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To: Members of the New England Advisory Council  
From: Robert Tannenwald and Ashley Provencher, NEPPC  
Date: July 10, 2006  
Re: Questions concerning gasoline excise tax rates and the medical care component of the Consumer Price Index

This memo responds to two inquiries posed at the Council's meeting on June 11, 2006. One was about gasoline excise tax rates in New England. The other concerned the rate of increase in the medical care component of the Consumer Price Index.

## **Gasoline excise tax rate in New England**

Table 1 presents each state's (and the District of Columbia's) statutory gasoline excise tax rate. The tax rate in every New England state is higher in New England than the federal tax rate of 18.4 cents per gallon. At 31 cents, Rhode Island's tax rate is the highest in the region and third-highest in the country. Maine (25.9 cents) and Connecticut (25 cents) have the next highest tax rates. Massachusetts, Vermont, and New Hampshire tax gasoline at 21 cents, 20 cents, and 19.625 cent, respectively.

## **Why has the medical care component of the Consumer Price Index been growing so slowly?**

Medical care, one of eight components of the Consumer Price Index (CPI-U) is composed of five subcomponents: prescription drugs and medical supplies; nonprescription drugs and medical supplies; professional services; hospital and related services; and health insurance. Figure 1 shows the relative importance of each of these components. Professional services, the largest subcomponent of medical care, includes services provided by physicians, dentists, optometrists, psychologists, and other medical professionals. Health insurance, accounting for only 6 percent of medical care, is limited to health insurance premiums paid by consumers and excludes costs paid by employers (such as employer contributions to employee health care plans) and taxpayers (such as Medicaid and Medicare Part A).

Figure 2 shows year-over-year rates of growth of the medical care subcomponents for every month since May 2005. With the exception of hospital-related services, no subcomponent has grown by more than 6 percent in any month. In fact, the price of nonprescription medical products fell from May through October 2005. Data for health insurance exist only for the most recent six months. During this period, this subcomponent has grown at an annualized rate of growth of 4.3 percent nationwide. Regional data are not available for health insurance.

The CPI-U measures changes in the price of a given unit of goods or services, holding quality and quantity constant. Patients, however, now visit more doctors and take a wider array of medications than they used to. Moreover, technological advances continue to improve medical practices. The CPI-U attempts to distinguish these changes in quality and quantity from changes in the price of a quality-constant unit of medical care. As the quality and quantity of medical care has been increasing, the aggregate “price-tag” for medical care has grown faster than this price.