

Eat Your Spinach, Pay Your Gas Tax

Mi Biz / February 16, 2009 / Melissa Anderson

If you want to grow up to be big and strong, we are told, you have to eat your spinach. It may not taste very good today, and you aren't going to be big and strong for another 15-20 years in any event, but your mother says you have to. At least it's not Brussels sprouts. So, too, the gas tax – something that helps us to accomplish desirable longer-term goals but tastes yucky.

We pay taxes on gasoline already: 18.4¢ a gallon in federal taxes (unchanged since 1993), 19¢ a gallon in state tax (since 1997), plus less than a penny for a state environmental fee, and 6% state sales tax on the whole – gas plus taxes and fees. In Michigan, that totals in the neighborhood of 50-60¢, depending on the price of the gallon of gas. Why do we eat this particular spinach? Because the law says we have to, but more broadly, because we want and need safe, smooth roads and bridges for personal and commercial transportation through our state.

A concept that percolates and periodically bubbles up in public policy discussions is the notion that we need to increase the federal gas tax. What, more spinach?! Aren't we big and strong yet? The fact is, there are additional things that we as a country aspire to, objectives that are considered part of the 'common good.' Not only must we provide and maintain the transportation infrastructure, but our national to-do list includes elements such as:

- Reducing dependence on foreign oil, because of the undesirable geopolitical side effects;
- Reducing oil consumption regardless of source, because oil is a finite resource; and
- Reducing the harmful impact of human activity on the environment, including mobile sources of emissions (i.e. the cars and trucks we drive).

Citizens like you and I might prioritize these differently. We might favor different routes to accomplish them, and have a varying sense of urgency. Depending on the trade-offs required, we can probably each still see some merit in these goals. Start talking about raising the gas tax, though, and public support falls away pretty quickly.

From an auto industry standpoint, we believe a gas tax hike would be useful. The Detroit Three have been lambasted for bad management and their failure to build vehicles that allow us to painlessly achieve our oil and environmental-protection goals. Alex Taylor III of Fortune magazine is one of many industry observers that have poked holes in that criticism by pointing out that the government shares the blame. "Forcing people to buy more efficient cars by ordering car companies to make them is like forcing people to lose weight by banning food companies from selling Big Macs and pizzas," he has written. "The reason Americans consume so much gasoline is that they like their big pickup trucks, SUVs, and V-8 engines. The reason the automakers make them is because people want to buy them." Taylor argues that a contributing factor to the poor

financial condition of the automakers is the very requirement that they sell unprofitable, albeit fuel-efficient, small cars in order to meet Corporate Average Fuel Economy (CAFE) standards.

A different approach would be to give consumers an incentive to change their habits by significantly changing the economics of the equation through higher gasoline taxes. People could still drive a big, powerful vehicle, or they could switch to a smaller one and enjoy considerable fuel savings. Gasoline consumption would be reduced, and driving behavior would adjust. Economists love this approach because it internalizes externalities, that is, it causes the users to pay the full social costs of their actions (pollution, congestion, etc.). For the automakers, a higher tax would create a more stable market environment in which to develop and introduce new clean, fuel-saving technologies, such as hybrid and electric vehicles. The dramatic shifts in demand for the many fuel-efficient models that the automakers do offer could be smoothed with a mechanism that made fuel economy a more consistent consideration.

A gas tax increase could be designed to address the objections that have been raised. If the tax is too regressive in penalizing low income drivers, then work out a rebate approach. If a recession is a terrible time for a tax increase, then phase it in gradually, e.g. 10¢ a year over the next decade, as economist Gregory Mankiw suggests. A variable consumption tax could operate to keep the gasoline price to consumers within a certain band. There are plenty of options, but the key ingredient may be political will. Taxes are a reasonable tool to raise revenue and/or drive behavior. We should be prepared to use them, like spinach, to get where we want to be.