regional development (though not transportation). Receipts of federal taxes sufficient to support those programs would also be transferred to states, but the federal taxes would slowly decline, leaving the states to pick up the difference. The key was that “During the transfer process both federal revenues and federal programs would be transferred to the states and communities at the same time. As the federal taxes paid by the citizens of a state declined, the revenue flowing to the state and localities in that state would increase. During the transfer the size and scope of the programs would remain unchanged.” (Interestingly, Reagan also said that programs that are “handled by trust arrangements outside the general revenue structure should not be transferred.”)³²

The President appointed an advisory council on federalism on April 8, 1981 (chaired by his close friend Sen. Paul Laxalt (R-NV), who had been the national chairman of his 1976 presidential campaign) with the stated goal of “providing a forum to develop ideas and...keep Congress informed and involved in the process [of developing long-term federalism goals].”³³ The task force met throughout the year but did not accomplish much other than to provide a venue for state and local officials to discuss federalism issues with the White House.³⁴

As far as federalism and taxes went, Reagan was

focused on the eventual reduction of the federal tax base, telling the National Council of State Legislatures in July 1981 that “The ultimate objective, as I have told some of you in meetings in Washington, is to use block grants, however, as only a bridge, leading to the day when you’ll have not only the responsibility for the programs that properly belong at the State level, but you will have the tax sources now usurped by Washington returned to you, ending that roundtrip of the peoples’ money to Washington, where a carrying charge is deducted, and then back to you.”³⁵ But once Reagan rejected new revenue increases for the stated purpose of deficit reduction, the White House staff started working furiously on a federalism proposal that, not incidentally, would also reduce federal deficits in its first few years.

Reagan was aware of the idea of financing federalism with a gas tax increase at this time. He gave an interview to reporters on November 19, 1981 that included this exchange:

Q. Do you continue to oppose such things as increasing the gasoline tax and perhaps then giving the States a part of that increase?

The President. Again, you’re getting to the area that we haven’t thought of—nothing should be ruled out until you see if it’ll work. I have spoken of such things as, “What if the Federal income tax had a provision that x percent of that tax would not even come to Washington, would be retained in the States where it is collected for the States to use as they see fit?”

Excise taxes of the kind you’ve mentioned might be a way, as the example I gave of Norris Cotton when he suggested one. I think it would depend a lot on what is the revenue that’s going to be gained, compared to the responsibility that you want it to cover. Is it one that is going to grow as the economy grows? Or is it going to be a static kind of tax that might meet the situation now, but won’t meet it down the road a-ways?

Q. So, as of now, you wouldn’t rule out possibly increasing the Federal gas tax and giving some of that increase to the States?

The President. Oh, I won’t rule anything out. Right now there is a sizable Federal gas tax,

and most States—like our own has a gas tax also. The Federal gas tax came into being for the Federal interstate highway system—and I’m wondering if that’s ever going to be completed—and it was supposed to be a temporary thing.³⁶

A White House concept paper dated December 8, 1981 starts off: “Objective: develop a large-scale federalism policy initiative that:

“Serves the Administration’s conservative domestic policy agenda;

“Measurably eases the budget gap over FY 83-86;

“Splinters and realigns the anti-spending cut constituency forces which are coalescing against the Administration;

“Offers a major, affirmative legislative package for 1982 to help relieve the fiscal retrenchment theme that inevitably will characterize much of the FY 83 budget program.”³⁷

White House aide Richard Darman wrote a memo for a legislative strategy meeting on December 15 that said (emphasis in the original): “We need some additional revenue contribution – provided it does not adversely affect either the basic August tax reduction program or the basic economic recovery program... We need some distractive/attractive initiative – consistent with the President’s philosophy – for the State of the Union. The Question: Could an initiative that combines federalist initiatives (including blocs and role-sorting) with excise increases (and turn-backs to states) be structured and sold in a way that addresses the above problems satisfactorily?”³⁸

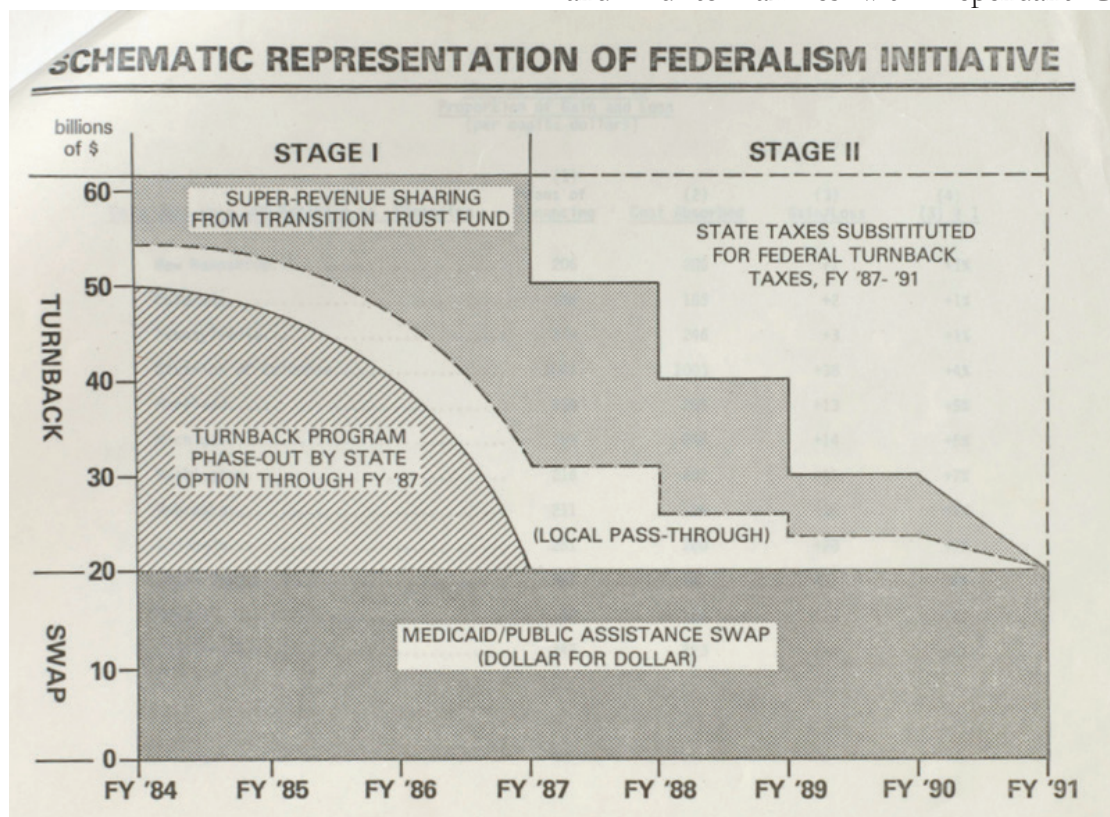
The White House strategists clearly answered “yes” to that question, and the issue was discussed at a meeting of the Cabinet Council on Economic Affairs (without the President) on December 18. Cabinet Council coordinator Roger Porter prepared Secretary Regan for the meeting in a memo stating that the federalism working group “was stimulated by the President’s desire (he has frequently referred to it as his dream) to transfer certain federal programs, which he feels are best managed and administered at the state level, to the states along with a transfer of federal resources.” The memo indicated that one part of the proposal

was “Highways: Putting the 44 federal-state grant programs in the area of highway transportation into a single block grant and allowing the states to pick up the 4 cents per gallon federal gasoline tax.”³⁹ Drew Lewis was present at the Council meeting, and although the minutes of the meeting are only one page long and do not indicate who raised what issue, they do say that the Council discussed “the needs for increased funding for transportation systems” as well as potential distribution problems to states, outreach to states, timing and sequence of transfer proposals, and alternate means of transitioning to a devolved system.⁴⁰

After the meeting, the U.S. Department of Treasury produced an options paper for tax increases dated December 18 that was very similar to those that had been produced in previous months for deficit reduction options – only this time, they were now considered federalism pay-fors (including the 3¢-3¢-4¢ gas tax option). The paper warned that Treasury staff did not think that the gas tax was a good candidate to fund non-highway needs: “Any increase

in the Federal gasoline tax in excess of that required to finance the highway trust fund would impose unnecessary economic inefficiencies. It would distort the choice of consumers between motor fuels and other goods, because the tax would be unrelated to any social costs specifically attributable to consumption of gasoline.”⁴¹

A December 21 iteration of the plan (see schematic representation below) specifically discussed options of doubling (to 8 cents) or tripling (to 12 cents) the existing gasoline tax (along with alcohol and tobacco excise taxes) and depositing the money into a \$40 billion per year Federalism Transition Trust Fund, where the money would be completely passed back to states over FY 1984-1987 (the document notes that this tax structure “Substantially eases the budget deficit gap over FY 83-86”).⁴² Then, over FY 1988-1991, the taxes would gradually be reduced to their pre-Federalism rates. (The plan also hinged on the federal government taking over 100 percent of the cost share of Medicaid in exchange for the states taking over 100 percent the cost share of food stamps and Aid to Families with Dependant Children -



The December 21, 1981 iteration of the New Federalism plan totaled \$60 billion a \$20 billion “swap” in which states took over 100 percent of food stamps and AFDC while the federal government took over 100 percent of Medicaid, and a \$40 billion “turnback” of temporary tax increases to states while also gradually turning over responsibility for \$50 billion in federal programs to states (including \$6.4 billion of highway, mass transit and airport grant programs).

AFDC). The federal government would transfer transit spending and local road and bridge spending entirely to states during that transition period.⁴³ A table in the back of the proposal noted that the relative benefits fell on states unevenly, with Wisconsin residents coming out \$190 ahead per capita per year on the deal, while Arizona residents would lose \$58 each per year.

Drew Lewis' first ask. President Reagan's senior advisers were pushing him to double or triple the gasoline tax - not to support an enlarged federal transportation program but instead as a deficit-reducing pay-for for a federalism transition trust fund that, when expired, would leave the federal role in transportation much smaller than before. It was in this context that Drew Lewis submitted his first formal request to the White House for his own highway user tax increase. Scholar James A. Dunn, Jr. wrote in *Driving Forces: The Automobile, Its Enemies, and the Politics of Mobility* that:

By the end of his first year in office, Secretary Lewis had been won over by the highway coalition. Not only were the funds needed for the highways, there was already widespread bipartisan congressional support for a gas tax increase. A few well-aimed compromises could solidify support from the main interest group stakeholders on the tax-paying side as well. The only problem was that President Reagan and his advisers did not agree with the idea. Secretary Lewis realized he would have to "sell" the tax increase to the White House.

