

SPORT UTILITY LEGISLATION LOOPHOLES AND THE RESULTING SOCIAL IMPACT

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This paper addresses legislative inequities favoring SUVs to cars and examines Detroit and Big Oil's influences on government policy as well as the social ramifications. For example, one tax loophole, which Bush's current proposal would exacerbate, allows SUV owners to deduct up to \$60,000 the first year of SUV ownership. SUV legislation loopholes have included exemptions from emissions standards as well as luxury and gas-guzzler taxes. The paper describes how SUVs are costly to our society—SUVs tear up our highways, cause more frequent and severe accidents, are three times as likely as a car to roll over in a collision and aggravate freeway gridlock. They consume significantly larger amounts of fuel than do cars; this results in air pollution, respiratory disease, more refinery activity, greater foreign oil dependency and political instability. This paper also explores whether the government discourages the development of efficient combustion engines and alternatively fueled vehicles due to the lobbying dollars of the auto manufacturers and Big Oil.

An Unsustainable Fleet

I became interested in this topic after learning in my Income Taxation course that heavy sport utility vehicles (SUVs) enjoy numerous tax preferences over traditional passenger vehicles. Intrigued by this discrepancy, I dug deeper and was amazed to find just how inequitable the tax loopholes were. When I proposed this topic in June of 2002, the tax issue seemed to be identified by only the savvier of Certified Public Accountants (CPAs). However, in the period since, there has been a plethora of media coverage, even more so lately with President George W. Bush's January 9, 2003 proposal to triple the available deduction to \$75,000.

As I delved further, I became aware of numerous other issues that were interconnected. It became difficult to focus solely on the tax loophole without examining its real world ramifications. It also became apparent how immense Detroit automobile manufacturers' and Big Oil's influences are through lobbying dollars in Washington D.C. Over the past two decades, a string of government policies favoring SUVs to cars has created significant incentives toward influencing an individual's choice in selecting a vehicle. This effective subsidization flies in the face of free market principles and has led to a superfluity of SUVs on our highways. The tax loopholes, combined with the keep-up-with-the-Joneses principle, have created an unsustainable situation in which tax dollars are misallocated, an inefficient industry is subsidized, air quality is compromised, the overall safety of our highways is decreased, foreign oil dependency reaches an all-time high, conspicuous consumption breeds resentment domestically and anti-Americanism abroad, and global warming becomes less and less of a phenomenon that can be dismissed as a product of developing countries' industry.

The Tax Loophole History

For years, federal law had allowed business owners to depreciate cars and trucks just like any other form of equipment. But in 1984, concerned that too many people were claiming either the family car or the opulent Cadillac as a business expense, the government sharply limited car depreciation.¹ However, when the definition of a car was set for Internal Revenue Service (IRS) purposes, it was written to exclude vehicles with a "loaded gross vehicle weight (GVWR) of 6,000 pounds or greater".² Depreciation of passenger vehicles was sharply limited; today it is capped at \$3060 in the year of purchase. The actual amount is designed so the driver of a reasonably priced car, costing approximately \$15,000 or less, will be able to fully depreciate its cost over a five year period. Thus, a small business owner has much less incentive to choose a \$40,000 Lexus sedan, or a \$60,000 Porsche coupe, as it could take a decade or more to fully recover its cost.

The exemption of heavy vehicles was designed to benefit those in professions where heavy hauling capacity is a necessity, for instance, in construction or farming.³ In 1984, no one could foresee the image of ubiquitous nine-person Navigators, empty except for an executive and his briefcase, packed end-to-end in stagnant gridlock. The definition was written well before a wide array of upscale trucks and SUVs, such as the Cadillac Escalade and Lexus GX470, hit the market, and well before U.S. consumers started using SUVs as a substitute for sedans and station wagons.

Under current United States Tax Code, heavy SUVs and light trucks are considered the same as a tractor or a printing press for depreciation purposes; they are all included in the category of Section 179 property. The limit to which this property can be deducted has been in a sharp uptrend in recent years, as Washington encourages entrepreneurs to open up their wallets; it has risen from \$17,500 in 1996 to \$25,000 in 2003. This Section 179 deduction is an accelerated bonus and is in addition to whatever depreciation to which a business owner may be entitled in a given year. In the wake of the September 11, 2001 tragedy, President Bush passed a stimulus bill that included another bonus which accelerated depreciation on cars and trucks used as business equipment; this bonus was 30% of the acquisition cost. Keep in mind that these breaks all apply to the entrepreneur with a heavy SUV, but not to the entrepreneur with an average weight sedan. Then, on January 9, 2003, President Bush proposed yet another economic stimulus plan that would triple the amount, from \$25,000 to \$75,000, businesses can immediately write off for equipment investment.

Which Car Should Joe CPA Buy?

