Let the FJ Holden be a Lesson

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In real terms, it's cheaper to own and drive a car now than it was 20 years ago, writes Ian McAuley. So why are pundits so worked up about fuel prices?

The FJ Holden, produced from 1953 to 1956, cost £1023 — or around 17 months of wages for a worker on average full time earnings.

The equivalent time required now to buy a basic new car is between two and three months. Without showing disrespect to the FJ, the car bought in 2011 would have far greater safety, comfort, and reliability. I remember when, in around 1960, Volvo proudly advertised that it had added a sixth digit to its odometer — a neat sales gimmick as it was unheard of for cars to last beyond 99,999 miles (around 160,000 km).

From 1950 to 1990 new car prices tended to keep track with other prices; there was little change in real (inflation-adjusted) terms. From 1990, however, car prices have stayed around constant in nominal terms; the price you pay now for a car is actually four per cent lower than the price you would have paid 20 years ago. In real terms that's a fall of around 40 per cent.

These falls have been due mainly to the reductions in tariff protection, a process that started in the industry policy reforms of the Hawke-Keating governments. Intense global competition and technological developments have also helped bring prices down.

Of course fuel prices, particularly gasoline prices, have risen over that period, but even so in inflation-adjusted terms it is still cheaper to own and operate a car than it was 20 years ago. See the table below for comparative prices and incomes.

Twenty year price and income movements – 1990 to 2010	
Private motoring total	45%
Motor vehicles	-4%
Automotive fuel	64%
Repairs and insurance	56%
Parts and accessories	38%
Other motoring charges	145%
All groups CPI	64%
Wages	125%
Sources: Derived from ABS time series. CPI components from December 1990 to December 2010. Wages (full time male total earnings) from November 1990 to November 2010.	

This is not the picture painted by talkback radio hosts and opposition politicians, who would have us believe that a carbon tax applied to gasoline would tip us over the edge into poverty. And in the hysteria over the last week there has been no mention of the fact that fuel excise has been frozen at 38 cents a litre since the Howard government abolished indexation in 2001 — a fall in real terms of 12 cents a litre.

One reason the fuel price issue is so easy to exploit politically is that we tend to see gasoline prices in isolation from the broader context of total motoring costs. Years pass between our car purchases, but only days pass between having to refill our tanks.

Another point missed in the hysteria is that we have plenty of room to reduce our dependence on highly priced gasoline — after all that's what a carbon tax is designed to achieve. It's meant to change our consumption, rather than to raise revenue.

Our passenger motor vehicle fleet is heavy and hungry. Our cars still achieve a miserable 11.7 litres per 100 kilometres. Even if we were to replace our entire fleet with FJ Holdens we would do better, for its fuel consumption was 10.7 litres per 100 km. If we were a little more adventurous, and went for modern, lightweight vehicles with diesel or high efficiency gasoline engines, we could realistically look to halving our fuel consumption.

There are only minor hurdles getting in the way of such a transformation.

One hurdle is our love affair with big cars. It is easy for the academic and environmental commentariat, who commute by bicycle or Hyundai Getz, to criticise those who buy Land Cruisers and V6 Holdens or those tradespeople who use their heavy commercial vehicles for all their needs.

It's the market at fault, not the people making these choices. There is a market to be developed in affordable rental vehicles, for example, so that people can easily rent larger or heavier vehicles for occasional needs. The rental vehicle market is well developed for tourists and business travellers, but the market for other users is still not well served. Also, state governments need to change the way they apply motor vehicle taxes, for at present they apply stamp duties, registration and compulsory insurance fees on ownership, rather than use. (See some analysis of possible changes at TaxWatch.)

Then there is the myth that because Australia is a big country, we need to keep fuel taxes low. In fact, Australians from all states drive their cars about the same distance over any year — about 14,000 km. There is little variation from a low of 13,700 km in Tasmania to a high of 15,000 km in the Northern Territory, nor, within states, is there much variation between capital cities and other regions. Of course, there are the remote regions where motor vehicle use is necessarily very high; it should come at little cost to public revenue or to the atmosphere if some special concessions in excise were made for people in such locations. (Such differential pricing could be addressed by comprehensive road user charging, as recommended in the Henry Review, but the policy reasons for road user charging and greenhouse gas abatement are different.)

Another myth keeping fuel consumption high is the notion that big vehicles are safer than small vehicles. When people consider that the only way to protect themselves from other big vehicles is to buy one themselves, an arms race develops. In fact, big 4WD vehicles are not necessarily safe; they are light trucks rather than cars, and many people lack the skills to handle them at high speeds.

As Tony Windsor has said about the carbon tax hysteria, "there should be substantive debates on substantive issues, not just slogans and one-liners and abuse on the airwaves." If we construe this debate narrowly in terms of fuel prices and electricity bills, rather than in the ways we may adjust our patterns of consumption, we will miss an opportunity to adjust to a low carbon future. We will be trapped in an obsolete and uncompetitive economy — and we will still be paying high prices for fuel and electricity.