

# WebMemo



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## Lugar's Energy and Climate Plan: More Big Government, Less Consumer Choice

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On June 9, Senator Dick Lugar (R-IN) introduced his Practical Energy and Climate Plan. As Lugar promised, the bill does not contain a cap-and-trade or carbon pricing provision; however, it does include a host of mandates and regulations that would hurt the consumer in the name of reducing dependence on foreign oil and reducing greenhouse gas emissions.

Creating new energy efficiency standards and a diverse energy standard would restrict consumer choice and hinder the ability of free enterprise to innovate and develop more efficient technologies. The right way to create a diverse energy market is to limit government involvement and introduce real regulatory reforms.

**Dictating What to Drive.** Lugar's bill contains a plethora of what may sound like intuitively good ideas but instead adversely impact the consumer. One such provision, an idea not new to Washington, is improving vehicle fuel efficiency by legislating stricter Corporate Average Fuel Economy standards, which would account for a large part of the reduction in oil consumption. The bill would codify a joint rulemaking from the Environmental Protection Agency and National Highway Traffic Safety Administration requirements of 34.1 miles per gallon 2016 for all automakers in the U.S, subsequently increase fuel standards 4 percent annually, and establish standards for medium and heavy vehicles for model years 2017 or sooner.

The legislation would also offer a rebate for the purchase of a passenger or light-duty vehicle that is

the most fuel efficient in its class. This rebate would be funded with a tax on the least efficient model within the same class.

This "government knows best" philosophy prevalent in Lugar's bill ignores the unintended consequences that come with miles-per-gallon increases. Fuel efficiency standards raise the sticker price of vehicles and often make them lighter, less safe, and more expensive.<sup>1</sup> One study projects that the price of mid-size cars would increase \$4,500 to \$6,000.<sup>2</sup> Mandating an expansion of fuel-efficiency could damage the automakers if consumer demand fails to meet the government's expectations.

Consumers already have a wide variety of choices when it comes to purchasing a vehicle, including a growing number of hybrid vehicles. The government does not need to mandate more. Moreover, Americans prefer larger, safer vehicles for practical reasons, so discouraging them from buying these vehicles needlessly restricts consumer choice.

**Dictating How to Build and What to Buy.** The bill includes new efficiency standards for new residential and commercial construction as well as tax breaks for retrofitting homes, small businesses, and commercial buildings. The bill also accelerates

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appliance efficiency standards and calls on the Secretary of Energy to identify additional appliances and equipment that “have significant national energy savings potential” to be included for future performance standard mandates.

Producers and consumers do not need government mandates and subsidies to be more energy efficient. Being energy efficient usually reduces costs and increases profitability. Thus, market forces already encourage energy efficiency. Government mandates serve only to diminish personal liberty and constrain the market’s ability to operate.

Moreover, government subsidies are not needed to purchase more energy-efficient products. A recent survey of the Environmental Protection Agency’s Energy Star labeling program, which identifies energy-efficient products, found that 62 percent of these households were either “very likely” or “somewhat likely” to buy the product without the government handout.<sup>3</sup> Forced reduction in energy use, on the other hand, causes reduced product performance, reliability, and longevity.

**A Diverse Domestic Power Standard.** Lugar’s diverse energy standard would greatly expand the flexibility of a carbon-free energy standard to include coal with carbon capture and sequestration (CCS) and nuclear energy. But more significantly, it includes qualifying emissions-free energy sources.

While Lugar’s plan is less onerous than a renewable electricity standard (RES)—which mandates that a predetermined percentage of electricity must come from government-selected energy sources—it still is not the right way to promote cleaner energy technologies.

An RES plan includes only a few viable sources to meet the electricity standard, most notably wind and solar. This signals to producers that wind and

solar is the way forward and reduces the incentive to invest in other technologies. A diverse energy standard, on the other hand, reduces this crowding out effect by including CCS, nuclear, and potential sources that may have not yet been invented.

To date, Lugar’s plan is the best attempt to remain technology-neutral, but that does not make a diverse energy plan a good idea.

A diverse domestic power standard—along with government subsidies—allows the government to pick sources that do not emit carbon dioxide as winners and those that do as losers. For instance, the bill includes an additional \$36 billion in loan guarantees for new nuclear power plants when \$18.5 billion has already been signed into law. Subsidizing the nation’s way to a carbon-free economy is not a prudent approach to create a robust and diverse energy market; in fact, it will cause a dependent and stagnant one. It may reward an energy producer in the short term but will hurt both producers and consumers in the long run.

**A Better Approach.** A more prudent approach to promoting carbon-free energy sources includes:

- Real nuclear energy reform. Streamlining the onerous regulatory process for nuclear energy plants would allow plants to come online quicker, creating predictability and opening competition for new technologies.<sup>4</sup>
- Immediate tax deductions. Congress should allow investors to take a tax deduction for all new plant and equipment costs irrespective of industry or type of equipment. This would allow cleaner, more efficient technologies to come online sooner.
- Peel back regulations on renewable energy. Unnecessary regulatory red tape holds up renewable energy ventures, makes them prohibitively

1. Steve Siler and Mike Dushane, “Obama’s CAFE Fuel Economy Standards to Create Fleet of Tiny, Expensive Vehicles,” *Car and Driver*, May 2009, at [http://www.caranddriver.com/news/car/09q2/obama\\_s\\_cafe\\_fuel\\_economy\\_standards\\_to\\_create\\_fleet\\_of\\_tiny\\_expensive\\_vehicles-car\\_news](http://www.caranddriver.com/news/car/09q2/obama_s_cafe_fuel_economy_standards_to_create_fleet_of_tiny_expensive_vehicles-car_news) (June 14, 2010).
2. Dave Guilford, “For New CAFE Rules, Automakers Place High-Stakes Tech Bets,” *Autoweek*, March 23, 2010, at <http://www.autoweek.com/article/20100323/CARNEWS/100329973&template=mobileart> (June 10, 2010).
3. Energy Star, “National Awareness of Energy Star for 2009,” at <http://www.energystar.gov/ia/partners/publications/pubdocs/National%20Awareness%20of%20ENERGY%20STAR%202009.pdf> (June 11, 2010).
4. Jack Spencer, “Pitts Bill Could Be Nuclear Energy Game Changer,” Heritage Foundation *WebMemo* No 2571, July 31, 2009, at <http://www.heritage.org/Research/Reports/2009/07/Pitts-Bill-Could-Be-Nuclear-Energy-Game-Changer>.

more expensive, and deters investment. Reducing this bureaucracy would allow the free market to develop new energy technologies more quickly.

- **Limit litigation.** Environmental activists delay new energy projects by filing endless administrative appeals and lawsuits. Creating a manageable time-frame for groups or individuals contesting energy plans would avert potentially cost-effective ventures from being tied up for years in litigation.

**The Big Government Energy Plan.** Senator Lugar's energy bill offers a short sigh of relief in that

it does not include cap and trade, and the energy standard is far less restricting than in previous congressional proposals. But the relief stops there. The bill does not offer a sound alternative to cap and trade or renewable electricity standards but instead will prompt more unnecessary government intervention in the energy economy—and with it, a loss of liberty.

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