Let us say that Joe CPA is looking to purchase a new vehicle for business purposes. His normal course of duty sometimes involves picking up banker boxes of documents from clients, so he estimates he needs a load capacity of at least fifteen pounds. Joe CPA has established quite a successful practice over the years. Despite his sophisticated knowledge of tax write-offs, Joe still projects a taxable income of over \$100,000 this year. He is waffling between a vehicle that can get him from Montecito, California to Hope Ranch in Santa Barbara, California in five minutes, and a vehicle that is impervious to the pesky deer that jump out suddenly on the way to Santa Ynez, California.

The first car Joe considers is a Mercedes SL600 Roadster. Packing a twelve cylinder engine under the hood, this coupe gulps thirteen miles per gallon (mpg) in the city, nineteen on the highway, and sports a sticker of \$129,000. Since the fuel economy is less than 22.5 mpg, this sports car is subject to a one-time gas-guzzler tax of \$2600, payable to the IRS. Because this model is so pricey, prior to 2003 it was also subject to a luxury tax. In 2002, the tax was 3% of the amount of the sales price exceeding \$40,000. So if Joe had bought this car in 2001, the luxury tax would have amounted to $(\$129,000 - \$40,000) * 3\%$ or \$2670. This tax has gradually decreased from 5% a couple years ago and expired completely after 2002.

Excluding sales tax, the sporty Mercedes would cost Joe \$134,270 or \$131,600 if he waited until 2003 to make the purchase. His total allowed depreciation for this vehicle in 2002 would be \$3,060. In 2003, it would be

\$4,900 for the second year, \$2,950 for the third year, and \$1,775 for the fourth and following years. At this rate, the sticker price of the Mercedes would take 68 years to recover: quite an optimistic career span.

Now let us consider General Motor's (GM) largest civilian issue, the Hummer. This 4-wheel drive consumes gasoline at a rate of just over 10 mpg and retails for \$106,185. Intuitively, one might think the gas-guzzler tax would apply to this behemoth. The Energy Tax Act of 1978 established the gas-guzzler tax on vehicles whose fuel-economy fail to meet certain statutory levels, currently 22.5 mpg. The tax is based on a sliding scale that tops out at \$7700 for MPG consumers less than 12.5. However, the gas-guzzler tax is only applicable to passenger vehicles meeting the earlier IRS definition of less than 6000 pounds GVWR. So, like the GM Suburban and the Dodge Durango, the Hummer is not subject to this tax. If not for the exemption, automakers and SUV drivers would pay more than \$10 billion a year in gas-guzzler taxes.⁴ "This is the single largest subsidy for pollution in the world," asserts Sean Moulton, Economic Incentives Analyst at Friends of the Earth (FoE). "Why should a gas-guzzling SUV be exempt when a gas-guzzling sports car is not?"

Due again to the weight of the Hummer, the luxury tax, although a relic of 2002 and prior, would not have applied either. However, the savings from gas-guzzler and luxury taxes are minimal when we consider the depreciation deduction Joe might expect. If he bought the Hummer for business purposes he could immediately write off \$25,000 of the purchase price as an equipment investment. Under the provision passed in Congress March 2002, to stimulate the post-September 11, 2001 economy, another 30% of the remaining purchase price, or \$24,356, could also be deducted. Joe could then deduct 20% of the remaining purchase price, or \$11,366, under the regular depreciation rules. That is a total deduction of \$60,722. Under President Bush's recent proposal, the total deduction for the H1 would go up to a potential \$88,722 in the year of purchase. Assign Joe an average marginal tax bracket⁵ of 30%, and this purchase could save him \$27,000 on his federal tax bill, not to mention savings on the gas-guzzler and state income taxes.⁶

The Government's Role in Muddling the Free Market

Currency speculator Kamil Kolacek of San Jose reports dismay at the number of Hummers zipping around Silicon Valley despite the dreary economy. He could not figure out why they were so prevalent until I explained the tax loophole. The phenomenon is not limited to California. "Oh, you've got to be kidding," said Skip Barnett, a Hummer dealer in Atlanta, when told of the Bush Tax Plan's implications for a business SUV purchase, "That would make a Hummer practically free."

