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**ECONOMIC VIEWPOINT**

By Gary S. Becker

# Want to Cut Gasoline Use? Raise Taxes

**While fuel-economy standards reduce consumption only in an indirect way, higher prices at the pump encourage consumers to drive less**

Congress has been criticized severely for failing to mandate increased fuel economy on cars and trucks sold in the U.S. However, if the goal is to reduce gasoline consumption for environmental and national security reasons--gasoline absorbs more than 40% of all oil used by the U.S.--it is much more effective to raise gasoline taxes.

The Corporate Average Fuel Economy (CAFE) program began after the first oil price shock in 1973, which effectively threatened the U.S. with blackmail by Middle East producers. The CAFE rules impose minimum fuel-use standards on fleets of cars and light trucks produced by each car manufacturer. By 1985, manufacturers' new passenger cars had to average at least 27.5 mpg, while their fleets of new light trucks had a much weaker standard of 20.7 mpg--and heavy-duty trucks were fully exempt. These standards have not been changed since, and actual fuel economy has remained just above these minimums.

CAFE standards clearly favor trucks, including sport-utility vehicles that are classified as light trucks, even though such vehicles get relatively low mileage. Due in part to these more favorable standards, trucks and SUVs increased during the past couple of decades from less than 20% to over 50% of all vehicles produced by American car manufacturers.

Congress has been under pressure to make fuel-economy standards more uniform between cars and light trucks, as well as tougher. Yet even with greater uniformity, CAFE reduces gasoline use only indirectly, by increasing average miles per gallon. If miles driven remained the same, gasoline consumption would drop in proportion to the increase in mpg. But since higher mpg encourages more frequent and longer trips, better fuel economy could actually raise gas usage if it induces increases in driving. The CAFE system's conflicting incentives on fuel consumption explain why the National Academy of Science estimates it lowered annual gasoline use by only

about 10%. However, the Academy probably overstates this effect, since it assumes a small response of vehicle travel to better mileage.

Europe and Japan do not use fuel-economy standards to any significant degree, but instead rely principally on high taxes to reduce gas consumption. Their average tax is more than \$2 per gallon, while in the U.S., federal gas taxes are only 18 cents per gallon and average state taxes 22 cents per gallon. Higher prices at the pump resulting from higher taxes increase consumer demand for cars with better fuel economy--and they encourage consumers to reduce their driving. In addition, higher gasoline prices do not favor one vehicle type over others, and so automatically encourage greater economies from trucks as well as sedans.

Research by students at the University of Chicago Graduate School of Business shows that federal taxes on gasoline would have to increase by a bit less than 50 cents per gallon to cut gasoline consumption by the same percentage claimed to be achieved under the CAFE program. This assumes that each 20% increase in gas prices reduces long-run gasoline demand by 10%.

Although a 50 cents increase is a lot compared with the present average total tax of 40 cents, it would raise retail gas prices to only a little more than \$2 per gallon, far below prices in Europe and Japan. Increasing federal taxes to 80 cents per gallon and eliminating the CAFE program would cut gasoline use by an additional 10%, yet U.S. retail gas prices would still be much below those in other developed nations.

A higher gasoline tax has been opposed because it is alleged to be regressive and to hurt lower-income families. In fact, the average share of income spent on gasoline is less than 4% and varies little by income class, according to the government's Consumer Expenditure Survey of 2000. So even a big tax increase would have only a small impact on the typical poor family's standard of living.

Car manufacturers were able to meet the CAFE standards primarily by reducing the weight of cars, but passengers in lighter cars are more vulnerable in auto accidents. A 1997 U.S. Transportation Dept. report estimates that while deaths from car accidents per mile driven have declined over time in the U.S., there would have been about 2,000 fewer automobile deaths in that year without the CAFE system. Although some manufacturers of small cars dispute these figures, even half that number would be an enormous price to pay for the modest reduction in gasoline use attributed to CAFE. By contrast, higher taxes encourage reduced driving, fewer SUVs, and other safe ways to economize on fuel.

Truckers would vigorously oppose higher gasoline taxes, instead of the CAFE program that treats trucks favorably. That would normally be enough to politically doom such a change, unless Congress and the President are determined to eliminate an inefficient, ineffective, and even deadly way to reduce gas usage. Raising taxes on gasoline is a more effective--and more humane--way of saving energy than CAFE.

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