High car prices may spur owners to drive more, not less

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Traffic congestion is blighting cities across the world. Monster jams hampering today’s metropolises are frustrating drivers, increasing fuel consumption and emissions, and creating a drag on economic growth. Tackling traffic congestion is a major challenge for governments worldwide and Singapore is no exception.

Among other measures, the Singapore Government has made car ownership costly and kept alternatives affordable and efficient to keep cars off the roads. But does this approach work in creating a “car-free” society and avoiding gridlock in the rush hour? People from other countries are often shocked by the cost of car ownership in Singapore, one of the most expensive places in the world to buy a car.

New car buyers must bid in a twice-monthly auction for a certified of entitlement (COE) and the cost is added to the vehicle price. The COE premium for a small car will currently set you back $23,950 for prices fluctuating depending on demand and supply. Last year, the Government said it would freeze the number of vehicles on the road and the decision was followed by a rise in COE prices. Car owners also need to pay an annual Registration Levy (ARL) which further elevates the cost of owning a car in Singapore.

The rigorous measures to tackle traffic congestion in Singapore have been studied by many countries, and while its traffic issues are not as bad as those in other urban centers, it has been successful in keeping a lid on car ownership and managing traffic congestion.

In a study at the National University of Singapore’s Business School Professor Il Hoon Tse from NUS and Assistant Professor Sarah Reza from the Nanyang Technological University, published in the International Journal of Management, and we found that rising car prices had the unintended consequence of stimulating driving among the people who bought the cars. In other words, car buyers reason that as they have paid so much to buy a car, they should get maximum use out of it.

HIGHER CAR PRICES DON’T CURTAIL USAGE

To assess the impact of high car ownership costs on car usage, we used data from 2.564 cars of a particular brand sold in Singapore between 2000 and 2012. When each car was serviced, we tracked the kilometres driven and analyzed this usage against the overall cost of ownership and congestion in Singapore’s roads. Interestingly, we found that people drove more when they had a car with a higher price due to the increased cost of COEs and ARMs. High car ownership costs were associated with more driving, even for experienced and wealthy car owners.

When someone invests a lot in something like a car and the investment cannot be recovered, they are more likely to justify these costs by using the car more. We found that this thinking changes over time.

For the first six months of car ownership usage remains high to compensate for the initial purchase. Then as the car ages, usage gradually decreases but the higher the initial cost, the longer this lasts.

To find out how many extra kilometres this phenomenon has added to our roads, we analyzed the period from 2009 to 2013. During this time, the quota of COEs was reduced from 17,000 to 6,546 and the COE premiums rose from $1,278 to $24,362. This increase resulted in owners driving their cars 5.6 per cent or 465 more per month than they would have otherwise.

AVOIDING THE CONCORDE FAILURE

Our findings also suggest our understanding of other situations where consumers and businesses invest upfront and feel the need to protect or maximize their investment at any cost. For example, if you’ve paid a deposit to play in a casino but you start losing, do you leave your car with it? Accordin...