He began by solidifying the transit lobby's support. He promised to create a mass transit account in the highway trust fund that would receive 20 percent of the revenue from a five cent per gallon tax hike (the "transit penny"). This convinced many big city Democrats and liberals to support the measure despite their concern over the effects of the tax on the poor.⁴⁴

At the same time, Lewis also had to convince the highway lobby - including the motorist groups and trucking interests who would actually be paying the taxes - to break with tradition and give a dedicated penny to mass transit. Years later, when reminiscing about his time as Secretary, Lewis said that "My most difficult problem was trying to get money taken out of the 5 cent gas tax to put into mass transportation for capital expenditures. Fighting the truckers association and others on the issue of taking 1 cent out of the gas tax for mass transportation was by far the most

difficult problem I faced."⁴⁵

On December 15, 1981, Lewis transmitted a six-page memo to the CCEA for consideration at a Council meeting scheduled for December 17 (but which later got pushed back to December 22). He proposed "increasing highway user charges, beginning in FY 1983, by an equivalent 5 cents per gallon to bring current highway user charges into line with the level of expenditures required to maintain the system in an adequate condition. Approximately \$4 billion to \$5 billion per year would be used for Federal-aid highways, and \$1 billion per year would be used for capital assistance to mass transit."⁴⁶

Because Lewis had just observed the "revenue enhancement" negotiations of September/November, he made sure to pitch his proposal accordingly. Not only would the extra money solve many pending highway and transit problems and provide related economic gains, but "Because of the slow pay-out characteristics of highway and transit capital projects, the budget deficits would be reduced by an average of \$4 billion per year in FY 1983 and FY 1984."⁴⁷ Table 2 reprints the data from the table in Lewis' proposal and its obvious emphasis on the unified federal deficit.

The Treasury staff noted that the HTF did not yet need increased revenues and would only need them in the Lewis plan because of the proposed increased spending levels, which had not been approved by OMB. Treasury also mentioned that HTF taxes were not real user fees because "the burden of highway excise taxes among users is not closely related to actual use of Federal-aid highways." They urged Secretary Regan to "not endorse the DOT proposal at this time. However, Treasury should leave open the possibility of endorsing future increases in highway excise taxes if such increases are necessary to permit long run financing on a sound basis of approved highway spending plans."⁴⁸

By the morning of the Council meeting on Lewis's proposal, news had already broken: there was a story in that morning's *Washington Post* entitled "DOT Seeks to Boost Gasoline Tax by 5 Cents". The minutes of the Council's meeting indicate that in addition to the politics of the situation and the problem of funding mass transit with highway user taxes, the Council discussed how Lewis' proposal conflicted with the pending federalism proposal. The minutes concluded "The Council requested the Department of Transportation

Table 2

Highway Trust Fund Finances From Table 1 of Sec. Lewis's Dec. 15, 1981 Proposal

(\$ Billions)

User Charges	FY 1983			FY 1983-86		
	Current	Proposed	Increase	Current	Proposed	Increase
Total Revenues & Int.	\$7.6	\$13.3	+\$5.7	\$31.0	\$54.6	+\$23.6
Program Auth.	\$9.2	\$13.4	+\$4.2	\$38.5	\$57.6	+\$19.1
Outlays	\$8.4	\$9.2	+\$0.8	\$39.7	\$48.3	+\$11.6
Federal Budget Effect (Reduction in Federal Budget Deficit)	-\$0.8	\$4.1	+\$4.9	-\$5.7	\$6.3	+\$12.0
Program Structure						
Federal Highway Aid	\$9.1	\$12.3	+\$3.2	\$38.1	\$53.2	+\$15.1
Federal Transit Aid		\$1.0	+\$1.0		\$4.0	+\$4.0
Other	\$0.1	\$0.1		\$0.4	\$0.4	
Total	\$9.2	\$13.4	+\$4.2	\$38.5	\$57.6	+\$19.1

The table from Secretary Lewis's initial gas tax proposal to the Cabinet emphasized that an immediate 5-cent equivalent tax increase would reduce the unified federal deficit by \$4.9 billion in FY 1983 and by \$12.0 billion over the FY 1983-1986 period because of the time delay between the immediate increase in tax collections and the eventual outlay of the money by slow-spending capital investment programs.

to continue developing its proposal so that it can be considered by the President in conjunction with other FY 1983 fiscal policy alternatives.⁴⁹

Lewis gave an exclusive year-end interview to the *Pittsburgh Post-Gazette* that appeared on January 1, 1982 in which he said he still hoped to convince the Administration to support his 5-cent increase for highways and mass transit during 1982, but that "This is going to be no cakewalk, because it is an election year."⁵⁰

Raising taxes for Federalism (continued). The Cabinet Council had rejected, for the time being, the equivalent of a 5 cent per gallon gas tax increase to pay for an enhanced federal transportation program. But the President himself was moving towards severing the existing gas tax from the federal transportation program. Senior Cabinet and staff officials were to brief the President at 9:45 a.m. on December 23 in concept on the federalism proposal, with Treasury Secretary Regan to lead the briefing.

Roger Porter counseled Regan immediately before the briefing to remind the President that "the proposal as presently designed (specifically the provision that the states would receive only \$3 in revenues for every \$4 in program responsibility) has an additional objective – closing the budget gap" and to suggest a program

that would triple the existing federal alcohol, tobacco and gasoline excise taxes (a 200 percent increase) and put all of the old and new excise taxes into "a trust fund for distribution back to the states." The distribution formula would be based on current spending patterns state by state of the programs that are being transferred...All [states] would share in the 25 percent reduction equally. However, the taxes that we are transferring back are static since they are flat rate. Just because the price of gasoline rises the flat rate levy does not increase. Thus, from henceforth into the future, the Reagan principle of letting the states determine how much they want to spend and how much they want to tax will apply."⁵¹

President Reagan agreed to allow his staff to continue developing the concept – significant increases in excise taxes, including gasoline, to provide short-term deficit reduction while funding an eventual transfer of many federal programs back to states. But this was not to last.

After the Christmas break, a January 6, 1982 meeting of the White House Legislative Strategy Group reviewing the latest version of the plan decided that the proper mix of excise taxes would be a 50 percent increase in beer taxes, an increase in the wine tax equivalent to 15 cents per bottle, a doubling of distilled spirits taxes, and tripling of the gasoline and telephone service taxes.⁵² But as the group worked to refine the plan over the

next week, doubts arose about that mix, and a meeting on January 15 decided to adjust the mix downwards, including a doubling (rather than tripling) of the gas tax. The list of programs tentatively selected to be defederalized was also reduced to match the smaller receipt level (including Army Corps of Engineers water programs, which a memo summarized as “Doesn’t fit – intense interest groups, Committee”).⁵³

(Just to show how intertwined the federalism issue and the need for deficit-reducing new revenues were, a January 11 White House memo indicates that one of Ed Meese’s staffers told one of Elizabeth Dole’s staffers that the subject of a “transportation user fees” increase “is to be considered as part of the ‘revenue enhancing’ package being considered by the Administration.”⁵⁴)

The State of the Union address was set for January 26 and the fiscal 1983 budget, of which the federalism initiative was to be an integral part, was due in early February. As these deadlines approached, the revised federalism plan was presented to Reagan for approval on January 20. Here are excerpts from Reagan’s handwritten diary for that week:

Wed. Jan. 20: “The day however was a tough one. A budget meeting and pressure from everyone to give in to increases in excise taxes tied to Federalism program. I finally gave in but my heart wasn’t in it.”

Thu. Jan. 21: “Early in day met with U.S. Chamber group. They made an impassioned plea that I not raise any taxes. They were touching a nerve when they said I would look as if I were retreating from my own program. That’s exactly how I feel. After meeting told Ed, Jim & Mike [Meese, Baker & Deaver – the White House “Troika” of senior advisers] we had to go back to the drawing board. I just can’t hold still for the tax increases. We’ll go at it again in the morning.”

Fri. Jan. 22. “I told our guys I couldn’t go for tax increases. If I have to be criticized I’d rather be criticized for a deficit than for backing away from our Ec. program.”

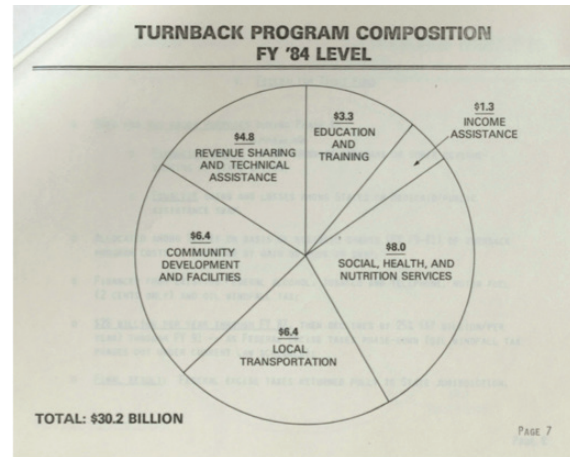
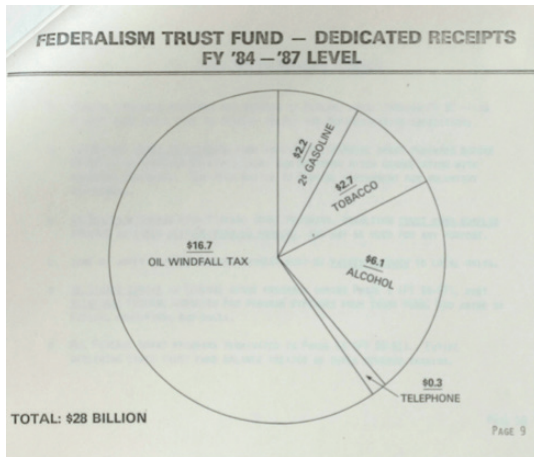
Sun. Jan. 24. “The 49rs won the Super Bowl. I called Coach Walsh in the locker room and asked him to tell Joe Montana (N.D.)

he’d really won one for the Gipper.”⁵⁵

With the financing of the federalism initiative pulled out, the “out-years” of the 1983 budget were left in a mess. Staff struggled to get the proposal in order in time for the State of the Union address. The January 25 internal White House version of the federalism proposal now called for turning back \$30.2 billion a year in federal programs starting in FY 1984 to states and depositing \$28 billion a year into a Federalism Trust Fund to pay for those programs (along with giving states responsibility for \$16.5 billion in previously federal AFDC and food stamp funding in exchange for the federal government picking up \$19.1 billion in previously state-borne Medicaid costs). But since Reagan had killed the idea of increasing excise taxes, the \$28 billion per year Federalism Trust Fund was to be financed by dedicating all of the existing alcohol, tobacco and telephone excise taxes and the oil “windfall” tax, and one-half (2 cents per gallon) of the existing 4-cent gasoline tax.⁵⁶