Jim Jenkins, an accountant with Jenkins and Company in Southfield, has had a number of clients opt for a truck or an SUV rather than a car in order to capitalize on the favorable tax treatment. Some clients never would have considered a large vehicle without the tax break. “You have a Christmas present here,” says Aileen Roder, program director for Taxpayers for Common Sense, a nonpartisan Washington budget watchdog group that opposes the SUV loophole. She estimates the light-truck tax break costs the federal government between \$840 million and \$987 million yearly, making it “one of the largest tax breaks per capita” on the federal books. There is no question that the automakers are well aware of and taking full advantage of the 6000-pound loopholes. Could it be a mere coincidence that Bavarian Motor Works’ (BMW) entry into the luxury SUV market carries a GVWR of 6005 pounds? It certainly was not designed for the European or Asian consumer who pay as much as \$5 for a gallon of gasoline. Acura, BMW, Lexus, and Mercedes all manufacture their SUVs in American factories. This saves somewhat on transportation costs, but is also designed to circumvent a tariff on imported light-duty pickup trucks, which was enacted in 1963 by the Kennedy administration in retaliation for West Germany’s high tariff on U.S. poultry. Aimed originally at a small truck made by Volkswagen, this levy is often referred to as the “Chicken Tax.” Currently, President George W. Bush is pushing a proposal that would eliminate all tariffs worldwide by 2015.⁷

Brian Dickerson of the Detroit Free Press criticizes the hypocrisy of the new proposal. He contends that environmentalists who propose big tax breaks for purchasers of smaller, more fuel efficient vehicles are typically dismissed as “social engineers bent on distorting market forces to achieve their own political ends.”⁸ The current government incentive for purchasing a hybrid car is a federal tax credit of \$2000, which is equivalent to about a \$5000 deduction for a taxpayer in an affluent bracket, much less than the SUV break. However, when the same tax code is manipulated to coerce small business owners into buying thirsty, superfluously large SUVs, one is “just another champion of capitalism, doing what you can to goose the free market along.” He points out this apparent hypocrisy; President Bush’s party won on the platform of supporting individual choice and free markets. “These principles are worth fighting for, but they’re a lot harder to defend from the seat of a government subsidized Lincoln Navigator,” asserts Dickerson.

The Snowball Effects

When one real estate agent brags to another about the favorable tax treatment on her new Cadillac Escalade, it is likely to prompt the second to call her own accountant. Some might ask, “Why be left out on such a big break when it could be closed by next year?” Remarkably, this tax loophole is being touted to professionals of every trade. I was shocked

to see it in the Teachers' Tax Guide, 2003 edition. Practically anyone can start a business on the side without quitting his or her salaried job. If the cost of the SUV and other expenses is more than the business income, the proprietor can offset the loss against her salary.

The second snowball effect has to do with perceived safety on the road. I have spoken with many people who feel intimidated driving a mid-sized sedan on a road full of behemoth "light" trucks. They know their vehicle would not hold up too well if it collided with a Ford Excursion, so they become concerned for the safety of themselves and their families. The only option to ensure the safety of one's family seems to be to buy an SUV. As a greater number of SUVs proliferate on the road, more car drivers feel intimidated and inclined to trade up to a larger vehicle. It is partly an issue of escalation. Like an arms race, as more drivers choose heavier cars, those who choose lighter cars are in more danger.⁹

"I was getting mowed down by the larger SUVs and trucks," explains Jennifer Mulcahy of Simi Valley, who dumped her small car in favor of a Nissan Xterra. "It just felt intimidating . . . It was survival of the fittest."¹⁰ With consumer sentiments such as hers, it comes as no surprise that sales of SUVs were up by more than 5% the past couple years, even in the face of higher gasoline prices and lower consumer confidence. In fact, light trucks seem to be the only large American industry that continues to prosper in this economy. Perhaps that is why the Bush Administration continues to protect it.

This subsidy for light trucks is costly to Americans. "Automakers are avoiding paying taxes and cranking out polluting and gas-guzzling vehicles," laments Brian Dunkiel, Director of Tax Policy at FoE. "It's not fair, it's bad for the environment, and it's making America more dependent on foreign oil."

Limits Sought

Environmentalists and tax reformers are lobbying for restrictions on how businesses can use the equipment tax break. They describe the inducements as "a perverse incentive to drive business owners into purchasing the largest, most gas-guzzling SUVs."

Daniel Becker, Director of the Global Warming and Energy Program at the Sierra Club, America's most influential grassroots environmental organization, remarked "Leave it to the Bush administration to try to make an even more outrageous taxpayer rip-off that benefits the rich. I'm sure there will be a fight over this."

