

FUEL-EFFICIENT VEHICLES SPORT HIDDEN COSTS



James V. Koch, president emeritus and Board of Visitors Professor of Economics at Old Dominion University.

In December, President Bush signed comprehensive energy legislation that included an increase in the Corporate Average Fuel Economy (CAFE) standards from a requirement of an average 27.5 miles per gallon this year to 35 mpg by 2020. As a result, the typical American driver in the future will be able to travel more miles on each gallon of gasoline.

This is good news, right? Yes, but. Higher CAFE standards represent progress in the right direction, but the news isn't nearly as good as you might think. Here's why:

First, the requirement that automobiles become more gasoline-efficient will result in manufacturers producing fleets of smaller, lighter vehicles. Unfortunately, these smaller, lighter vehicles won't be as safe. If you're going to crash into another car on the highway, would you rather be in a Lincoln Continental or a Volkswagen Beetle?

Of course, the choice usually isn't that stark, but the point is more drivers and passengers will be injured or die in downsized vehicles. The National Academy of Sciences estimates that more than 3,000 additional people have died annually on our highways because of previous increases in CAFE standards.

Second, more fuel-efficient vehicles will encourage people to drive more unless the price of gasoline increases enough to cancel out this effect. This is simple economics. If the price of pizza declines, then more pizza is likely to be consumed. Similarly, if we reduce the price of driving, it is likely that people will drive more. This will counteract the increased fuel efficiency of our automobiles and ultimately could increase both our demand for oil and our carbon emissions.

Third, manufacturing these new, more fuel efficient vehicles is going to be more expensive. The National Highway Traffic Safety Administration estimates that the average price of an automobile will increase by \$3,000 to \$5,000. It is not true, as one presidential candidate has asserted, that "the best thing about CAFE standards is that they are almost free."

Let's agree there are some problems with CAFE. Is there a better way to accomplish the desired end - reducing our dependency upon oil and perhaps at the same time reducing our carbon emissions? Yes. It is an increase in the gasoline tax, perhaps by \$1 per gallon. This will reduce gasoline consumption by 8 to 14 percent; encourage car pooling, public transportation and bicycles; reduce the number of cars on our roads; reduce carbon dioxide emissions; diminish the number of highway deaths; and generate a large pool of revenue that can be used to pay for the development of other energy-efficient practices, ranging from increased reliance on cellulose fuels (not corn ethanol, which is energy-inefficient) to solar energy.

The major problem with a much higher fuel tax is political, not economic. The real costs of reducing our consumption of oil will become obvious even to amateurs. If the price of gasoline rises to \$4 per gallon from \$3 per gallon, then many of us will have to change our behavior.

However, there is considerable justice attached to taxing the behavior of those who now are responsible for most of our oil consumption problem. They'll end up paying the lion's share of the costs.

Finally, we should remember that the price of gasoline in Europe varies between \$7 and \$8 per gallon. Europeans don't like those prices, but they understand the optimal way to reduce their consumption of oil is to increase its price. We should do the same.

High prices are the solution, not the problem.