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WILL CONGRESS AGAIN HANDICAP U.S. AUTO COMPETITIVENESS?

Just as the American automobile industry is facing its toughest competition ever from Japanese manufacturers, Congress is considering legislation that could destroy one or more of the three United States auto companies. A few days before Congress recessed last year, the Senate Environment and Public Works Committee okayed its version of the Clean Air Act, which includes a provision to reduce substantially carbon dioxide (CO_2) emissions from automobiles. This measure is meant to be a partial response to the supposed threat of global warming. Failure to comply with the CO_2 regulations would result in some of the stiffest fines found in any federal statutes. The only way U.S. automobile manufacturers can comply is by reducing dramatically the amount of fuel that autos burn. In practice, this will mean that all new cars sold in the U.S. will have to average 33 miles per gallon (mpg) beginning with model year 1996 and 40 mpg beginning in model year 2000. They currently must average 27.5 mpg.

This Senate provision would force the U.S.-based companies to move a large portion of their manufacturing facilities abroad. Worse still, it would make it more difficult and costly, if not nearly impossible, for Americans to buy family-sized automobiles just as new evidence confirms common sense: larger cars tend to be safer cars. Finally, the provision would contribute only modestly to efforts to avoid any "greenhouse effect" because U.S. passenger cars account for no more than two percent of worldwide carbon dioxide emissions.

Since 1975, Congress has mandated that all fleets of new cars sold in the U.S. must meet certain gas mileage standards, known as Corporate Average Fuel Economy (CAFE). Creation of the CAFE standards was a well-intentioned attempt in the wake of the first Arab oil embargo to reduce U.S. dependence on imported oil. Manufacturers are now required to achieve an average fuel economy for all of their cars of 27.5 miles per gallon.

Dangers From Smaller Cars. Since less weight means better automobile fuel economy, and hence lower CO_2 emissions, the Senate provision would put enormous pressure on automobile companies to manufacture and sell more small, light cars to meet the mandated fleet average. Yet an Insurance Institute for Highway Safety study released the same week that the Senate committee voted for its measure confirms the findings of other recent studies: Overall, people riding in small, light cars are at greater risk of death and serious injury in accidents than those riding in heavier cars. Example: the National Highway Traffic Safety Administration reported last summer that serious injury rates in single vehicle accidents are 22 percent higher for subcompacts than they are for the largest cars.

By mandating fuel economy averages for each manufacturer, moreover, current CAFE standards put particular pressure on American automobile companies. The reason: Over the past quarter-century, American manufacturers increasingly have specialized in meeting consumer demand for family-sized vehicles, while Japanese manufacturers have dominated the small car portion of the market. A Federal Trade Commission report last fall points out that imposing higher fuel economy standards does not necessarily spur Americans to rush out to buy more efficient cars. Instead, many consumers who demand safer, more comfortable cars keep the ones they already own for longer periods, thus depressing demand for the very cars that American companies specialize in providing.

Comfort and Safety. In the mid-1970s, concerned about higher gasoline prices, Americans opted for smaller cars that emphasized fuel efficiency. But oil price deregulation and the resulting abundant supply of gasoline have made fuel economy a lower priority for many Americans; it has been replaced by a desire for comfort and safety. Larger, family-sized vehicles typically weigh over 1,000 pounds more than compacts. This makes achieving even the current 27.5 mile per gallon fleet average tough on U.S. manufacturers.

The head start that foreign manufacturers had marketing smaller, fuel-efficient cars is only half of their advantage. CAFE laws further handicap American producers by creating two fleets for every manufacturer: those of vehicles manufactured largely in the U.S. and those of vehicles in which 25 percent or more of their content is manufactured abroad. CAFE standards are applied to each fleet separately. Therefore, U.S. manufacturers cannot use the greater fuel efficiency of their compact cars, which tend to be produced overseas for import to the U.S., to offset the larger cars they manufacture in the U.S.

The CAFE system also provides "credits" to manufacturers who have done better than the average fuel economy standard in past years. While providing much-needed flexibility to all companies that must comply with CAFE standards, this has permitted the Japanese to accumulate large CAFE cushions. It is this that is, in part, allowing the major Japanese manufacturers to introduce new luxury models in the U.S. that are heavier, have more powerful engines, and get fewer miles to the gallon than their other models. This frontal assault on the one market niche that U.S. companies still dominate is possible because the Japanese firms' CAFE credits will protect them from the risk of fines as their overall fleet fuel economy averages go down. And this trend comes at the end of a decade in which American companies have seen their share of the U.S. market decline from 84 percent to 69 percent.

Handicapping American Competitiveness. To counter this new Japanese sales offensive effectively, American companies must be able to redesign their larger cars. Yet the inability to average the mileage of their larger cars built in the U.S. with their smaller cars built in large part overseas inhibit the U.S. carmakers from making such changes. It was no surprise, therefore, when Ford Motor Company announced early last year that it was shifting a significant portion of its large car production to foreign plants.

As bad as the present CAFE statute is, it is tame compared to the potential impact of the Senate measure, whose effect would be to raise CAFE to 40 miles per gallon. Perversely, it penalizes American companies, thus handicapping America's ability to compete.

Environmental issues indeed are matters for serious concern. Respected scientists, however, strongly disagree about the severity of the global warming problem that apparently is the motivation for the Senate committee's proposed change in CO_2 auto emissions standards. At best, moreover, the new standard would reduce worldwide CO_2 levels by only a tiny amount. Senate Majority Leader George Mitchell has announced that he intends for the full Senate to take up the Clean Air Act as soon as Congress reconvenes. Many members of Congress hesitate voting against any act labelled "pro-environment." This is understandable. But the Senate committee's CO_2 auto emissions provision should not be viewed as an environmental matter at all. It should be judged not on its well-meaning intentions but on its near-certain results: new handicaps for the U.S. economy and America's international competitiveness.

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