

Double-Rigging of the Auto Market

U.S. government interference with our lives often resembles a Russian matryoshka doll: regulation is nested in more regulation. Take the provision of Biden's pending Build Back Better bill that would create a big tax credit for people who buy U.S.-built electric vehicles (EV).

Not only would the government distort the domestic auto market by rigging it in favor of electric vehicles over conventional ones, but it also would rig the EV market, Trump-style, in favor of U.S.-made products. This implies that "foreign" EVs are so attractive to American buyers that the domestic offerings need help from the state to compete. That's an argument against the provision right there. If the vehicles that American companies and workers turn out aren't what American buyers would want to buy without subsidies, the manufacturers shouldn't be protected from that important information.

Why not? Because markets exist for consumers and not for producers. Makers of trade policy have no political incentive to operate on that principle because manufacturers of a given product can easily organize for government protection of their livelihoods and reward the politicians who do their bidding. Unfortunately, the same cannot be said for consumers, who have too many other things to worry about. Any kind of trade restrictions hurt them because prices will be higher and product variety will be constrained, especially if a trade war breaks out through tit-for-tat retaliation.

Trade wars end up hurting producers as well, of course. Even without a trade war, when Americans buy less from foreigners, foreigners, having less money, will buy less from Americans and other foreigners. The bad effects ripple globally.

Understandably, electric-vehicle makers in Canada and Mexico are especially upset. Who could blame them? The *San Diego Union* reports, "Canada and Mexico worry the provision would lead to dramatic reductions in EVs purchased in their respective countries and violates the U.S.-Mexico-Canada Agreement, or USMCA, the trade pact the three countries passed last year to replace NAFTA."

So much for the alleged free-trade zone of North America.

But things are not quite so simple as the provision's backers make out, demonstrating that Donald Trump had no monopoly on willful ignorance about the reality of trade. The inhabitants of the United States, Canada, and Mexico do more than trade finished consumer goods with each other. For many years North America has been a single highly integrated market for producers' goods.

According to the *San Diego Union*, Canada's consul general for Southern California,

Nevada, and Arizona, Zaib Shaikh, points out that, in the newspaper's words, "Determining the country of origin of a given vehicle is complicated because the auto industry of the three North American countries has become so highly integrated."

In other words, It's not clear what an American, Canadian, or Mexican EV is exactly. "'When you think about vehicles assembled in Canada, they're actually 50 percent U.S.-made,' Shaikh said, 'because the supply chain works so that things are crossed over six or seven times across the border' before a vehicle is finally assembled."

It's hardly the first time that the authors and backers of legislation were ignorant about the thing they sought to regulate.

As already noted, tilting the market toward American manufacturers, even if that were possible today, is not the only objectionable feature of the provision. The provision also aims at tilting the market toward EVs and against vehicles with internal combustion engines. EV purchasers would gain \$12,500 in tax credits by 2027. This is in pursuit of the Biden administration's goal of cutting carbon-dioxide emissions 50-54 percent from the 2005 level by 2030 and reaching net-zero emissions across the economy by 2050.

Those targets are important for many people on the fallacious grounds that carbon dioxide is a pollutant that is ruinously warming the climate when in fact it is plant food that is greening the earth and bringing other palpable benefits to mankind. (Thanks to technology, the real pollutants in gasoline are already controlled in today's clean cars.)

To the extent that human-generated CO2 emissions through the use of fossil fuels have contributed to mild global warming since the Industrial Revolution began, they have helped to improve the lives of human beings everywhere by making the natural world more hospitable. During this time, population, life expectancy, and per-capita wealth have grown, while extreme poverty, infant mortality, and deaths from weather extremes have plummeted. Cold kills more people than heat, and the longer growing seasons made possible by warming help feed the world's nearly 8 billion people at a lower cost.

For the foreseeable future, nothing will be able to compete with fossil fuels in providing reliable, inexpensive, and abundant energy — something billions of people in the developing world desperately need if they are to achieve the living standards that we in the West take for granted.

So rigging the market in favor of electric vehicles is a dumb idea.

Finally, we might welcome tax credits because they provide a chance to keep more of our money, but this principle is a snare and a delusion. The power to tax (that is, steal) is bad enough without it also being a politician's tool to manipulate market outcomes. That only adds injury to injury.