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Fuel Standards Are Killing GM

A higher gas tax is a better way to get green cars on the road.

By ALAN REYNOLDS

General Motors can survive bankruptcy far more easily than it can survive President Barack Obama's ambitious fuel economy standards, which mandate that all new vehicles average 35.5 miles per gallon by 2016.

The actual Corporate Average Fuel Economy (CAFE) results will depend on the mixture of fuel-thrifty and fuel-thirsty vehicles consumers choose to buy from each manufacturer -- not on what producers hope to sell. That means only those companies most successful in selling the smallest cars with the smallest engines will, in the future, be allowed to sell the more profitable larger pickups and SUVs and more powerful luxury and sports cars.

Sales of Toyota's Prius, Yaris, Corolla and Scion, for example, allow and encourage Toyota to market more Lexus 460s, Sequoia SUVs and Tundra pickups in the U.S. without incurring fines. Hyundai's success selling Accent and Elantra compacts allows it to sell 368-horsepower Genesis sedans.

Similarly, Ford has the Toyota-licensed hybrid Fusion and will soon produce the European Ford Fiesta in Mexico. Chrysler will soon have Fiats. But what does GM have?

No independent reviewer suggests that the Chevy Aveo and Cobalt are credible contenders in the small car field. Even the president's auto task force finds the electric Chevy Volt "unviable," since it will lose money unless priced above a Cadillac CTS. The Opel-engineered 2011 Chevy Cruze will face tough competition from Asian cars whose reliability is better established. Launching such new models will be even tougher in the future, now that GM has lost control of Opel.

GM accounted for about 19% of vehicle sales so far this year, but the company had a much smaller share of the market for small cars and SUVs (which accounted for 20% of total sales through May). To continue offering a Toyota-like array of larger cars and trucks under ever-tighter CAFE rules, GM would have to capture a much larger share of the market for small and/or diesel-powered vehicles. Unfortunately, European and Asian car makers have decades more experience building reliable subcompact cars and diesel engines for their local markets -- where consumers face steep taxes on gasoline and large engines.

General Motors does produce competitive cars and trucks, but not one of them is small. Consumer Reports recommends three GM cars and three GM trucks. The recommended cars are the Chevy Malibu (the unrecommended hybrid has been dropped), the large Buick Lucerne and the Cadillac DTS. Consumer Reports recommends the Chevy Avalanche and Silverado and the GMC Sierra trucks. Car enthusiast magazines insist on adding Camaro, Corvette and the 556-horsepower Cadillac CTS-V to that list.

Among those nine best GM vehicles, only the four-cylinder Malibu achieved as much as 25 mpg in Consumer

Reports testing. The others get 12-17 mpg, yet they are no less fuel-efficient than comparable foreign brands. The Environmental Protection Agency rates the mileage of the Toyota Sienna van and Nissan Titan pickup as worst in their class, and comparable Chevys as best. Unlike GM, however, Japanese car companies sell enough small cars to offset the large and thus hold down the average figures.

General Motors is likely to become profitable only if it is allowed to specialize in what it does best -- namely, midsize and large sedans, sports cars, pickup trucks and SUVs. The company can't possibly afford to scrap billions of dollars of equipment used to produce its best vehicles simply to please politicians who would rather see GM start from scratch, wasting more taxpayer money on "retooling" to produce unwanted and unprofitable subcompacts and electric cars. The average mileage of GM's future cars won't matter if nobody buys them.

Politicians are addicted to CAFE standards because they create an illusion of doing something sometime in the future without voters experiencing the slightest inconvenience in the present. Tighter future CAFE rules will have no effect at all on the type of vehicles we choose to buy. Their only effect will be to compel us to buy larger and more powerful vehicles from foreign manufacturers. Americans will still buy Jaguars, but from an Indian firm, Tata, rather than Ford. They'll buy Hummers, but from a Chinese firm, Tengzhong, rather than GM. The whole game is a charade; symbolism without substance.

As a matter of practical politics, rescuing GM from strangulation by CAFE will require offering economically literate environmentalists a greener alternative, i.e., one that works. Luckily, the government has two policy tools that, with minor modifications, really could discourage people from buying the least fuel-efficient vehicles.

One is the federal excise tax on "gas guzzlers," which could take some fun out of the horsepower race except that it applies only to cars, not to SUVS, vans and trucks. Why not apply this tax to all types of gas guzzling vehicles? Owners of trucks used for business could deduct the tax in proportion to miles used for business, as they do with other vehicular expenses. Phase it in after 2011 to encourage buyers to snap up the unsold inventory of gas guzzling trucks quickly -- a timely "stimulus plan."

Second, the federal fuel tax is highest on the most efficient fuel (diesel) and below zero on the least efficient fuel (ethanol). Cars get about 30% better mileage on diesel than on gasoline, and cars running mainly on gasoline get about 30% better mileage than they would using 85% ethanol.

To stop distorting consumer choices, simply apply the same 24-cent-a-gallon federal tax to gasoline and ethanol as we do to diesel. This would add funds to the depleted federal highway trust. More importantly, it would remove an irrational tax penalty on buying diesel-powered cars -- arguably the most cost-effective way to improve mileage without reducing car size or performance.

These two proposals are a greener alternative to CAFE, because they'll work. But they'll only work if Congress totally and permanently abandons the charade of CAFE. It is arguably worthwhile to accept a modest tax increase in exchange for an end to harmful regulations, but that exchange is effective precisely because it is not painless.

Unifying fuel taxes and broadening the excise tax on gas guzzlers makes sense as an alternative to CAFE. Otherwise it's just more pain with no gain.

If politicians insist on tightening fleet average mileage standards for bankrupt auto companies, how could those rules be enforced? The only penalty for violating CAFE rules is a big fine. If consumers keep refusing to buy enough small cars from GM and Chrysler to allow them to meet the CAFE rules, how are those companies expected to pay the fines?

The government is already planning to spend about $50 billion bailing out General Motors plus $7 billion for Chrysler. Will President Barack Obama provide Detroit auto makers with even more subsidies to pay CAFE fines?

Maybe so. That would be only slightly more bizarre than current plans to bribe folks with $4,500 to sell their "clunkers," or to offer huge tax credits to those rich enough to buy a $73,000 hybrid Cadillac Escalade or an $88,000 Fisker Karma.

The bottom line is that CAFE standards are totally unenforceable and ineffective. Regardless of how much damage the rules do to GM and Chrysler, Americans can and will continue to buy big and fast vehicles from German, Japanese, Korean, Chinese and Indian car companies. CAFE standards might just be another foolhardy regulatory nuisance -- were it not for the fact that they could easily prove fatally dangerous for any auto maker overly dependent on the uniquely overregulated U.S. market.

Mr. Reynolds is a senior fellow at the Cato Institute, and the author of "Income and Wealth" (Greenwood Press, 2006).

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