David M. Nemtzw, President of the Alliance to Save Energy, echoes his sentiments; “It is deplorable enough that current law allows certain taxpayers to deduct up to \$25,000 when they purchase SUVs. But to propose an SUV deduction of up to \$75,000—saving taxpayers in the highest income bracket nearly \$29,000—in the guise of ‘economic stimulus’ is almost unbelievable. It makes a mockery of the proposed \$4,000 tax credit for hybrid vehicles.”¹¹

Insatiable Thirst

The U.S. now consumes about 20 million barrels of oil every day, approximately 55% of which is imported—23% from the volatile Middle East. Never before have we as a nation been so dependent on foreign oil. Personal vehicles, which include cars, light trucks and SUVs, use more than 40% of the oil we consume,¹² produce about 20% of the carbon dioxide linked to climate change,¹³ and account for the largest single source of air pollution by producing one quarter of smog-forming pollutants nationwide.¹⁴

The fuel economy of the average new passenger vehicle peaked in 1988 at 22.4 mpg and has slipped to a mere 20 mpg today despite numerous advances in technology.¹⁵ Between 1975 and 1988, Corporate Average Fuel Economy (CAFE) standards increased new car and truck fuel economy by 70%. However, the original schedule for CAFE improvements ended in 1985, leaving Congress and the Reagan Administration responsible for future improvements. There is no technological impediment to resuming the trend of significant increases in fuel economy; the obstacle is merely the collective dragging of feet by Detroit and Big Oil. Using conventional technologies, cars and light trucks could average over 40 mpg by 2012; integrating hybrid technologies would raise the feasible fleet economy to 55 mpg by 2020.¹⁶

The Seattle-based newspaper Komo News writes, “At a time when the nation’s priorities are to improve gas mileage and reduce dependence on foreign oil, the government has instead provided an incentive for just the opposite—the biggest, least efficient SUVs available.” While many Americans see unfettered consumption as a triumph of individual freedom, that view is not popular overseas. Many view America to be gluttonous as a nation; this conviction damages our image abroad and puts a strain on international relations.

Are SUVs Bearing Their True Economic Cost to Society?

People who drive smaller vehicles or no vehicles effectively subsidize SUV drivers in the following ways:

1. Tax Breaks: Light truck drivers do not pay their equitable share of income, guzzler and luxury taxes.
2. Road Maintenance: Heavier vehicles cause more wear and tear. Weight per axle determines the amount of damage a vehicle creates.
3. Accidents:
 - i. Severity: Smaller vehicles are more likely to be crushed and their passengers killed if hit by an SUV than if struck by a car of the exact same weight.¹⁷ While the mortality rate of the SUV driver decreases by a percentage, the mortality rate of those in the smaller car skyrockets. Thus, as an aggregate, people are more likely to die, or as the Union of Concerned Scientists puts it, we have “a fleet that is less safe than it would have been without the massive infusion of today’s light trucks.”¹⁸ In multiple vehicle crashes, the occupants of the car are four times more likely to be killed than the occupants of the SUV; for side-impact collisions, this ratio skyrockets to 27 times more likely.¹⁹ SUVs also cause more superficial damage in low speed accidents, for example, while parallel parking. This in turn leads to higher insurance premiums for everyone.
 - ii. Glare from Higher Headlights: Large SUVs have headlights mounted 36-39 inches above the ground—the same height as the side mirror on a small car. As a result, the glare from a SUVs’ headlights can appear to other drivers as bright as high beams. Glare can be 10-20 times worse than recommended levels when headlights are at the height of a driver’s eyes or side mirror.²⁰ This can cause temporary blindness, which could distract a motorist long enough to cause an accident.
 - iii. Higher Incidence of Collision: SUVs take longer to stop from the time the brakes are applied than do cars. Drivers behind SUVs cannot see through them due to their opaque nature, high stature and dark windows. The driver behind the SUV is unable to anticipate if traffic ahead is slowing or stopping and has less time to react accordingly.
 - iv. Perception of Invincibility: Drivers in SUVs tend to drive more aggressively because they think their vehicle would hold up well in a collision. Experts suggest this is a false security. In January 2003, Jeff Runge, Chief of the National Highway Traffic Safety Administration, made headlines when he said that SUVs posed an “astounding” threat to their owners. “The thing that I don’t understand is people, when they choose to buy a vehicle, they might go sit in it and say, ‘Gee, I feel safe.’ Well,

sorry, but you know gut instinct is great for a lot of stuff, but it's not very good for buying a safe automobile."²¹

