ASK: NUS ECONOMISTS

Move focus from car ownership to usage

By **IVAN PNG**
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Please explain the economics of government policies on private cars.

BEFORE writing this column, I searched on Google for Straits Times Forum page letters relating to certificates of entitlement (COEs) and received 92,500 results. By way of comparison, Google returned a mere 21,900 results for a search on "CPF" (Central Provident Fund) and only 6,960 on "HDB".

The huge number of links relating to the COE policy, essentially a vehicle quota system where people bid for a certificate to own a vehicle, is a clear indication of how much Singaporeans care about private cars.

Aspiring vehicle owners bid for COEs in five categories. Passenger vehicles are differentiated according to engine power (categories A and B). Goods vehicles and buses fall into category C, while motorcycles are in category D. COEs purchased in category E can be used for any type of vehicle.

Recently, the Government reviewed the system, tweaking the criteria for categories A and B, so that fewer higher performance cars would qualify for category A. However, what we really need is a fundamental review of the entire COE system, rather than marginal adjustments.

A fundamental review would focus on the basic issues.

Car ownership doesn't bother anyone. Car usage is the problem. Car usage presents three social externalities – congestion, emissions and accidents.

Accidents should be regulated by criminal and civil law, together with insurance. How to manage congestion and emissions, however, is more controversial.

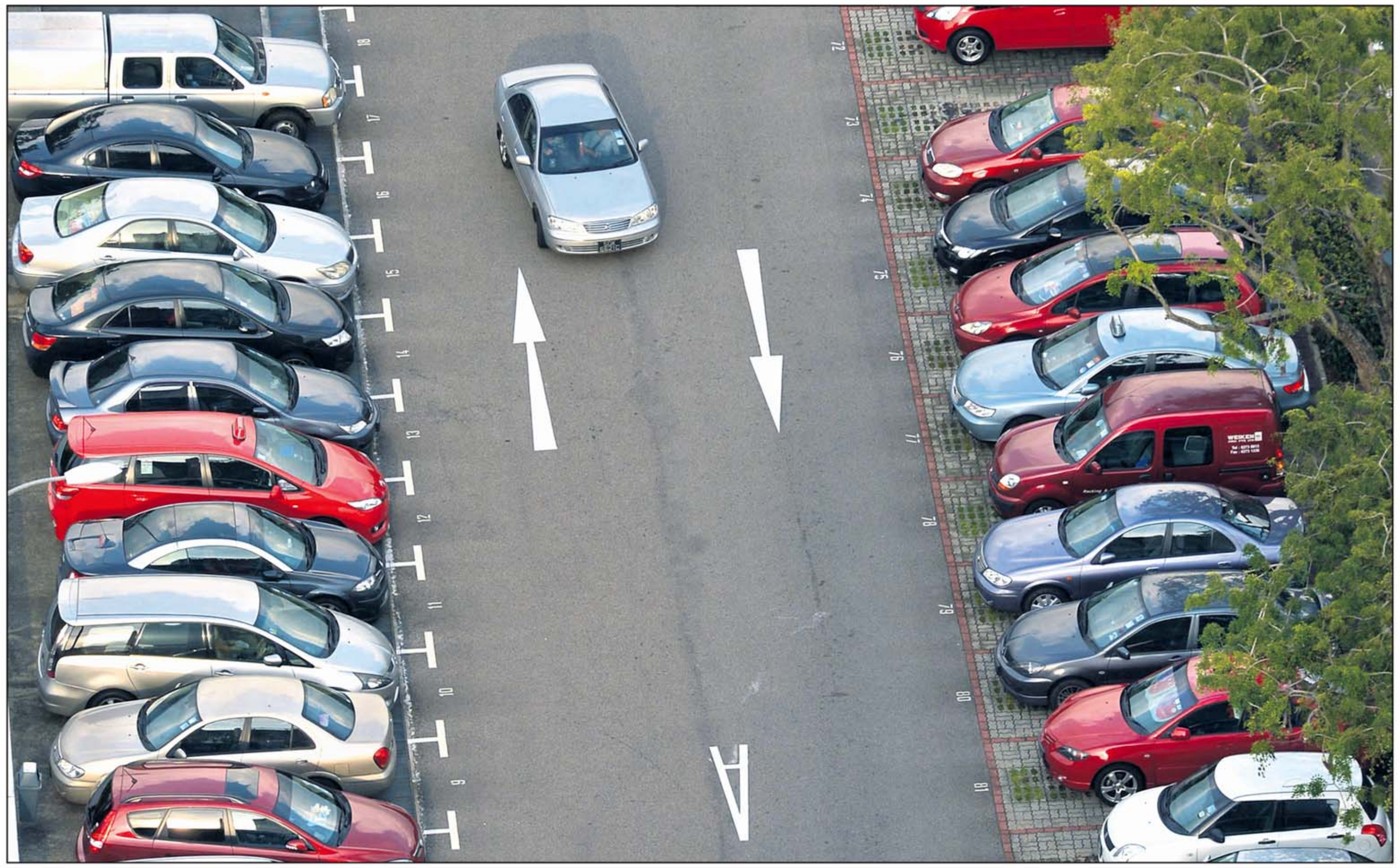
Presently, the Government manages congestion through a combination of policies.

