WebMemo
Published by The Heritage Foundation

No. 3247
May 11, 2011

Natural Gas Vehicle Subsidies Hurt Consumers

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The bipartisan New Alternative Transportation to Give Americans Solutions (NATGAS) Act provides preferential tax treatment to subsidize the production, use, and purchase of natural gas vehicles (NGVs). Supporters argue that it promotes transportation fuel competition and reduces foreign oil dependence and greenhouse gas emissions.

In reality, the NATGAS Act simply transfers a portion of the actual costs of using and producing NGVs to taxpayers. Special tax credits create the perception that NGVs are more competitive than they actually are by artificially reducing their price for consumers. Rather than increase competition, this artificial market distortion gives NGVs an unfair price advantage over other technologies.

Unfortunately, this shortcut to market viability does not work. Indeed, Washington has an abysmal record of picking energy winners and losers. Instead of adding more market distortions to the energy sector, Congress should remove energy subsidies and increase access to America's resources.

The Market Is Already Working. The legislation creates, expands, or extends tax credits that subsidize NGVs. Supporters argue that the legislation would help NGV vehicle and infrastructure producers overcome investment obstacles and begin introducing new technologies to the marketplace. The truth, however, is that NGVs are already available, and nothing is stopping the market from expanding. The notion that no alternative fuels compete with gasoline is just not true. Consumers can choose vehicles that are powered by electricity, natural gas, or biofuels, as well as hybrid vehicles.

In fact, the trade group Natural Gas Vehicles for America claims that the United States has 110,000 NGVs and that more than 12 million NGVs are on the roads worldwide.[1] Billionaire investor T. Boone Pickens, a supporter of the bill, boasted in a recent speech that he owns a Honda Civic GX that he fuels with natural gas for less than $1 per gallon.[2] At a UPS facility, President Obama challenged transportation fleets to switch their vehicles to natural gas because it would be good for their bottom lines.[3] But if natural gas vehicles are economically competitive, vehicle manufacturers will make them and consumers will switch over without market manipulation from Washington.

A full-fledged competitive NGV fleet may eventually emerge. Rising gas prices make alternatives like NGVs more economically inviting, which should move investment to those technologies. That happens most efficiently when it is the result of a market-based response as opposed to government intervention. Indeed, government intervention to promote one technology over another only interferes in the process and creates another set of

This paper, in its entirety, can be found at:
http://report.heritage.org/wm3247

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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The Heritage Foundation
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government-picked, taxpayer-funded winners and losers.

Reducing Foreign Dependence No Excuse for Bad Policy. The focus on decreasing energy dependence through government intervention and market distortion is folly. Policies that maximize access to a broad array of energy sources, domestic and foreign, will best serve Americans. A market-based approach would ensure that every American has access to affordable energy by putting a premium on sound economics through competition and choice.

This is not the approach of the NATGAS Act, which would make America economically weaker. When the government artificially lowers the cost of production, manufacturers must forgo the value of the goods they might have produced had they allocated their time, effort, and other resources in alternative ways. In this case, the NATGAS Act uses tax credits to create the perception of lower costs. This will fool consumers into purchasing more of these vehicles. Further, those hidden costs now have to be paid by someone else—the taxpayer. This leaves fewer resources for more productive activities.

A better approach to decreasing energy dependence is for the federal government to remove unnecessary rules and regulations that restrict access to all types of energy sources.

Reducing Greenhouse Gas Emissions No Excuse for Bad Policy. Reducing greenhouse gas (GHG) emissions is another dubious policy goal. Years of pressure from political leaders has forced significant changes in much of the business community. Energy producers became vested stakeholders and lobbied for handouts to produce what Congress determined to be cleaner energy. If these sources can compete without help from the government, the consumer will benefit through increased competition and lower costs. But creating an artificial market to reduce GHG emissions ignores both consumer preferences and economic fundamentals.

Moreover, Congress continues to ignore the vigorous disagreement within the scientific community concerning the effects of anthropogenic global warming.[4] Policy should never rest on a shaky set of assumptions, particularly when it can have far-reaching implications for American businesses and everyday Americans and could therefore fundamentally alter decisions in ways that harm America's productive system of free enterprise.

Subsidies Do Not Work. Proponents of NGVs argue that because other alternative transportation technologies receive preferential treatment, so should natural gas. The problem is that government subsidies have a proven track record of not working. Congress should therefore remove subsidies from the transportation fuel market, not increase them.

Subsidies centralize power in Washington and allow lobbyists and politicians to decide which companies will produce. The more concentrated the subsidy or preferential treatment, the worse the policy is because the crowding-out effect is larger.

The NATGAS Act is a perfect example. Soon after its introduction, the National Propane Gas Association understandably voiced its opposition to the bill because the tax credits do not include propane gas. And that is just one problem with such bills: They distort the competitive process that so capably yields affordable and viable products, moving the decision-making process from the marketplace to Washington. Consumers, not Washington, should decide whether NGVs are better than propane.

Furthermore, subsidies funnel money toward projects that have little market support and offset the private-sector costs for investment that would have been made either way. This creates industry complacency and perpetuates economic inefficiency

1. See Natural Gas Vehicles for America Web site at *http://www.ngvc.org/index.html* (May 10, 2011).
2. T. Boone Pickens, "The NAT GAS Act (H.R. 1835 and S. 1408) Continues to Gain Momentum and Support," Huffington Post, April 16, 2010, at *http://www.huffingtonpost.com/t-boone-pickens/the-nat-gas-act-hr-1835-a_b_540937.html* (May 10, 2011).
3. Press release, "UPS Becomes Charter Member of National Clean Fleets Partnership," UPS, April 1, 2011, at *http://www.investors.ups.com/phoenix.zhtml?c=62900&p=irol-newsArticle_Print&ID=1545266&highlight* (April 24, 2011).
4. See Richard S. Lindzen, "The Climate Science Isn't Settled," *The Wall Street Journal*, November 30, 2009, at *http://online.wsj.com/article/SB10001424052748703939404574567423917025400.html* (April 24, 2011).

by disconnecting market success from production costs. By artificially lowering the cost of investment, subsidies take resources away from more competitive projects. The fact that other transportation fuels receive government support is not a good reason to continue or expand special treatment for natural gas. It is a good reason to *remove* those subsidies.

More Handouts, No Solutions. Pieces of legislation like the NATGAS Act will not be a quick fix for high gas prices and are not the way to reduce either America's dependence on foreign oil or GHG emissions. They provide special benefits to one industry, distorting the market and misallocating resources away from potentially more economically viable alternatives.

If Congress truly wants to promote NGVs, it should eliminate subsidies in the transportation industry and consider other market-oriented policies—such as full expensing, lowering corporate tax rates, and removing barriers to drilling—that would incentivize the production of profitable endeavors and ultimately lower prices through competition.

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