- v. **Rollovers:** Due to its higher center of gravity, an SUV is 3 times as likely as a passenger car to roll over in a crash. According to the National Highway Traffic Safety Administration, SUVs roll over in 37% of fatal crashes, compared to a 15% rollover rate for passenger cars. Rollover crashes accounted for 53% of all SUV occupant deaths in single vehicle crashes in 1996 while 19% of occupant fatalities in passenger cars occurred in similar crashes.²²
- vi. **Gridlock:** The longer each vehicle is, the fewer of them can fit on a given bridge, stretch of highway, etceteras. Furthermore, drivers cannot see how the traffic is moving if they are behind an opaque SUV, and are therefore unable to anticipate. As a result, the flow of traffic becomes less efficient.
- vii. **Disproportionate Fuel Consumption and Higher Fuel Demand:** Fewer miles per gallon equates to more fuel consumption. Of course, this would also apply to drivers of exotic sports cars, but that is much less of a trend, and they are not as commonly used as primary means of transport. The ramifications of higher fuel consumption are felt ubiquitously, not merely amongst those who choose to drive:
 - a. **More Air Pollution:** Despite decades of air pollution control efforts, 92 million Americans still live in areas with chronic smog.²³ This leads to increased prevalence and severity of respiratory problems. In recent years there has been a dramatic increase in the incidence of asthma, most notably amongst urban youth, a demographic likely to live near freeways and industry. The Environmental Protection Agency (EPA) predicts that by the year 2010, 93 million people will live in areas that violate health standards for ozone (urban smog), and 55 million will suffer from unhealthy levels of fine particle pollution. The problem is particularly serious in California, which in 2002 was home to 14 of the nation's 20 smoggiest U.S. counties, according to a report by the American Lung Association. The study also showed that 70 percent of Americans with lung ailments live in the smoggiest areas.²⁴ The resulting pandemic of respiratory problems places a strain on our health care system. Taxpayers and health maintenance organizations (HMOs) have to pay for

this treatment and, in turn, it is passed on to everyone through higher premiums and lower health care quality.

- b. **More Refinery Activity:** Higher demand for fuel necessitates building new refineries or increasing output of older ones. Every marginal barrel refined results in additional byproducts in the local community's air and water. In the San Francisco Bay Area there are large refineries in Crockett and Martinez. Those refineries regularly have accidents where they release unsafe quantities of chemicals, sometimes waiting until a week later to inform the surrounding community that it would be wise not to inhale.
- c. **More Service Stations:** More gas stations require building more underground storage tanks, which are so notoriously prone to leaking that there was an acronym coined: LUST (Leaking Underground Storage Tank). Not only does a LUST leak methyl tertiary-butyl ethyl (MTBE) and other carcinogens into the local groundwater, but also the property is virtually useless if the gas station decides to shut down. That is why there are so many vacant corner lots creating eyesores; it is often too expensive to remove all of the contaminated soil necessary to build anything else. The parcel on the corner of Pardall Road and Embarcadero Del Norte in Isla Vista, California comes to mind.
- d. **Higher Prices at the Pump:** This is an expected result of higher fuel demand. The higher the price rises for crude oil, the more areas become economically feasible to drill. This creates more pressure to drill pristine areas, for example, the Arctic National Wildlife Refuge. Increased oil drilling leads to more prevalent oil spills; think of the recent accident off the coast of Spain as well as the Exxon Valdez, and disruption of local ecology.
- e. **Greater Foreign Dependence for Oil:** As our need for oil becomes more pressing, we are often forced to compromise ethics in choosing nations from which we may purchase oil. Our need for a cheap and steady supply of oil leads to political instability. This leads to military operations and sending young troops to fight. The Congressional Black Caucus is threatening to lobby to reinstate the draft because they feel that a

disproportionate number of minorities are being sent to the Middle East. Soldiers sent to fight are young, generally from lower to lower-middle income families. Consumers of the thirstier of SUVs tend to have upper-middle to high income and are too old to be subject to a draft. As an accountant would analyze this situation, we are not matching cost to benefits.

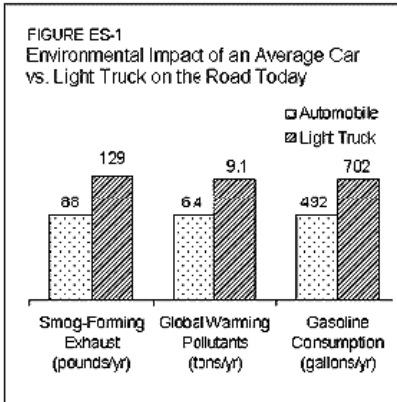
- vi. Global Warming: Despite politicians' rhetoric denying it, any scientist will acknowledge that the earth's temperature has been warming. Every gallon of gasoline burned in a combustion engine releases about 24 pounds of global warming pollutants into the air. This winter, I noticed magnolia trees blooming in December that usually do not bloom until February. Newspapers are abounding with stories of higher ocean levels and tropical diseases showing up in non-tropical climates. The ozone layer looks like a piece of swiss cheese over Australia and a high percentage of our generation is expected to develop melanoma.