The President announced his Federalism Initiative in the State of the Union address, and the briefing material released to the public the following day made clear that “Beginning in FY 88, the more than 40 Federal turnback programs – which involved 124 separate grants in 1981 – will cease to exist and the states will be in charge of their own priorities. After four years, the Federal excise taxes will start to phase out, by 25 percent each year, and will disappear after 1991. The [Federalism] trust fund will go out of existence on the same schedule. The states will be able to impose the same excise taxes at their option to preserve their revenues, with no tax-raising effect on the items concerned. Or they can choose other revenues, or reduce program cost.” And the list of programs that could be turned back to the states included non-Interstate highway programs (the old federal-aid primary, rural, and urban systems, as well as bridges and Appalachian highways) and urban mass transit construction and operating grants.⁵⁷

And instead of the HTF taking in an average of \$13.8 billion per year in tax receipts starting in 1984 (the equivalent of 9 cents per gallon, plus truck taxes and interest), as would have happened under Lewis’ plan that was rejected by the Cabinet Council in mid-December, or even the \$7.7 billion per year that the Trust Fund would receive from a simple extension of the existing tax regime, the President was instead



Above, the internal White House summary of the Federalism Initiative presented by the President at the 1982 State of the Union address assumed \$6.4 billion per year in existing transportation programs viewed by OMB as being primarily state or local responsibilities (mass transit grants, airport grants, and most highways and bridges that were not located on the Interstate system or the federal-aid primary system) would be turned back to states as part of an overall \$30.2 billion per year turnback, to be financed for four years by a \$28 billion per year Federalism Trust Fund to be financed largely from the oil windfall profit tax, but also from half of the existing tax on gasoline (2¢ of the current law 4¢ per gallon), totaling \$2.2 billion per year.

calling for a HTF that would only take in about \$5.5 billion per year from the remaining 2 cents per gallon on gas and diesel (plus truck taxes and interest).

But the White House, which had promised that legislation implementing the Federalism Initiative would be delivered to Congress for introduction soon after the Budget was submitted, did not follow through in 1982. Negotiations with state governors and city and county officials over the specifics went poorly and dragged on for far longer than Administration officials had hoped.⁵⁸ The NGA singled out the transportation portion, adopting a resolution in their 1982 winter meeting a few weeks after the Federalism Initiative was released urging that transportation programs and

the HTF be dealt with separately from the federalism talks.⁵⁹

Almost thirty years later, Paul Laxalt remembered that many state leaders had little interest in taking programs back from Washington: “From the very beginning, I sensed that a lot of the locals, including the Governors, were very comfortable with the way we were doing business, and they didn’t want to fool with it...I told Reagan, ‘Jesus. We spent all this time, for Christ’s sake, trying to push the power back, and they don’t want it.’”⁶⁰

While the New Federalism was stalled, Drew Lewis would waste no time trying again for a motor fuels tax increase for highways and transit.

Part II: 1982 – Drew Lewis and the Lame Ducks

Drew Lewis’ second ask. Lewis’ initial attempt to get the President’s approval for greatly expanded federal taxes and spending for federal transportation programs was rejected in favor of a radically different proposal to cut federal taxes and reduce federal transportation spending (after a four-year transition period during which much of the highway program, and all federal mass transit funding, would be turned back to states). It was clear that whatever the merits of Lewis’ proposal, it could not compete head-to-head with Reagan’s “dream.” Lewis was determined to try again, but this time, he needed to craft a proposal that appealed to the President’s sensibilities – and he also needed to do a better job working with the President’s senior advisors who understood those sensibilities.

The process actually began with President Reagan paying a visit to the Department of Transportation on January 12, 1982, where Reagan gave a standard speech to the agency’s senior executives and then sat in on a staff meeting with Lewis and all of the modal administrators. FHWA Administrator Ray Barnhart personally made the case to Reagan for an increase in

the gas tax to pay for highway and bridge maintenance.⁶¹ (Barnhart was not just another federal official espousing the institutional needs of his department – this was a key member of Reagan’s 1976 campaign team talking.)

Lewis also tried to get urban interests on board, telling the U.S. Conference of Mayors in late January that “It is clear we cannot operate our highway system with the present 4-cent gasoline tax, nor do we have adequate money for your mass transit needs. If we can get a gasoline user fee for mass transit, we can double your Federal benefit that you get for operating subsidies.”⁶²

On February 18, 1982, just 10 days after the President submitted his fiscal 1983 budget to Congress (with no gas tax increase and partial highway “turnback”), Lewis tried again by sending a new eyes-only proposal to Ed Meese, Counsellor to the President, who had served as Reagan’s Chief of Staff in Sacramento from 1969 to 1974. Lewis told Meese in the cover letter that “I have not circulated this to anyone in the White House or the Cabinet Council for Economic Affairs” and listed reasons why a 5 cents per gallon equivalent user tax



President Reagan attends a senior staff meeting at the DOT on January 12, 1982 and listens to FHWA Administrator Barnhart discuss the need for a motor fuels tax increase. Photo courtesy of the Reagan Library.

increase would (a.) be consistent with other user fee increases already in the budget on general aviation, deep draft ports, and inland waterways; (b.) reduce unified federal deficits by \$10 billion over four years due to the lag between tax receipts and capital outlays, and (c.) “benefit the Federalism initiative by reassuring state and local officials that the transportation programs selected for transfer are accompanied by adequate revenues. As currently proposed for transportation, the Federalism turnback does not adequately fund the needs as the Administration has promised.”⁶³

Lewis concluded his letter to Meese by saying that “Obviously, I am prepared to carry the water for this proposal on the hill. However, I would clearly not make a move on such a program until the Administration feels this is consistent with its goals.”⁶⁴

Lewis’ first proposal in December 1981 had been entitled “Increased User Charges to Finance Federal Highway and Transit Programs.” Lewis’ revised February 1982 proposal sent to Meese was entitled “Federal Transportation Programs: Their Relationship to the User Charge Philosophy and Federalism.” The revised proposal used the word “federalism” 11 times and the word “turnback” four times – and even quoted a study by the conservative Heritage Foundation praising FHWA goals and management.⁶⁵

And while the first iteration of the plan had justified a penny for mass transit on the pragmatic grounds that “In the present budgetary and political climate, we are unlikely to obtain necessary increases in user charges for highways alone,”⁶⁶ the version of the plan sent to Meese two months later instead justified the penny on federalism grounds:

Until the President’s announcement of the “New Federalism,” the DOT had been drafting legislation that would have put the remaining transit capital assistance programs on a “block grant” basis in order to afford maximum flexibility to states and local governments. The proposal to turn these programs over to the states is a logical extension of DOT’s plans and makes good sense...Given the expected imbalance between the states’ and cities’ needs for transit capital funds and the amounts available to them, it still makes sense to increase user charges by an additional 1 cent, to provide approximately \$1 billion annually,

and to add that amount to the \$2.2 billion in highway user charge revenues that are to be turned back to the states.⁶⁷

(In the memo, Lewis did agree with David Stockman that mass transit operating subsidies should be abolished, contradicting his public quote to the Conference of Mayors from the month before.)

Meese decided to schedule another Cabinet meeting on Lewis’ proposal, but also determined that the new proposal was different enough from the old proposal that it should be given a new tracking number (CM 215 instead of CM 174).⁶⁸ Lewis then went public on March 1, telling the annual meeting of the American Road and Transportation Builders Association in Arizona that he would be asking the White House to approve a 5 cent equivalent tax increase.⁶⁹

The actual DOT memo circulated to Cabinet Council members on March 5 in anticipation of a scheduled March 9 meeting was a bit different than the February 18 version that Lewis sent to Meese. This time entitled “Highway and Transit Systems: Meeting Unfunded Needs – A User Charge Proposal Consistent with New Federalism,” the Lewis memo proposed a 4 cent per gallon gas tax increase and some increase in the blend of diesel and truck taxes equivalent to the money raised by another 1 cent of gas tax, to be split 80-20 between highways and transit (“in lieu of building expensive urban freeways”). The March proposal went through a longer list of the costly failings of existing infrastructure and the financial cost to refit and replace it. The memo also noted that “DOT enthusiastically supports New Federalism and believes that there is no better area to achieve its objectives than in transportation.”⁷⁰

CCEA coordinator Roger Porter briefed Secretary Regan before the meeting, writing that Lewis “will argue that the highway user charge proposal is necessary to reassure state and local officials that those transportation programs selected for transfer [under the Federalism Initiative] will be accompanied by sufficient revenues. He is convinced that states will be unable to raise the needed revenues on their own. Last year, for example, more than 40 states attempted to raise their gasoline tax to meet their own highway needs, but in more than half the legislatures, these initiatives failed. As states assume even greater program responsibility under New Federalism, they will be hard-pressed to raise the needed funds. Lewis doesn’t believe they can

do it.”⁷¹

The Cabinet Council met on March 9 (the Vice President and many Cabinet members were there, but President Reagan was not). The minutes of the meeting noted that “[Lewis] indicated that his preliminary discussions with interested parties suggested that if proposed, the administration could expect support from state and local officials, the construction industry, and transit supporters. He also reviewed his preliminary discussions with key congressional committee leaders.” After “considerable” discussion of a variety of issues, the Council decided to establish an interagency working group to bring all transportation user fee proposals for review again later.⁷²

After the Council meeting, the “preliminary discussions” that Lewis had had with Congressional leaders continued. During March and April 1982, the staffs of the Congressional transportation committees continued working on a proposed reauthorization bill. By the time April turned to May, they were ready to move even though the White House’s schedule for considering Lewis’ proposal kept slipping.

On May 10, the Republican-controlled Senate Environment and Public Works Committee unanimously approved a highway reauthorization bill (S. 2574, 97th Congress) that, in the words of the committee’s report, “provides the maximum level of funding possible without an increase in revenues into the Highway Trust Fund.”⁷³ But on May 12, the Democrat-controlled House Public Works and Transportation Committee approved a bill by voice vote (H.R. 6211, 97th Congress) “premised on revenue increases proposed by the Secretary of Transportation in an amount equivalent to an increase in 5 cents per gallon in the Federal excise tax on motor fuels. It also assumes that one cent of the revenue increase will be dedicated for public transportation through a Public Transportation Trust Fund established in legislation initiated by the Committee on Ways and Means, with the remainder going into the Highway Trust Fund.”⁷⁴

The tax committees, not the transportation committees, were all-important in this matter, and they had stayed relatively silent to this point (though Lewis had been talking with House Ways and Means Chairman Dan Rostenkowski (D-IL) and Senate Finance Chairman Bob Dole (R-KS) throughout the process). Dole of course worked extremely closely with the White House, since his wife, Elizabeth, was Reagan’s Director

of Public Liaison.

