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## Economic Scene

# A Way to Cut Fuel Consumption That Everyone Likes, Except the Politicians

By ROBERT H. FRANK

SUPPOSE a politician promised to reveal the details of a simple proposal that would, if adopted, produce hundreds of billions of dollars in savings for American consumers, significant reductions in traffic congestion, major improvements in urban air quality, large reductions in greenhouse gas emissions, and substantially reduced dependence on Middle East oil. The politician also promised that the plan would require no net cash outlays from American families, no additional regulations and no expansion of the bureaucracy.

As economists often remind their students, if something sounds too good to be true, it probably is. So this politician's announcement would almost surely be greeted skeptically. Yet a policy that would deliver precisely the outcomes described could be enacted by Congress tomorrow — namely, a \$2-a-gallon tax on gasoline whose proceeds were refunded to American families in reduced payroll taxes.

Proposals of this sort have been advanced frequently in recent years by both liberal and conservative economists. Invariably, however, pundits are quick to dismiss these proposals as "politically unthinkable."

But if higher gasoline taxes would make everyone better off, why are they unthinkable? Part of the answer is suggested by the fate of the first serious proposal to employ gasoline taxes to reduce America's dependence on Middle East oil. The year was 1979 and the country was still reeling from the second of two oil embargoes. To encourage conservation, President [Jimmy Carter](#) proposed a steep tax on gasoline, with the proceeds to be refunded in the form of lower payroll taxes.

Mr. Carter's opponents mounted a rhetorically brilliant attack on his proposal, arguing that because consumers would get back every cent they paid in gasoline taxes, they could, and would, buy just as much gasoline as before. Many found this argument compelling, and in the end, President Carter's proposal won just 35 votes in the House of Representatives.

The experience appears to have left an indelible imprint on political decision makers. To this day, many seem persuaded that tax-cum-rebate proposals do not make economic sense. But it is the argument advanced by Mr. Carter's critics that makes no sense. It betrays a fundamental misunderstanding of how such a program would alter people's opportunities and incentives.

Some examples help to illustrate how the program would work. On average, a family of four currently consumes almost 2,000 gallons of gasoline annually. If all families continued to

consume gasoline at the same rate after the imposition of a \$2-a-gallon gasoline tax, the average family would pay \$4,000 in additional gasoline taxes annually. A representative family with two earners would then receive an annual payroll tax refund of \$4,000. So, if all other families continued to buy as much gasoline as before, then, this family's tax rebate would enable it to do so as well, just as Mr. Carter's critics claimed.

But that is not how things would play out. Suppose, for example, that the family was about to replace its aging Ford Explorer, which gets 15 miles per gallon. It could buy another Explorer. Or it could buy Ford's new Focus wagon, which has almost as much cargo capacity and gets more than 30 miles per gallon. The latter choice would save a whopping \$2,000 annually at the pump. Not all families would switch, of course, but many would.

From the experience of the 1970's, we know that consumers respond to higher gasoline prices not just by buying more efficient cars, but also by taking fewer trips, forming carpools and moving closer to work. If families overall bought half as much gasoline as before, the rebate would be not \$2,000 per earner, but only \$1,000. In that case, our representative two-earner family could not buy just as much gasoline as before unless it spent \$2,000 less on everything else. So, contrary to Mr. Carter's critics, the tax-cum-rebate program would profoundly alter not only our incentives but also our opportunities.

A second barrier to the adoption of higher gasoline taxes has been the endless insistence by proponents of smaller government that all taxes are bad. Vice President [Dick Cheney](#), for example, has opposed higher gasoline taxes as inconsistent with the administration's belief that prices should be set by market forces. But as even the most enthusiastic free-market economists concede, current gasoline prices are far too low, because they fail to reflect the environmental and foreign policy costs associated with gasoline consumption. Government would actually be smaller, and we would all be more prosperous, if not for the problems caused by what President Bush has called our addiction to oil.

At today's price of about \$2.50 a gallon, a \$2-a-gallon tax would raise prices by about 80 percent (leaving them still more than \$1 a gallon below price levels in Europe). Evidence suggests that an increase of that magnitude would reduce consumption by more than 15 percent in the short run and almost 60 percent in the long run. These savings would be just the beginning, because higher prices would also intensify the race to bring new fuel-efficient technologies to market.

The gasoline tax-cum-rebate proposal enjoys extremely broad support. Liberals favor it. Environmentalists favor it. The conservative Nobel laureate Gary S. Becker has endorsed it, as has the antitax crusader Grover Norquist. President Bush's former chief economist, N. Gregory Mankiw, has advanced it repeatedly.

In the warmer weather they will have inherited from us a century from now, perspiring historians will struggle to explain why this proposal was once considered politically unthinkable.

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