Light Truck Loopholes

Taxes are not the only arena in which light trucks receive preference over cars. Current federal tailpipe standards allow SUVs and trucks to pollute four times as much as the average new car. This gap doubled in 2001 under the National Low Emission Vehicle (NLEV) program, as cars are forced to become cleaner while the larger light trucks continue to receive special pollution exemptions. Today, the larger SUVs and light trucks are allowed to emit five times more smog-forming pollutants than cars sold in many regions of the United States.²⁵ Passenger vehicles must meet a fleet average fuel economy²⁶ of 27.5 gallons, which was set in 1990, while the light truck category, of 6000-8500 pounds GVWR, need only average 20.7 mpg. The latter is due to increase by a token 1.5 mpg in 2005.²⁷ This double standard for fuel economy results in the consumption of an additional 18.4 billion gallons of gasoline per year.²⁸

How do the most colossal of SUVs, such as the Ford Excursion, with a GVWR of over 8500 pounds, fit into the averages? They are completely exempt from meeting any guidelines as to fuel economy. This rewards automakers to build SUVs that are as huge as possible without any incentive for fuel efficiency. The GM Hummer is the most gargantuan, with an unbelievable GVWR of 10,300 pounds. Why would General Motors (GM) want to lighten up its Hummer, or Ford its Excursion, when it would negatively affect its average mpg for its light truck offerings?

This disincentive for shaving weight is not received well by environmental advocates. “[The Hummer] is an abomination—it has no place on the road,” says Gary Skulnik, an energy-issues spokesman for the Sierra Club.



Most SUV drivers would do fine with a sedan, station wagon, or even a hybrid automobile. Only 5% of SUVs will ever be used off-road²⁹ and only 15% will ever be used for towing.³⁰ The lion’s share of drivers would be better off simply renting an SUV when they actually need it, and owning a more efficient car for everyday use.

The technology exists today for automakers to build a greener, more efficient, SUV with no loss of performance or safety at a nominal cost, which the owner would quickly recover in decreased fuel costs. Simply eliminating the fuel economy loophole for light trucks could slash U.S. global warming pollution by over 240 million tons annually.

In a California test program, engineers were able to modify a Ford Expedition—which falls into the heaviest light truck emission category—to meet the same tailpipe standards as cars, known as Tier 2 standards. The scientists were able to reduce the pollution level 90% by simply reprogramming the air/fuel system and adding a more durable catalyst. They also simulated a “worst-case” drive cycle and found that the vehicle could still tow up to 14,000 pounds. The total costs of these improvements were estimated to be about \$200 on a full sized SUV.³¹

Beyond Petroleum

Hydrogen-powered fuel cells have appeared in the news quite often recently. There are just reasons for all of the excitement over hydrogen; it has the highest energy content per unit of weight of any known fuel and produces zero emissions.³² However, hydrogen is not expected to be a

cost-effective technology for at least another decade due to several obstacles. Using current technologies, it is too expensive to produce, store, transport and distribute hydrogen fuel or to build fuel cell engines. Hydrogen is four times more expensive to produce than gasoline and fuel cells are 10 times more expensive than internal combustion engines. Automakers say that commercially viable fuel cell vehicles can be ready in 15 to 20 years — GM aims to have limited numbers in dealerships by 2010 — but worries that there will not be much of a fueling system to provide the necessary hydrogen. Researchers have estimated that replicating gasoline stations with hydrogen stations nationally could cost \$500 billion.³³

It would be a misconception to think of hydrogen as a non-polluting fuel source just as it would be to place the same label on an electric subway system. Hydrogen does not exist in pure form; it must be produced from other sources such as water. This process consumes a lot of energy, which often comes from fossil fuels or nuclear power. Only if this process were powered by a renewable energy source, such as the sun or wind, would hydrogen as a fuel source become more non-polluting.

President Bush recently earmarked \$1.2 billion over 5 years of the fiscal 2004 budget to fuel cell development. Critics say that this money is just another handout to American automakers without any accountability that they actually produce a hydrogen car. These skeptics point to the project funded by the Clinton administration designed to create highly efficient hybrids. The Big Three's³⁴ efforts were futile in this project; today the only successful hybrids on the road were developed and manufactured by Japanese automakers.

Many call the hydrogen project simply a diversion to pacify people and discourage development of fuel-efficient vehicles today. Ellen Goodman of the Boston Globe writes "the administration wants to keep our eyes on the prize of a hydrogen car by 2020 and keep our eyes off the present... We have the technology now to produce vehicles that go 40 miles per gallon, which would save 3 million gallons of oil a day. But the "freedom car" salesmen have fought against raising fuel efficiency standards and done little to support hybrids. The administration is actually suing California to derail clean car legislation." So it seems that the project is merely a political ploy; under the pretense of promoting environmental causes, President Bush is doling out pork to Detroit, while assuring Big Oil of a continued national dependency.