Finally, a Cabinet Council meeting on the gas tax issue with President Reagan in attendance was set for May 18 at 9:30 a.m. Cabinet members still had the earlier CM 215 materials from the March meeting, and Lewis had also prepared a distilled three-page decision memorandum for Reagan personally.

Again, the Treasury staff argued against Lewis’s proposal: “...the proposal is not consistent with the objectives of the New Federalism. The New Federalism would ultimately turn back revenue sources to the states allowing them greater scope to choose between levels of taxes on their residents and state and local public services. The DOT proposal would impose higher excise taxes on residents of all states and then, through the highway trust fund, redistribute the revenues themselves, rather than the tax bases, to the states for highway and mass transit programs.”⁷⁵

This time, OMB Director Stockman weighed in heavily against Lewis’ proposal. Armed with eight pages of charts and slides, Stockman argued that the proposal was inconsistent with Federalism because the bulk of the spending from the tax increase would go to programs that were primarily state and local in nature (which he basically defined as everything but the Interstate system, for reasons that are not entirely clear) and that an \$8.2 billion per year highway program, which was affordable under existing revenue levels, was adequate for federal needs.⁷⁶ He also argued that although the proposal would decrease the unified federal deficit by \$3.8 billion over FY 1983-1984, it would increase the deficit by \$2.2 billion over FY 1985-1986. Handwritten notes of the meeting located in Ed Meese’s files show that Stockman, CCEA Chairman Murray Weidenbaum, and Reagan’s Assistant for Policy Development Ed Harper all spoke against Lewis’ proposal.⁷⁷

But the fix was in before the Cabinet Council meeting even began – a White House staffer told Lewis as he walked into the Cabinet Room, “Drew, the President’s decided not to go with it.”⁷⁸ At the end of the Cabinet Council meeting, the minutes record that “The President decided that the administration would not support, at this time, an increase in highway user fees. He directed that the DOT proposal be reviewed in the fall in conjunction with developing the Administration 1983 legislative program and FY 1984 budget.”⁷⁹



Transportation Secretary Lewis makes his case for a motor fuels tax increase to the CCEA, May 18, 1982. Photo courtesy of the Reagan Library.

On May 20, Lewis wrote a personal letter to Rostenkowski, thanking him for his help. While the body of the letter said “I fully support the President’s judgement to wait until a later date to work on implementing that long-term solution to the problem,” Lewis hand-wrote at the bottom of the letter, “With your help, we’ll be back!”⁸⁰

The House and Senate transportation bills sat in limbo all summer and fall, as Congress waited for Lewis to change Reagan’s mind on the 5 cent tax increase on which the House bill was predicated or for the revenues to be provided in other ways. House Public Works and Transportation chairman Jim Howard (D-NJ) said “I think it has to be a bipartisan, bi-chamber, executive-legislative effort.”⁸¹

More revenue enhancement. The main topic on Capitol Hill during that summer was the deficit - the failure of the White House and Congress to agree on a revenue enhancement measure in late 1981, along with the worsening recession, meant that the deficit projections were now skyrocketing.

The FY 1983 budget resolution directed the Senate Finance Committee to produce \$98.3 billion in revenue increases over the three-year FY 1983-85 period (\$20.9 billion in 1983, \$36.0 billion in 1984, and \$41.4 billion in 1985. (In this age of budget resolutions that bind Congressional decisions over 5-year and 10-year forecasts, it now seems quaint that in the early 1980s, the budget resolutions only covered three years.) By June 1, Finance GOP members had prepared their own list of possible revenue-raisers, divided into three

categories: those with minimal objections, moderate objections, and strong objections amongst committee Republicans. The “minimal objections” provisions (which included aviation excise tax increases along the lines of those sought by the Administration) would only raise a three-year total of \$68.5 billion, almost \$30 billion short of the goal. In the “strong opposition” category, there sat the option of “Increase Energy Taxes – Gasoline (5 cents per gal.)” raising \$11.3 billion over three years.⁸²

These strong objections had a basis in political reality. On June 22, White House pollster Richard Wirthlin sent Reagan’s senior aides the results of a private poll of public attitudes towards certain potential tax increases. The most popular was “Requiring all corporations that make a profit to pay a minimum income tax,” with 10 supporters for every opponent. The least popular was “Imposing a tax on oil that would raise the price of gasoline by about 8 cents a gallon,” with 10 opponents for every supporter.⁸³

On June 29, Finance Republicans held a lengthy closed caucus meeting to reach internal agreement on a tax package that they could then present to the full Finance panel in open session the following day (the assumption being that whatever they decided behind closed doors they would generally stick with in public, voting down Democratic amendments in lockstep). During that closed caucus, a handwritten memo found in White House Office of Legislative Affairs archives indicates that the Finance Republicans actually made a tentative decision to include the gas tax increase but then changed their minds,⁸⁴ and a Treasury

memo months later reminded Secretary Regan that “the Republicans on the Senate Finance Committee voted in caucus [in June] to approve a 5 cents a gallon gasoline tax as part of the tax bill. The Administration opposed the gas tax last spring, primarily because we were in the midst of the budget and tax negotiations at that time. It took a number of phone calls from you and the President to Senators Dole and Symms to reverse the committee’s decision.”⁸⁵ (Steve Symms (R-ID), a key advocate of a gas tax increase, was both a Finance member and the Chairman of the Senate Highway Subcommittee.)

The tax legislation (TEFRA) made it through the legislative process that summer and was enacted without a motor fuels tax increase being added to the bill. But supporters of increased highway spending kept up the drumbeat for a revenue increase. *Newsweek’s* 4,000-word cover story on August 2 was called “The Decaying of America” and brought more attention to deteriorating infrastructure and the inadequacy of Reagan’s budgets to make repairs. (A 1992 history of television journalism mentions that the DOT public affairs office “kept feeding stories to television reporters about an ‘infrastructure crisis’” during 1981-1982.⁸⁶ FHWA Administrator Barnhart told the NGA on August 10 that “We’re going to have to come back after the election with an increase in the gasoline tax. The current gasoline user fee is totally inadequate.”⁸⁷

Highway bill limbo. But on the day Barnhart spoke to NGA, House Democrats were throwing in the towel (for the time being). On August 10, the Public Works and Transportation Committee marked up an amendment to H.R. 6211 striking the entire bill and replacing it with a one-year bill sustainable without a gas tax increase (the one-year language had been introduced earlier in the day as H.R. 6965, 97th Congress). The one-year amendment still contained many of the earmarks and other policy change provisions of the full four-year bill and would have increased spending in 1983 modestly, from 1982’s \$12.5 billion to \$13.3 billion (the base H.R. 6211 would have taken new spending to \$16.1 billion with the tax increase).⁸⁸ Highways Subcommittee Chairman Glenn Anderson (D-CA) said:

H.R. 6211, though, was predicated in some part, as we said at the time, on a revenue increase into the Highway Trust Fund. I frankly do not know of a single

person, knowledgeable about the nation’s transportation system, who does not believe that such an increase is necessary. It is not a liberal or a conservative issue.

It is not a Democrat or Republican issue. It is an issue that has been expounded upon by all who care about transportation many times. But unfortunately for this year, it is an issue that must go unresolved. I am heartened by the fact that the President has not closed the door on pursuing such an increase next year, but we cannot wait until next year to pass legislation as most of these important authorizations would expire.

So the substitute that is before us today attempts to make the best out of an unfortunate situation. It is a drop-back position, and I urge all committee members to do what we have done, and that is to swallow hard and support it. It is the best that we can expect to do this year.⁸⁹

However, the one-year bill never passed the House. After returning from the recess, Public Works Chairman Howard tried to bring the bill to the floor, but was thwarted by Ways and Means Chairman Rostenkowski. Because the HTF and some of its taxes were scheduled to expire at the end of FY 1984, a one-year extension of spending to the end of FY 1983 would have violated the “Byrd Test” established in 1956 and would have forced massive automatic cuts in apportionments of new highway contract authority to make sure that all total available contract authority (the backlog of old money plus the new money) could be paid off by the time most Trust Fund taxes expired at the end of 1984.

In order to enact a one-year bill, Howard needed Rostenkowski to give him a one-year extension of the Trust Fund and the existing taxes. But Rostenkowski wanted something in return – a recodification of the Trust Fund in the Internal Revenue Code, and a new provision that would have only allowed Trust Fund money to be used for purposes written into law as of the date of enactment of the tax title. (In effect, this would have prohibited the transportation committees from creating any new spending drawn on the Trust Fund without Ways and Means permission.) Howard balked, and Rostenkowski refused to allow any tax or Trust Fund extension legislation to come before the

House. This culminated in an October 1 showdown on the House floor (won by Rostenkowski), after which the House amended a Senate-passed one-year extension with a much briefer extension into the lame-duck post-election session.⁹⁰ (The actual date of expiration was a reference to the continuing appropriations resolution.)

