

society would be better off without them, as the economic costs surpass the benefits of reduced greenhouse gas emissions.

While this would seem a convincing argument in favor of gasoline taxes, this route has proven an uphill battle in most countries. Voters in most countries have a particular distaste for new taxes, and gasoline taxes are particularly salient to consumers every time they visit a gas station. Fuel-economy standards are much more expensive, yet their costs are largely invisible to consumers or at least hard to attribute to the policy. At a minimum, countries should eliminate all loopholes from their fuel-economy standards and increase enforcement of realistic fuel-economy testing procedures. They should keep the standards “plain vanilla” and avoid creative use of categories, weight cut-offs and the like: every vehicle, large or small, should be treated equally. The resulting single fleet-wide average standard will be much simpler and harder to manipulate than the CAFE design.

But why should we settle for “damage control” when the underlying policy instrument is flawed in the first place? We should let our aversion against gasoline taxes go and be transparent about how the revenues will be redistributed in an equitable and efficient manner. When raising one tax is paired with lowering another, this might offer some hope for meaningful green tax reform. And as an added bonus, we’ll have reduced greenhouse gas emissions at a much lower cost.

References

- [1] Mathias Reynaert, 2015, “Abatement Strategies and the Cost of Environmental Regulation: Emission Standards on the European Car Market”, available at <https://sites.google.com/site/mathiasreynaert/research>.
- [2] Meghan Busse, Christopher Knittel and Florian Zettelmeyer, 2013, “Are Consumers Myopic? Evidence from New and Used Car Purchases”, *American Economic Review* 103(1), pp. 1-41.
- [3] Hunt Allcott and Nathan Wozny, 2014, “Gasoline Prices, Fuel Economy, and the Energy Paradox”, *Review of Economics and Statistics* 96(10), pp. 779-795.
- [4] James Sallee, Sarah West and Wei Fan, 2015, “Do Consumers Recognize the Value of Fuel Economy? Evidence from Used Car Prices and Gasoline Price Fluctuations”, working paper, available at https://are.berkeley.edu/~sallee/swf_140127.pdf.
- [5] Kenneth Gillingham, David Rapson and Gernot Wagner, 2016, “The Rebound Effect and Energy Efficiency Policy”, *Review of Environmental Economics & Policy*, forthcoming, available at <http://www.rff.org/RFF/Documents/RFF-DP-14-39.pdf>.
- [6] Kenneth Small and Kurt Van Dender, 2007, “Fuel Efficiency and Motor Vehicle Travel”, *Energy Journal* 28(1), pp. 25-51.
- [7] Mark Jacobsen and Arthur van Benthem, 2015, “Vehicle Scrapage and Gasoline Policy”, *American Economic Review* 105(3), pp. 1312-1338.
- [8] Mark Jacobsen, 2013, “Evaluating U.S. Fuel Economy Standards in a Model with Producer and Household Heterogeneity”, *American Economic Journal: Economic Policy* 5(2), pp. 148-187.