The Detroit Project

Author and political activist Arianna Huffington teamed together with Hollywood celebrities and environmentalists to create the Detroit Project, aimed at prompting consumers to “think about the effect that their gas-guzzling SUVs are having not just on the environment, but on our foreign policy.” Her group has gained recognition recently for two controversial television advertisements, suggesting that people who buy gas-guzzling SUVs are supporting terrorism. I went to hear Ms. Huffington speak at the University of California, Santa Barbara (UCSB) on February 2, 2003, where she explained that the clips are intended as a parody to prompt national discussion.³⁵ Her objective seems to be quite successful; 4000 people pledged on her website to give up their SUVs in the first two days. The loophole exempting heavy SUVs from auto depreciation limits has been in the tax code since 1984, but ten days after the clips aired on television, Arianna received telephone calls from both Senators Barbara Boxer (Democrat-California) and Diane Feinstein (Democrat-California) promising to propose legislation to rectify the inequity.

It is not surprising that the loopholes have persevered for so long and automakers have made only the most perfunctory of efforts to increase fuel economy. After all, Ford, GM and Exxon Mobil compose three of the top ten most magnanimous corporations when ranked by lobbying dollars to Washington. Ford spent \$29.5 million on lobbying between 1997 and 1999, while GM shelled out \$26.3 million. Ford focused on successfully preventing regulations that would have raised fuel economy standards, and subjected SUVs to the same emissions standards as trucks. These lobbying dollars helped to defeat a bipartisan bill proposed by Senators John Kerry (Democrat-Massachusetts) and John McCain (Republican-Arizona), which would have required overall fuel economy to rise to 35 mpg by 2015. GM directed their lobbying toward the United States’ unilateral rout of the Kyoto Protocol.

Were the lobbying dollars a wise investment? On the Ford Expedition alone, the SUV exemption from gas-guzzler taxes saved Ford an estimated \$776 million.³⁶ “There is no better investment than buying a politician,” said Ms. Huffington in her address at UCSB, “The return on investment (ROI) is phenomenal.”

According to Ms. Huffington, if everyone increased their mileage by just 3 mpg we would save 1 million barrels of oil per day. If we went further, and raised our average by 8 mpg we could completely end our dependency on the Middle East for oil. Skeptics might retort that we would continue to import from the Middle East because it is cheaper, but is it really less expensive when we include the cost of maintaining that economical supply through military force? Estimates for the cost of a United States led

invasion of Iraq have ranged from the Pentagon's \$40 billion to as much as \$200 billion. These estimates do not include keeping the peace after Saddam Hussein's regime is overthrown; by one estimate this would take 75,000 U.S. troops and \$16.2 billion a year.³⁷

If we adopted the mentality of accountants aiming to match cost to benefit, we might be tempted to amortize the cost of this operation over the benefit of expected cheap oil. If curiosity got the better of us, we might continue with some crude, back of the envelope calculations. The United States imports about 1.7 billion barrels of oil per year from the Middle East. Assume that the operation will secure a flow for ten years before the next despot takes the throne in Iraq and ignore the time value of money; thus, the expected benefit is 17 billion barrels of oil. If we take the middle estimate of the cost of invading Iraq, \$100 billion, and add in the cost of maintaining the peace for the following nine years, \$16 billion per year, we arrive at a bill of \$244 billion. \$244 billion over 17 billion barrels is \$14.35 per barrel. A barrel of oil yields about 18.5 gallons of gasoline.³⁸ If we wanted to more accurately match the costs with the benefits, the government might add a tax of $\$14.35/18.5$, or 78 cents per gallon. This would still do nothing to capture the costs of driving from pollution, but would be a step in the right direction. This would put the price of gasoline in California at about \$2.80; which is still only about half of what motorists pay in Europe. The aforementioned Hummer H1, with its cavernous fuel capacity of 42 gallons, would now cost \$117 to fill.

Most can dismiss this scenario as not affecting us because we would never spend six figures on a vehicle. However, it seems that most American adults drive, typically about 15,000 miles per year. At \$ 2.02 per gallon for gasoline, that leaves the typical car driver, who we assume gets 23 mpg, paying about \$1300 per year and her SUV counterpart, who gets 16 mpg, paying \$1900. If the price of gas were to go up to \$2.80 this would be a 39% jump, costing the car and SUV drivers an additional \$550 and \$725 per year respectively. Now the SUV driver would be paying an additional \$775 per year more than her car driving counterpart. Over the five to seven year ownership span she would end up paying \$3800-\$5400 for the privilege of riding high. Perhaps that would be enough to prompt considering a more traditional vehicle; she could even splurge for the sporty transmission and snow tires.

Looking Forward: Legislation and Government Action

During the period I spent researching and drafting this paper, several cash strapped states have begun to question the necessity of SUVs in their government fleets. Even in snow-covered Massachusetts, new Republican Governor Mitt Romney "doesn't see why officials cannot use a regular sedan," he is considering eliminating the 428 SUVs in the

state fleet. Similarly, in Connecticut, officials are looking to alleviate the state deficit by trimming thirsty SUVs from the fleet. "It doesn't seem like there is a consumer backlash yet, but it's encouraging to see that decision-makers are getting the message," said Gary Skulnik, a spokesman for the Sierra Club on energy issues.