As questions over the gas tax kept arising in fall 1982, Reagan's opposition was unyielding, culminating at a press conference on September 28, when he was asked "can you assure the American people that you'll flatly rule out any tax increases, revenue enhancers, or specifically an increase in the gasoline tax?" Reagan memorably responded, "Unless there's a palace coup and I'm overtaken or overthrown, no, I don't see the necessity for that."⁹¹

In September 1982, the U.S. unemployment rate (U-3) broke into double digits for the first time since the Great Depression, and Democrats hoped to make the jobs issue the focus of the November midterm elections. House Democratic leaders passed a bill in mid-September (H. J. Res. 562, 97th Congress) appropriating \$1 billion in emergency funding to create enough temporary public works jobs to hire 200,000 unemployed workers for six months, but attempts to attach that funding to the end-of-fiscal-year continuing resolution were defeated in the Republican-controlled Senate.⁹²

On October 13, President Reagan gave a nationally televised address from the Oval Office on the economy, blaming the woes on the 1970s inflation he inherited, which had to be counteracted with high interest rates, which then caused recession and unemployment. Reagan said that the nation was "slowly but surely working our way back to prosperity."⁹³ Five days later, the Democratic House Speaker (Tip O'Neill, D-MA), Majority Leader (Jim Wright, D-TX), and Majority Whip (Tom Foley, D-WA) wrote to their Democratic colleagues that "Conspicuously absent from [Reagan's] agenda was any measure to create jobs and put Americans to work." The letter mentioned the public works jobs bill passed by the House a month previously and then said "When we return to work November 29, we must give top legislative priority to job-creation and economic recovery" and specifically mentioned infrastructure jobs.⁹⁴

Drew Lewis' final ask. The November 2 midterm election results were predictably dismal for Republicans

(losing 27 seats in the House), and after the elections, Lewis made another push for a gas tax increase, aided by events on the outside falling into place. Immediately after the elections, Lewis asked to raise the gas tax issue again with the CCEA, and the meeting was scheduled for November 10. On November 6, CCEA coordinator Roger Porter sent Council members a memo asking "Should the Administration support an increase in transportation user fees to finance highway and transit infrastructure programs as part of the FY 1984 budget?" and summarizing the pro- (DOT) and con-(OMB) arguments.⁹⁵

Porter then sent his direct boss, Secretary Regan, a memo explaining what he had done, writing that he had "tried to tone down the most excessive rhetoric in what [DOT and OMB] submitted while retaining the thrust of their arguments." Porter's memo to Regan also had a new bit of important data: "Ed Meese, who will not attend the meeting, told me he now supported the idea and would inform the President of his position before the meeting." Porter's private advice to Regan was now positive: "this strikes me as one of the better, new, fresh initiatives available to the Administration. We cannot leave the field to the Democrats and with 10.4 percent unemployment the jobs issue will not go away. While it is true that the number of net jobs created by this proposal is much less than its proponents claim, it does meet a genuine need (rebuilding our infrastructure), it is self financing (although entailing a tax increase/user fee), and it does enjoy broad bipartisan support in the Congress."⁹⁶

The CCEA met on the morning of November 10, with President Reagan again in attendance, and Lewis again argued against Stockman. Debate stressed that while the proposal would increase employment, it was not a "jobs bill" (Democrats had made such a title anathema to the White House). The minutes of the meeting end by stating "The President took the issue under advisement."⁹⁷ Later that day, Lewis sent Reagan another memo outlining how turning over \$2.2 billion in secondary and urban road funding, safety construction, and non-primary bridges to states under New Federalism would still be possible under his proposal and showing how the \$4.4 billion raised by the tax increases for highways would go entirely to the Interstate system, U.S. primary system highways, and roads on federal lands.⁹⁸

The following day, Reagan was asked about the gas

tax meeting at a press conference and said "...you'll have to wait on that one, because that one was just presented yesterday. No decision has been made. It is under consultation and deep thought by all of us, and we are faced with the need, both at the local and State level and for our own interstate -- the Federal highway system. And the program that has been proposed deals with both those problems. But you'll just have to wait and see if we make a -- what decision we make." But Reagan did say the magic words: "...if we do it, it would be a user fee. It would be dedicated to the rebuilding of our highways and bridges."⁹⁹

While Reagan thought it over, Capitol Hill was closing ranks. An internal White House Office of Legislative Affairs memo dated November 12 indicates that the head House GOP leadership staffer, Billy Pitts, had earlier told the White House that a "5 cent user fee" was on the House Democratic lame-duck agenda.¹⁰⁰ Rostenkowski had already given a public speech to the American Petroleum Institute on November 9 urging a 5 cent per gallon increase.¹⁰¹ A private list of supporters of the highway user tax increase at about this time found in White House legislative affairs files lists 273 House members, 59 Senators, and scores of stakeholder groups as supporting the tax increase.¹⁰²

Most importantly, on November 22, the Democratic Speaker of the House, Tip O'Neill (D-MA), and the Republican Senate Majority Leader, Howard Baker (R-TN), gave a joint statement to the press agreeing to support a 5 cent per gallon tax increase and the accompanying spending increase in the lame duck session. *The New York Times* reported the next day that "The agreement to support a proposal advanced by Transportation Secretary Drew Lewis, but not yet endorsed by the President, was made at a 40-minute meeting in the Speaker's office...In a speech today in Florida at a meeting of trucking industry officials, Mr. Lewis said he was prepared to present the plan to Congress next Monday."¹⁰³

This made it clear that Reagan and his senior staff were at least leaning towards approving Lewis' request, if they had not already made the decision, and a final meeting of the entire Cabinet was set for November 23, the Tuesday before Thanksgiving. On November 22nd, Lewis submitted another decision memo for Reagan (this one distilled down to just two pages) asking the President to approve moving forward "expeditiously with legislation that would be considered in the lame

duck session of Congress."¹⁰⁴ This was the first time that Lewis was asking to deal with the issue in the lame duck session in November/December 1982 instead of waiting for the budget submission in February 1983. Under the final plan submitted to Reagan for approval, the \$1.1 billion a year for mass transit would be used to establish a block grant program to be "returned to the cities and states on the basis of formula allocation..." The block grants could be used for either mass transit capital expenditures or highway programs, depending on the needs of the recipient."¹⁰⁵

Lewis' decision memo was approved by White House legislative affairs and legal advisers prior to the meeting,¹⁰⁶ though Reagan's Chief Federalism Advisor, Richard Williamson, had concerns. Williamson wrote that while Lewis' decision memo indicated that New Federalism would be developed in 1983 and could then revise transportation law to block grant \$2.2 billion of the newly enacted highway funding back to states, he felt that "This may make sense in a perfect world, but I suspect that we will only get one bite at the apple in terms of Congressional consideration of the user fee proposal."¹⁰⁷ Williamson suggested the inclusion of a proposal by Sen. Dave Durenberger (R-MN) to suspend collection of the increased gas tax in states that increased their own gas taxes. (However, Durenberger, like many legislators today, apparently did not realize that the federal gas tax is levied at the oil terminal, or rack (a big tank farm) and then put into trucks or pipelines that often cross state lines, so giving credit to individual states based on their own gas tax rate would require a whole new implementation system.)

After Lewis submitted his final decision memo to the President, OMB's Dave Stockman responded with a memo refuting points made in the Lewis memo, and then DOT responded early on the morning of November 23rd with a counter-memo refuting Stockman. White House senior staff, apparently aware that the fix was in, decided not to share those two memos with the President or the Cabinet.¹⁰⁸

Reagan signs on. The Cabinet meeting started at 11:15 a.m. According to handwritten notes located in Treasury Secretary Regan's files from the meeting, Lewis spoke of the jobs that would be created by the bill (but that job creation was "not the focus of the bill however") and that Lewis "thinks we should take initiative & have our own bill - w/o Xmas tree additions." The notes also detail Stockman's

Approval

If this revised plan meets with your approval, the Department of Transportation is prepared to move forward expeditiously with legislation that would be considered in the lame duck session of Congress. If the program meets with the favorable reception that is anticipated, and we have a bill from Congress before the end of the session, it would be possible to contract for expenditures of \$3 billion for highway construction and repair within 90 days from the time of signature. The collection of revenue from the user charge would begin by April, 1983 or could be delayed somewhat longer, if you deem that to be appropriate.

Approve ✓ RR Disapprove _____

arguments that the bill was a “Long term solution to short term problem” and his criticism of the mass transit spending. Most importantly, the notes reveal that Meese, Regan, and Commerce Secretary Malcolm Baldrige all supported the revised proposal.¹⁰⁹

At the end of the meeting, President Reagan agreed with the consensus of his senior advisers (except for Stockman, of course) and initialed the decision memo next to the word “Approve.”

However, there were some big caveats to the President’s approval. Craig Fuller, the Cabinet Secretary, wrote on his official copy of the meeting agenda that “The President approved asking that he be advised and provided with an opportunity to review the distribution of funds. He indicated he did not want to be trapped into funding mass transit projects in the future.”¹¹⁰ Fuller’s notes on another document from the meeting indicate that the plan would modify federal truck size and weight rules to supersede state rules in order to get support from the trucking industry for the increase in truck taxes (as recommended by the Reagan transportation transition team two years earlier).

After the Cabinet meeting, Reagan met with senior staff for a few minutes, then he and Lewis briefed the press corps at 12:15. Reagan said that “I have decided that we should move forward now with a program to repair the Nation’s major highways and bridges” which included the 5 cent gas tax increase, which Reagan called a “highway user fee.” When asked by a reporter “Has there been a palace coup? You said something about not raising taxes...” Reagan responded “That was in the context, that whole discussion, of our tax bill. And it’s true that a tax on gas was one of those

that had been proposed as an excise tax to help with that tax package that we presented in the midcourse correction of our program. And that’s what I meant that, I’d-no—would not use that as a source, as there were several other excise taxes that we wouldn’t use as a source just for general revenue. And that’s what I meant at that time.”¹¹¹

Reagan then boarded a plane to California as Lewis went to work. Before the Cabinet meeting, Lewis had prepared a detailed action plan for rolling out the proposal starting on the day Reagan gave his formal approval. On Day One, he would spend the afternoon consulting (in order) Howard Baker (who the President had telephoned between the Cabinet meeting and the press conference), Paul Laxalt, House Republican Leader Bob Michel (R-IL), Bob Dole, Tip O’Neill, and Dan Rostenkowski.¹¹² Meanwhile, DOT and White House staff set to work putting the finishing touches on a legislative proposal to be submitted to Congress the following week.

Over the Thanksgiving holiday, Reagan was working from his California ranch. On Friday, November 26th he called Senators Paul Laxalt, Bob Dole, and Pete Domenici (R-NM, the Budget chairman), House Republican Whip Trent Lott (R-MS), and Ways and Means ranking member Barber Conable (R-NY) and found them all supportive.¹¹³ Reagan then went to the people in his radio address on Saturday, November 27th: “So, what we’re proposing is to add the equivalent of 5 cents per gallon to the existing Federal highway user fee, the gas tax. That hasn’t been increased for the last 23 years. The cost to the average motorist will be small, but the benefit to our transportation system will be immense... The program will not increase the Federal deficit or add to the taxes that you and I pay

on April 15. It will be paid for by those of us who use the system, and it will cost the average car owner only about \$30 a year. That's less than the cost of a couple of shock absorbers."¹¹⁴ (The shock absorbers analogy had its roots in Lewis's CCEA presentation.)