These include Electronic Road Pricing (ERP), Additional Registration Fees (ARF), Preferential Additional Registration Fees (Parf), Customs duties, the off-peak car scheme, road tax, road tax surcharges, "green" car rebates, excise duties, and parking regulations.

Of this panoply, however, only the ERP directly regulates congestion by pricing the usage of roads by place and time.

Why the Government applies so many indirect policies is difficult to understand.

The COE limits the number of cars, which indirectly manages congestion. Indeed, so does the ARF and Customs duties (by raising the price of cars), and road tax (by raising the cost of owning a car). Why can't these measures be consolidated into one tax?



Having government policies that directly impact car usage will help to manage two of the social externalities it causes: congestion and vehicle emissions. ST FILE PHOTO

Incidentally, the road tax, despite its name, is not really a tax on road usage at all. It is a flat charge per year, regardless of how much motorists use their cars.

Worse, some policies seem to be counter-productive. The ARF is coupled with the Parf, which provides a rebate when an owner sells his car.

To the extent that this cash rebate enters an owner's mental account for "car spending", it encourages those who sell their car to buy a new car rather than switch to public transport.

By pushing up car prices, the COE and ARF may actually drive usage up. A typical rationalisation: "I paid so much for my car, so, I should drive it more."

The result: more congestion.

What about emissions? Current policies include differential excise duties on petrol, diesel, CNG (compressed natural gas) and the green car rebate. But the most direct and most effective way to deal with emissions is to set a tax on emissions. Since it is impractical to place a meter on the exhaust pipe of every vehicle, the next best is a tax on fuel.

The tax should be set at a higher rate on fuels that cause more harm to others. With such taxes in place, drivers who cause less harm – because their cars are more fuel-efficient or use a less harmful fuel – would pay less in fuel taxes.

It is important to differentiate the fuel taxes carefully according to the harm caused. While diesel is promoted as being more fuel-efficient and emitting less carbon dioxide, some research suggests that diesel fumes cause more harm to health than petrol fumes.

Drivers of electric cars would pay the least fuel tax, and so, would benefit the most. (Electricity should also be taxed, to account for emissions caused by electric power generation.)

There seems to be little economic justification for the Government's current policy of providing a special rebate for buying so-called green cars.

The green car rebate (more precisely, the Carbon Emission-Based Vehicle Scheme) introduces another distortion in the market. It provides a discount to anyone who buys a green car, regardless of how much they drive.

Indeed, the scheme disproportionately benefits wealthy people who buy a second or third car to burnish their green credentials. Government policies should focus instead on those who drive a lot, and so, pollute and cause more harm. Differential fuel taxes do just that.

Earlier this year, the Government published the Land Transport Master Plan. It would be good if the plan included a fundamental re-look at how best to address the two problems produced by private cars – congestion and emissions.

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This is a monthly series by the NUS Economics Department. Each month, a panel will address a topical issue.

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