It seems that while Detroit's money remains influential in Washington D.C. and the Rust Belt³⁹, politicians in New England and California are not receiving significant donations from the Big Three. Governor George Pataki of New York recently proposed eliminating the income tax loophole for self-employed persons who purchase heavy SUVs. "Eliminating this loophole is an issue of fairness and good policy," he said in his annual budget address in Albany. Under the proposal, nonagricultural business owners in New York who exploit the loophole on their federal returns would be required to restore the deduction to their state income statements and pay the state tax on it. Senator Barbara Boxer (Democrat-California) is drafting similar legislation on a national level.⁴⁰

Spearheaded by government tax incentives at the federal, state and county levels, automakers are slowly increasing production of hybrid vehicles, which use minimal amounts of gasoline and recapture energy when descending hills, and braking. Ford will introduce a hybrid SUV in 2004 and Lexus has one on the way as well. Hybrids would receive a lot more attention from automakers if the federal government were to significantly increase the CAFE standard and hold SUVs to the same yardstick as other passenger vehicles.

Regrettably, hybrid vehicles are not very profitable, especially in comparison to large SUVs, which routinely earn profits of \$10,000 or more per unit. It does not make sense politically to pass any regulations that could hinder Detroit. American automakers currently derive nearly all of their profits from light trucks. Unable to compete on sedan quality with foreign competitors, the Big Three are only able to sell cars by pricing them at or below cost.⁴¹

Government tinkering with an individual's vehicle choice does little to foster the ideals of a country built on free markets and democracy. We need to consider the broader picture when deciding legislation, not merely the political agendas of a few deep-pocketed corporations. While there is no easy remedy to all of the social issues mentioned, ending the inequitable incentives for SUV purchase seems to be a step towards progress. Voters should write to their local legislators and the Environmental Protection Agency to express their opinions.

Endnotes

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- ¹¹ Rozanne Weissman and Ronnie Kweller, "SUV Tax Break 'Outrageous,'" *Alliance to Save Energy*, 22 January 2003, (22 January 2003). http://www.ase.org/media/newsrel/SUV_tax_break.htm.

¹² John DeCicco, "Fuel-Efficient Driving: Cut Your Gas Bill and Our Dependence on Foreign Oil," *Bottom Line Personal* 24(3) (1 February 2003).

¹³ H. Josef Hebert, "Bush Approves SUV Fuel Economy Increase," *Associated Press*, 12 December 2002, (28 December 2002). <http://evworld.com/databases/shownews.cfm?pageid=news171202-02>.

¹⁴ "Clean Vehicles FAQ," *Union of Concerned Scientists*, (21 December 2002). http://www.ucsusa.org/clean_vehicles/advanced_vehicles/page.cfm?pageID=203.

¹⁵ "Is Detroit Really Going Green?" *Nucleus*, 1 July 1998, (15 August 2002). http://www.ucsusa.org/clean_vehicles/archive/page.cfm?pageID=816

¹⁶ *Ibid.*

¹⁷ "SUVs: Escalating Risks on the Highway," *Friends of the Earth*, (1 September 2002). <http://www.suv.org/safety.html>.

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²⁰ Keith Bradsher, "Larger Vehicles are Hampering Visibility," *New York Times*, 22 November 1998.

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- ³⁴ The term Big Three refers to American auto manufacturers General Motors Corporation, Ford Motor Company and DaimlerChrysler; also referred to interchangeably as “Detroit.”
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Appendix

2002 Vehicles with Gross Vehicle Weight Ratings (GVWRs) of More Than 6,000 Pounds

BMW: X5

Cadillac: Escalade SUV

Chevrolet: Astro Passenger Van AWD, Avalanche Pickup, Express Van, Silverado Pickup, Suburban SUV, Tahoe SUV

Dodge: Durango SUV, Ram Van, Ram Wagon, Ram 1500 Pickup, Ram 2500 Pickup, Ram 3500 Pickup, Sierra Pickup, Sierra Denali

Land Rover: Discovery Series II SUV, Range Rover SUV

Ford: Excursion SUV, Expedition SUV, Econoline (E150, E250, and E350) Van, Econoline Wagon, F150 Pickup, F250 Pickup, F350 Pickup

Hummer: H1, H2

Lincoln: Blackwood Pickup, Navigator SUV

Mercedes: M-Class (ML 32-, ML 500, ML55 AMG)

Toyota: Land Cruiser (4WD) SUV, Sequoia SUV, Tundra Pickup (Limited models)

Note: The GVWR can normally be found on a label attached to the inside edge of the driver's side door.

Sources: <http://www.intellichoice.com> and www.carsdirect.com/researchcenter/home.