And on November 29, before returning to Washington, Reagan spoke to the National League of Cities annual meeting in Los Angeles, where he said that the 5 cent fuel tax increase would "allow us to complete the Interstate System, make almost all the interstate repairs, strengthen all our dangerously weak bridges, improve thousands of others, enhance all of our safety, and address the critical public transit needs of our cities."¹¹⁵

On November 30, Reagan sent a message to Congress formally transmitting a revised transportation bill (H. Doc. 97-259) that increased gasoline and diesel taxes from 4 cents per gallon to 9 cents per gallon, and deposited 1 cent per gallon of those taxes into a new Transit Account within the HTF. (The bill text had been given to Congress informally the day before.) The bill made no provision to turn back any of the highway revenues or highway programs to states, saving that for the forthcoming federalism bill in 1983. In addition to reauthorizing general fund transit grant programs, section 214 of the Administration's bill authorized a new \$1.1 billion per year mass transit grant program from the Transit Account of the Trust Fund (but reduced to less than \$1.1 billion if estimates of Transit Account receipts and interest for a given year dropped below \$1.1 billion – and the proposed program was not contract authority but was instead subject to appropriation). Funding would be block granted to urbanized areas (over 200,000) or states under a formula to be developed by DOT for rehabilitation and modernization of existing transit infrastructure and rolling stock, but the locality or state could request that part or all of the money be converted for use on highway projects instead.

The White House's bill also changed the mix of truck taxes, in line with the long-awaited cost allocation study from the FHWA. The study indicated that the heaviest trucks put a disproportionate amount of wear and tear on roads and bridges and that the annual weight-based tax on trucks (the heavy vehicle use tax, or HVUT) did not capture enough revenue to compensate. The Administration bill proposed to triple the HVUT on heavy trucks and lower some other trucking taxes to

compensate.

The trucking industry, more than any other single group, had scuttled the original 1955 Interstate highway bill because they did not like the mix of trucking taxes, but the Administration had found a way to lessen their opposition, as Dunn noted: "...Lewis offered truckers a quid pro quo. He supported legislation to set federal truck weight and length standards. Federal standards would eliminate the problem of the so-called 'barrier states' (Illinois, Missouri and Arkansas) whose stricter weight and length restrictions created a midcontinent barrier around which heavily laden trucks had to detour."¹¹⁶

On the morning of November 30, President Reagan and his senior advisers met with the entire Republican Congressional leadership team (14 Representatives and 10 Senators) and the first item on the agenda was the gas tax. Reagan's prepared talking points instructed him to lead the conversation by asking them to enact "A program to help restore our deteriorating highway and transit system. While requiring a 5 cent increase in the gas tax, this bill will also provide over 300,000 new jobs in the private sector. I am encouraged that the draft bill has been introduced and that Bob Dole has scheduled a hearing on this proposal later today – I hope this means speedy action in the House."¹¹⁷

At Dole's hearing later that day (and another hearing the following day before the House Ways and Means Committee), it became clear how Lewis had drawn the stakeholders together. While Senators argued about their relative state rates of return on fuel taxes and transit, the powerful highway construction lobby indicated its support for the overall package (while they maintained their opposition to the penny going for transit, they did not let that interfere with their support for the whole deal). The trucking lobby, however, opposed the new higher taxes on the heaviest trucks.

Congress moves legislation. Bills were moved through committee quickly, as the lame duck session did not start until November 30 and Christmas was fast approaching. The House Rules Committee granted H.R. 6211 a rule on December 3, making in order modifications from Public Works and allowing Ways and Means to offer its tax title on the floor as an amendment. Ways and Means Committee had marked up a revenue bill (H.R. 7368, 97th Congress) on December 2 (after a lot of negotiations with DOT



At a November 30, 1982 meeting with Republican Congressional leaders, President Reagan urged them to pass the 5 cent gas/diesel tax increase quickly. From left: Senate Majority Whip Ted Stevens (R-AK), Senate Majority Leader Howard Baker (R-TN), Reagan, House Minority Leader Bob Michel (R-IL), House Minority Whip Trent Lott (R-MS), and House Republican Conference chairman Jack Kemp (R-NY). Photo courtesy of the Reagan Library.

about the structure of truck taxes – Ways and Means wound up shifting more of the cost burden from heavier trucks to lighter trucks).¹¹⁸

(After some internal staff debate, Rostenkowski and Howard had compromised on the issues relating to the HTF’s authorizing statute that had scuttled the one-year bill three months previously.¹¹⁹)

The bill came to the House floor on December 6, and Rostenkowski went to the House floor at 11:15 p.m. to offer his panel’s tax package as an amendment to H.R. 6211. He read into the *Record* strong letters of support for his revenue package from Lewis and Treasury Secretary Regan, and senior Ways and Means member Sam Gibbons (D-FL) noted that the bill’s increased taxes on the heaviest (and most profitable) trucks were only meant to bring their Trust Fund payments more in line with the outsized damage they did to the roads, per the recent DOT cost allocation study. And Gibbons pointed out that “The truckers not only get a tax, they also get wider trucks, longer trucks, heavier trucks, and tandem trucks. Without the user tax, they cannot get that. The President will not sign the bill.”¹²⁰

Rostenkowski’s tax title for the transportation bill was adopted by a 236 to 169 margin on a vote held just after midnight on the morning of December 7. Democrats were in favor by 141 to 81 while Republicans supported it by 95 to 88. The bill itself then passed by a vote of 262 to 143.

In the Senate, the Finance Committee marked up the tax title on December 8, and its bill adhered closer to the President’s original allocation of revenues on trucks than the Ways and Means bill did. On the floor, the gas tax increase faced a determined filibuster from

a small handful of Republican Senators (Don Nickles (R-OK) and Jesse Helms and John East both (R-NC)), which delayed the start of consideration. Majority Leader Baker used the cumbersome “cloture” process to break the filibuster, which requires several days of floor time and at least 60 affirmative votes.

This led to the unusual spectacle of Democratic supporters of the bill supporting the filibuster by opposing cloture so that they could try to add a non-germane amendment on unemployment insurance (since non-germane amendments are prohibited once cloture on a measure has been invoked). Interestingly, during the entire floor debate, no Senator ever offered an amendment to strike the gas tax increase from the bill (likely knowing that the amendment would fail and not wanting the margin known). Instead, the opponents of the tax simply filibustered, trying to run out the clock on the annual session of Congress, knowing that Christmas was just around the corner. (Helms did make a tangential point of order against the tax title that was waived by a 73-22 vote.)

The filibuster led to a failed cloture vote on Thursday December 16 (only 48 “yea” votes were cast, 12 short of the necessary 60 – 41 Republicans and 7 Democrats voted “yes,” while 12 Republicans and 38 Democrats opposed cloture). But later that day, the Senate adopted two amendments that fixed problems with the bill. A Boschwitz (R-MN) amendment to make significant changes in the bill’s truck tax regime, including lowering the tax level on the heaviest trucks, passed by the near-unanimous vote of 96 to 1. And a bipartisan compromise was reached on the unemployment insurance extension issue between Bob Dole and Carl Levin (D-MI), which passed 93 to 4.

The Senate then had to turn to the omnibus continuing appropriations bill into the last weekend before Christmas. On Saturday, December 18, Howard Baker called President Reagan to discuss the situation. Reagan's handwritten notes of the call say that Baker and Bob Dole "wanted to go for the gas tax bill and keep the Senate in all night. I said go."¹²¹ Baker then went and moved to reconsider the earlier failed cloture vote, which then led to a successful cloture vote on Sunday, December 19 on the Senate substitute amendment and then another successful cloture vote on Monday, December 20 on H.R. 6211 itself, and finally passage of the bill by a 56-34 vote at 1:16 a.m. on Tuesday, December 21.

(Two interesting amendments got votes during final debate. Sen. Don Riegle (D-MI) offered an amendment on December 19 that simply said that the gas tax increase "shall not apply to individuals eligible for [the Earned Income Tax Credit]." Riegle said that the amendment would exempt the working poor (earners making less than \$10,000 per year) from the effects of the gas tax increase, but Finance chairman Bob Dole (R-KS) said the amendment was unworkable: "Well, individuals do not pay the [gas] tax, the companies pay the tax. So I say the amendment is not properly drawn."¹²² The motion to table (kill) the Riegle amendment was agreed to by a 50-42 vote. And a Dale Bumpers (D-AR) amendment on the 20th to require the new Mass Transit Account to give each state no less than 85 percent of the tax revenues paid into the Account by motorists within that state only failed by a vote of 44 to 52.)

Over the FY 1983-1988 period, the projected increases in receipts under the House and Senate versions of the bill were almost identical at an additional \$29.9 billion (differences in projected gas tax receipts were due to phase-ins, refunds and exemptions, not base rates) – but there was a big difference in how the trucking industry was treated. (There were so few diesel-powered cars and light trucks that the diesel tax was basically a trucking industry tax.) If one counts the diesel tax as a tax on the trucking industry, then the House bill raised a total of \$4.3 billion in net trucking industry tax increases over 1983-1988, 97 percent of which came from the HVUT tax increase on the heaviest trucks (as called for in the long-awaited DOT cost allocation study, which found that the heaviest trucks were grossly underpaying for the amount of damage they did to roads and bridges).

But the Senate-passed version of the bill, because of the Boschwitz amendment, raised \$6.6 billion in new taxes from the trucking industry over 1983-1988, only 16 percent of which came from an increase in the heavy vehicle use tax. (See Table 3 at the end of this paper.)

After an incredibly brief House-Senate conference, a conference report on H.R. 6211 was filed later that day. The conference report included the extra nickel (4 cents for highways, 1 cent for transit) and extended all fuels taxes through 1988. The conferees also sided with the House on most of the truck fee disputes – the \$5 billion in increased diesel taxes over 1983-1988 was more than offset by \$5.1 billion in non-HVUT truck tax cuts, so the entire net increase in the bill's taxes on the trucking industry came from a \$3 billion increase in the heavy vehicle use tax over 1983-1988. (See Tables 3 and 4 at the end of this report.) Using those increased tax receipts, the conference report increased new spending authorizations from the HTF from the 1982 level of \$8.4 billion up to \$13.5 billion in 1985, rising to \$16.5 billion at the end of the bill, including an average of \$1.1 billion per year for the new Mass Transit Account. (See Table 5 at the end of this report.)

