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# Why we need CAFE standards or a higher gasoline tax

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### **Why we need CAFE standards or a higher gasoline tax**

America has an addiction to oil. Every day, Americans consume 18.8 million barrels of oil, with the majority being used as transportation fuel (EIA, 2012). This extremely high level of oil consumption is not sustainable economically or environmentally. Not only are we spending billions of dollars on oil, but the burning of fossil fuels (like the gasoline in our cars) is also contributing to global climate change, which has numerous negative effects. Americans need to stop consuming so much oil and stop emitting so many greenhouse gases. One method for reducing gasoline consumption from vehicles is to increase the fuel economy of our cars through CAFE (Corporate Average Fuel Economy) standards, and another is to increase federal taxes on gasoline. So which option is better at achieving these goals?

CAFE standards are federal regulations intended to improve the average fuel economy of cars and light trucks sold in the U.S. CAFE standards are a command and control option, in which the government tells auto manufacturers what the average fuel economy of their annual car fleet needs to be by a certain year. Just months ago the Obama administration increased the standard to 54.5 miles per gallon by 2025, up from the current average of 27 mpg (NHTSA). CAFE standards have proven to be very effective for reducing gasoline consumption in the past, particularly after the 1970s oil embargo crisis.

A gasoline tax on the other hand is a market approach, in which a tax is added to each gallon of gasoline in order to move the market to a more Pareto efficient allocation,

and to account for negative externalities (i.e. emissions) that the market does not include. This would decrease the equilibrium quantity of the market, causing less oil to be consumed. Yes, a gasoline tax would initially upset a lot of people. No one wants to spend more money on gas than they have to. But over time this increase in price would become the norm, as it is in most European countries. The United States has some of the lowest gas prices in the world, due to federal oil subsidies and low gas taxes. Today the federal tax on gasoline in the U.S. is only 18.4 cents per gallon, while many European countries have gasoline taxes over \$3.00 per gallon (Davoust, 2008).

If gasoline prices were higher in America people would demand more efficient vehicles, and they would have an incentive to drive less in general. More people might choose to bike or move closer to their jobs, which could reduce urban sprawl. In addition, the revenue from the taxes would largely go towards improving mass transportation, which would further help wean Americans off of driving personal vehicles. The downside of a higher gasoline tax is that it is regressive, and puts a higher burden on low-income families. However, money from the tax revenue could partially go back to the poor through transfer programs in order to make up for this uneven effect.

Improving vehicle efficiency according to CAFE standards can significantly reduce gasoline consumption and greenhouse gas emissions, as long as people are buying the new cars and driving the same amount. However, more efficient cars will likely cost more, and put a higher burden on consumers than producers. With CAFE standards, most of the monetary benefits are going to car manufacturers. With a higher gasoline tax the revenue goes back to the public, and could also go towards reducing the federal deficit.

A 2003 study by the U.S. Congressional Budget Office looked at the economic costs of fuel economy standards versus a gasoline tax with the goal of reducing fuel consumption and greenhouse gas emissions. They found that a 46-cent-per-gallon tax increase would reduce gas consumption at a lower cost than CAFE standards. They also concluded that the gasoline tax would induce owners of new and old vehicles to drive less, whereas CAFE standards could encourage new vehicle owners to drive more.

Ultimately both CAFE standards and a higher gas tax would improve the fuel economy of new vehicles, and reduce gasoline use and emissions. Looking at the pros and cons of each, I am in support of the higher tax option since it is more economically efficient and would have a greater overall impact by affecting consumer behavior. However, as recent regulations have demonstrated, politicians are much more likely to be in favor of CAFE standards since people do not like paying taxes.

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