(Interestingly, while Reagan was making these calls on behalf of the gas tax bill, his staff was putting the finishing touches on yet another iteration of the New Federalism. On December 22, Reagan put his initials in the "approve" slot on a memo from Meese requesting his approval for this part of the federalism plan: "Transportation Block Grant. The grant would be funded with 2 cents of the federal gas tax, allocated based on historical formulas, and would be spent on urban, secondary, non-primary bridges, Appalachia, highway safety, and Safety Construction transportation projects."¹²³)

The House, facing dwindling attendance as Christmas approached, debated the conference report that same day and passed it by a vote of 180 to 87 (with 167 absentees). The North Carolina Senators filibustered the conference report, and after being prepped by DOT staff, Reagan once again worked the phones, calling GOP Senators Thurmond (SC), Tower (TX), Cochran (MS), McClure (ID), Simpson (WY) and Wallop (WY) to ask for their votes in favor of invoking cloture and shutting down the filibuster.¹²⁴ The final cloture vote was not even close (cloture was invoked,

President Reagan receives a telephone call from Senate Majority Leader Baker on December 23, 1982 informing him that Congress has given its final approval to the gas tax increase and that the 97th Congress has come to a close. Standing: White House Legislative Liaison Ken Duberstein. Photo courtesy of the Reagan Library.



81 to five, 21 more “yes” votes than needed) and the Senate passed the conference report by a 54 to 33 vote on December 23.

Reagan signs the bill. Because of the holidays and other delays, H.R. 6211 was not presented to President Reagan until January 3, 1983. The OMB memo summarizing the bill and coordinating agency opinions recommended that he sign the bill, but it noted that the final bill produced by Congress had deviated substantially from the Administration’s proposal, by increasing funding for “lower priority State interest” highway programs, by making the HTF transit money contract authority instead of discretionary and prohibiting its transfer to highways, and by continuing to authorize general fund monies for mass transit operating subsidies and transit new starts.¹²⁵ But those objections, along with typical conservative objections to the Buy America, Davis-Bacon, and DBE provisions, as well as unrelated add-ons in the final bill, were not enough for even Stockman to recommend a veto. President Reagan signed the “Surface Transportation Assistance Act of 1982” into law on January 6, 1983 as Public Law 97-424. (Although the White House was very careful in November/December 1982 to use the “user fee” nomenclature instead of the dreaded T-word in all public statements, Reagan himself knew the score. In his handwritten diary entry for January 6, he wrote, “Signed the Gas Tax bill...”¹²⁶)

The surface transportation bill was Drew Lewis’ last hurrah – he had privately submitted a handwritten resignation letter to Reagan on December 12, as the Senate was still considering the bill, and the White

House waited until December 28 to release the letter and Reagan’s response.

Three weeks after signing the bill, in his State of the Union message, the President again made a pitch for New Federalism, and this time his Administration actually submitted a bill (in pieces), but as Richard Williamson had predicted, after just having wrestled with a massive rewrite of surface transportation law, Congress was in no mood to revisit the issue so soon. The transportation portion of the 1983 New Federalism initiative was introduced in the House in April 1983 (H.R. 2649, 98th Congress) but never saw any legislative action.¹²⁷

And the surface transportation bill’s allocation of trucking industry taxes (based on the long-awaited FHWA cost allocation study), which was supposed to make the different types of users pay closer to their fair share of the damage they did to the roads, was not to last. Immediately after the bill signing, the owner-operator truckers started threatening a national trucking shutdown over the higher use taxes on heavy trucks. Even as the ink on the bill was still wet, Administration officials were discussing ways to amend the blend of trucking taxes to make the truckers happy. In the end, the higher taxes on heavy trucks would be largely repealed just 18 months later in the Deficit Reduction Act of 1984, in exchange for another increase in the highway diesel fuel tax, increasing that tax from 9 cents to 15 cents per gallon (the increased diesel revenues were projected to slightly outweigh the decreased HVUT revenues over five years).¹²⁸

The 1982 highway bill was the last time that Congress

voted to increase highway user taxes specifically to support an increase in HTF spending. (Increases in motor fuels taxes in 1990 and 1993 were driven by deficit reduction and were only deposited in the Trust Fund in full later on, after the original deficit reduction agreements had expired).

But the precedent set by the 1982 act by establishing a new Mass Transit Account within the HTF to receive one-fifth of the gas tax increase has proven durable, with the Transit Account eventually receiving 20 percent of the 1990 and 1993 gas and diesel tax increases as well (once those taxes were deposited

in the Trust Fund). Transit historian George Smerk wrote that “It is also quite clear that by linking transit and highways a strong coalition was formed; this is particularly true in the passage of the 5 cent gasoline tax. The support of senators and representatives from areas in which transit was important was needed to pass the fuel tax, the benefits of which would sift down to places of all sizes in all of the states.”¹²⁹

Conclusions

What lessons can be learned from the 1981-1982 experience?

- **It pays to be flexible – and persistent.** Drew Lewis went to President Reagan in December 1981 to advocate the equivalent of a 5 cent per gallon gas tax increase to pay for a vigorous and expanded direct federal role in highway funding and a new, permanent role in the federal funding of mass transit. He justified the expanded federal program on its substantive benefits, and he justified dedicated revenue for mass transit on the grounds of substantive benefits and political pragmatism (because Congress would likely not increase taxes for highways unless transit was also included). When rebuffed by a White House that favored “devolving” much of that federal role back to states, Lewis quickly regrouped and requested the exact same tax increase in February 1982, but this time justified it on the grounds that the federal tax increase would only be temporary and that the revenues would eventually be turned back to states along with all parts of the highway program that were not explicitly federal in nature (and on the grounds that the entire mass transit program would be turned back to states as well). And when Reagan turned him down in May 1982, he kept the issue alive until the political landscape had altered enough to allow the President to endorse the proposal after the elections.
- **A gas tax increase for deficit reduction was much closer to reality in summer 1982 than is now remembered.** To this day, President Reagan’s September 1982 “palace coup” comment is contrasted with his “user fee increase” statements of late November 1982 as evidence of a complete 180 degree reversal by Reagan on the whole gas tax issue, and his late November insistence that the “palace coup” comment had only applied to a gas tax increase for deficit reduction is usually forgotten. But if the Republicans on the Finance Committee really did secretly vote to double the gas tax in late June 1982 as part of the TEFRA deficit reduction bill, only to back down and replace the revenue with other tax increases as the documentary record suggests, then Reagan’s distinctions between a gas tax increase for deficit reduction instead of for infrastructure were much more on point.
- **Giving away programs still costs money.** To the extent that present-day advocates of “devolving” or “turning back” most federal surface transportation programs to states claim inspiration from Ronald Reagan, they should remember that Reagan’s “New Federalism” plans requested short-term tax increases (or the redirection of existing taxes away from their general fund or trust fund destination into a Federalism Trust Fund) to pay for transition costs that would lead to tax decreases and program giveaways down the road. And they should also remember Drew Lewis’ doubts that many states would actually be able to raise their taxes to replace the federal revenue they would eventually lose.
- **The unified budget giveth as well as taketh away.** For decades, it was an article of faith among supporters of increased highway spending that President Lyndon Johnson’s 1969 decision to unify the various federal trust funds with the general fund of the Treasury for purposes of presenting the federal budget marked some kind of fall from Eden. The reasoning was that the unified budget gave bad actors (in this view, Presidents who impounded highway funds from 1969 to 1975, and Congressional budget and appropriations committees that limited highway obligations after 1975) an incentive to hold down HTF spending levels well below HTF tax receipt levels, because this made the politically unpopular unified federal deficit look smaller. The record shows that this cuts both ways – short-term deficit reduction was a key selling point of the 1982 gas tax increase, because the tax receipts would flow into the Trust Fund for several years before the slow-spending capital programs for highways and transit actually spent the money, thus leading to lower federal deficits at a time when the Reagan Administration needed all the deficit reduction it could get.

- **Try to make sure the decisionmaker has no decision to make.** By the time that Reagan had to make the final yes-or-no decision on requesting a gas tax increase just before Thanksgiving 1982, the Speaker of the House, the Senate Majority Leader, and the Chairman of the House Ways and Means Committee had already made public announcements that they were going to move a 5 cent motor fuels tax increase in the lame-duck session whether or not the President went along with it, joining Congressional majorities in both chambers (according to the White House legislative affairs office) who had been willing to do so even before the elections. Reagan postponed his decision for so long that when it came time for him to decide, there really was no decision to make. The voters wanted action on jobs, and Reagan's own party leaders in Congress had made it clear that opposition to the gas tax increase would jeopardize other parts of his legislative program.
- **Luck plays a part.** If Dan Rostenkowski had not made a power grab for greater control over the HTF in September 1982, Congress would probably have enacted a one-year extension of highway programs later that month. This would have eliminated any deadline pressure to enact highway legislation in the post-election lame duck session and would have emboldened and empowered the senators who were trying to run out the clock by filibustering the bill until Christmas. And if Congress and the President had been forced to start the legislative process over in spring 1983, it would have been more difficult to keep the New Federalism proposal to "turn back" highway and transit programs to the states separate from the reauthorization legislation containing the gas tax increase.
- **You don't know how much access you can get until you assert yourself.** Cabinet secretaries have long complained about White House staff limiting their access to the President. In that context, Drew Lewis had this reminiscence in 1990: "If I had a problem and was very concerned, I would pick up the phone, call the White House and ask for Meese, Baker or Deaver. If I couldn't get them, the President would pick up the phone. That happened two or three times; he was always available. Despite the fact that people thought he was sleeping at 8:30 in the morning, I could reach him. I never made a call to him or to Nancy Reagan that didn't get through."¹³⁰
- **It helps to be in the room.** During the first Reagan term, the Secretary of Transportation was a member of the CCEA, where all tax policy was discussed before being aired with the President, and where the New Federalism Initiative and Drew Lewis' proposed motor fuels tax increase and related highway spending increase proposals were debated. Because DOT was always in the room with Treasury, OMB, the CCEA, and the rest of the economic team, Lewis was present at many key meetings that were not about transportation primarily (or at all) and was always in a position to mention how a motor fuels tax increase might advance Reagan Administration policy. And DOT's full membership in the CCEA also meant that Lewis (or his staff) were instantly alerted if anyone else in the economic team started discussing policy or revenue issues within DOT's purview. Today, the comparable entity is the National Economic Council, a much larger group that is more dependent on White House staff and whose agenda is more directly managed by a senior presidential adviser.
- **The Reagan Administration allowed its senior officials latitude in advocating controversial policies that seems remarkable today.** To present-day observers, the most remarkable thing about the 1982 gas tax increase is the extraordinary latitude that Transportation Secretary Drew Lewis had in advocating a controversial tax increase throughout 1981 and 1982 when the President was officially opposed to the policy. True, whenever Lewis told reporters and interest groups for almost 12 months that he thought a nickel per gallon tax increase was good policy, he would always clarify that the President had not yet signed on. But let's contrast this with two more recent examples. In 2002, as the DOT was formulating its surface transportation reauthorization proposal, the Department quietly asked the White House for permission to include a gas and diesel tax increase in the bill. This was quickly and categorically denied by President Bush, and from then on, Transportation Secretary Norman Mineta consistently told interest groups that no tax increase would be countenanced by the White House throughout the reauthorization process. And just a month after he took office in 2009, Transportation Secretary Ray LaHood offhandedly told reporters that "we should look at" a vehicle

miles traveled (VMT) tax as an eventual replacement for motor fuels taxes (as recommended by several blue-ribbon expert panels). The White House press office quickly dropped the hammer on the idea, saying that a VMT tax “is not and will not be the policy of the Obama Administration.”¹³¹ LaHood never again made the mistake of advocating any kind of transportation revenue increase that had not received an official sign-off from the White House, and years of work on developing the concept of a national VMT-based revenue system went to waste. Did Mineta and LaHood have less latitude than other Cabinet members to take stances contrary to Administration policy because they were not members of the President’s party? Perhaps, but it is increasingly difficult to find examples of any Cabinet members in recent years consistently getting out in front of the White House on controversial policy issues, or publicly lobbying the President to change his mind once an initial decision has been made and announced to the public. The advent of the 24-hour news cycle, the Internet, and a news culture that often treats disagreement between senior officials over policy to be more important than the policy itself has resulted in far more message coordination between the White House and executive agencies than ever before (and woe to the agency officials who get caught being publicly “off message”).

- **“Compromise” is not a bad word.** A 5 cent motor fuels tax increase for highways and transit was not Ronald Reagan’s initial preference, or even his second choice, but in the end he went all-in, using the bully pulpit and giving cover to wavering Republicans, so that he would better be able to influence the final legislative product. His Chief of Staff at the time, Jim Baker, says “If Reagan told me once, he told me fifteen thousand times – I’d rather get 80 percent of what I want than go over the cliff with my flags flying.”¹³²

Projected Highway Trust Fund Tax Receipt Effects of the Administration, House, Senate and Conference Versions of the 1982 STAA's Surface Transportation Excise Tax Changes

(Millions of dollars, net of refunds and transfers, per Joint Committee on Taxation documents JCX-45-82, JCX-56-82 and JCX-60-82. Baseline assumes extension of current law taxes scheduled to expire at the end of FY 1984. Does not show decreased general fund income tax revenues due to excise tax increases.)

	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY 88</u>	<u>FY 83-88</u>
Gasoline							
November 1982 Baseline	3,911	3,758	3,747	3,757	3,778	3,785	22,736
Administration Bill vs Baseline	+2,205	+4,463	+4,311	+4,202	+4,172	+4,241	+23,594
House Bill vs Baseline	+2,280	+4,726	+4,665	+4,617	+4,611	+4,654	+25,553
Senate Amendment vs Baseline	+2,211	+4,422	+4,292	+4,151	+4,100	+4,132	+23,308
Conference Report vs Baseline	+2,271	+4,705	+4,628	+4,558	+4,561	+4,609	+25,332
December 23 1982 Estimate	6,182	8,463	8,375	8,315	8,339	8,394	48,068
Diesel							
November 1982 Baseline	627	654	706	761	818	878	4,444
Administration Bill vs Baseline	+334	+812	+870	+931	+996	+1,070	+5,013
House Bill vs Baseline	+341	+803	+861	+919	+984	+1,057	+4,965
Senate Amendment vs Baseline	+341	+803	+861	+919	+984	+1,057	+4,965
Conference Report vs Baseline	+341	+803	+861	+919	+984	+1,057	+4,965
December 23 1982 Estimate	968	1,457	1,567	1,680	1,802	1,935	9,409
Subtotal, Motor Fuels Taxes							
November 1982 Baseline	4,538	4,412	4,453	4,518	4,596	4,663	27,180
Administration Bill vs Baseline	+2,539	+5,275	+5,181	+5,133	+5,168	+5,311	+28,607
House Bill vs Baseline	+2,621	+5,529	+5,526	+5,536	+5,595	+5,711	+30,518
Senate Amendment vs Baseline	+2,552	+5,225	+5,153	+5,070	+5,084	+5,189	+28,273
Conference Report vs Baseline	+2,612	+5,508	+5,489	+5,477	+5,545	+5,666	+30,297
December 23 1982 Estimate	7,150	9,920	9,942	9,995	10,141	10,329	57,477
Heavy Vehicle Use Tax							
November 1982 Baseline	228	275	287	299	312	325	1,726
Administration Bill vs Baseline	+457	+794	+829	+863	+901	+939	+4,783
House Bill vs Baseline	-67	+616	+813	+898	+949	+989	+4,198
Senate Amendment vs Baseline	-67	+54	+159	+260	+297	+316	+1,019
Conference Report vs Baseline	0	+152	+601	+723	+807	+734	+3,017
December 23 1982 Estimate	228	427	888	1,022	1,119	1,059	4,743
Other Trucking Industry Excise Taxes							
November 1982 Baseline	1,661	2,143	2,466	2,690	2,856	3,060	14,876
Administration Bill vs Baseline	-392	-684	-732	-784	-823	-895	-4,310
House Bill vs Baseline	-404	-727	-867	-900	-936	-986	-4,820
Senate Amendment vs Baseline	-111	+92	+113	+146	+167	+179	+586
Conference Report vs Baseline	-403	-777	-918	-952	-988	-1,037	-5,075
December 23 1982 Estimate	1,258	1,366	1,548	1,738	1,868	2,023	9,801
Total HTF Tax Receipts							
November 1982 Baseline	6,427	6,830	7,206	7,507	7,764	8,048	43,782
Administration Bill vs Baseline	+2,604	+5,385	+5,278	+5,212	+5,246	+5,355	+29,080
House Bill vs Baseline	+2,150	+5,418	+5,472	+5,534	+5,608	+5,714	+29,896
Senate Amendment vs Baseline	+2,374	+5,371	+5,425	+5,476	+5,548	+5,684	+29,878
Conference Report vs Baseline	+2,209	+4,883	+5,172	+5,248	+5,364	+5,363	+28,239
December 23 1982 Estimate	8,636	11,713	12,378	12,755	13,128	13,411	72,021

Table 3

Highway Trust Fund Excise Tax Rates

	<u>November 1982 Law</u>	<u>Administration Bill</u>	<u>House Bill</u>	<u>Senate Amendment</u>	<u>Conference Report</u>
Gasoline	4¢/gal.	9¢/gal.	9¢/gal.	9¢/gal.	9¢/gal.
Diesel & Special Fuels	4¢/gal.	9¢/gal.	9¢/gal.	9¢/gal.	9¢/gal.
Lubricating Oil	6¢/gal.	zero	zero	6¢/gal.	6¢/gal.
Trucks and Trailers	10%	12%	12%	12%	12%
Truck Parts	8%	12%	zero	10%	zero
Highway Tires	9.75¢/lb.	25¢/lb.	25¢/lb.	10¢/lb/ 1st 50 lbs., 15¢/lb. next 50 lbs, 25¢/lb. over 100 lbs.	Under 40 lbs, no tax; 40-70 lbs pays 15¢/lb over 40 lbs; 70-90 lbs pays \$4.50 + 30¢/lb over 70 lbs; over 90 lbs pays \$10.50 + 50¢/lb over 90 lbs
Nonhighway Tires	4.875¢/lb.	4.875¢/lb.	zero	zero	zero
Inner Tubes	10¢/lb.	zero	zero	zero	zero
Tread Rubber	5¢/lb.	25¢/lb.	25¢/lb.	6¢/lb.	zero
Heavy Vehicle Use Tax	Under 26,000 lbs, no tax; \$3 for every 1,000 lbs over 26,000 lbs (an 80,000 lb truck would pay \$162 per year)	Under 55,000 lbs, no tax; 55-70,000 lbs pays \$100 + \$6/100 lbs over 55k; 70-80,000 lbs pays \$1,000 + \$17/100 lbs over 70k; over 80,000 lbs pays flat rate of \$2,700	Under 33,000 lbs, no tax; 33-55,000 lbs pays \$60 + \$20/1,000 lbs. over 33k; 55-80,000 lbs. pays \$500 + \$60/1,000 lbs. over 55k; over \$80,000 lbs. pays flat rate of \$2,000	Under 33,000 lbs, no tax; 33-55,000 lbs pays \$80 + \$10/1,000 lbs. over 33k; 55-70,000 lbs. pays \$300 + \$20/1,000 lbs. over 55k; 70-80,000 lbs pays \$600 + \$60/1,000 lbs. over 70k; over \$80,000 lbs pays flat rate of \$1,200	Under 33,000 lbs, no tax; 33-55,000 lbs pays \$50 + \$25/1,000 lbs over 33k; \$55-80,000 pays \$600 + sliding rate of \$40 (FY84) to \$52 (FY88)/1,000 over 55k; over 80,000 lbs pays sliding max rate (\$1,600 in FY84 to \$1,900 in FY88)

Table 4

New Highway Trust Fund Contract Authority, 1982 STAA vs. Prior Year

(Billions of dollars.)

	Prior Law	Surface Transportation Assistance Act of 1982			
	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>
Interstate Construction	3.225	4.000	4.000	4.000	4.000
Intersate Rehab (4R)	0.800	1.950	2.400	2.800	3.150
Interstate Substitution	0.000	0.257	0.700	0.700	0.725
FAHP Primary	1.500	1.850	2.100	2.300	2.450
FAHP Secondary	0.400	0.650	0.650	0.650	0.650
FAHP Urban	0.800	0.800	0.800	0.800	0.800
Donor State 85% Min. Allocation	0.000	0.515	0.589	0.597	0.631
Emergency Relief	0.100	0.100	0.100	1.000	0.100
Federal Lands & Park Highways	0.049	0.250	0.300	0.300	0.300
Demonstration Projects	0.075	0.174	0.081	0.107	0.025
Bridge Program	0.900	1.600	1.650	1.750	2.050
Rail-Highway Crossings	0.190	0.190	0.190	0.190	0.190
Hazard Elimination	0.200	0.200	0.200	0.200	0.200
Sec. 402 Safety Grants	0.110	0.110	0.110	0.110	0.110
Other NHTSA	0.003	0.043	0.050	0.050	0.000
Mass Transit Capital Grants	0.000	0.779	1.250	1.100	1.100
Total, HTF Contract Authority	8.352	13.468	15.170	16.654	16.481

Table 5

Endnotes

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- 23 Unidentified memorandum dated 10/8/81 found in folder entitled "Revenue Raisers September 15 – October 13 1981" from box 165 in the Donald T. Regan papers in the Manuscript Division of the Library of Congress.
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