

# WebMemo



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## CAFE Standards: Fleet-Wide Regulations Costly and Unwarranted

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Automakers would be required to double current fleet-wide fuel economy by 2025 under regulations proposed last week by the Obama Administration. Advocates contend that this crackdown on the internal combustion engine would reduce Americans' "dependence on oil" and cut emissions of so-called greenhouse gases.

Whether the standard is achievable remains to be seen, but the effort would cost tens of billions of dollars, untold numbers of manufacturing jobs, and—most inexcusable—the loss of lives.

**A Formula for Sticker Shock.** The official proposal<sup>1</sup> unveiled last week—all 893 pages—by the National Highway Traffic Safety Administration (NHTSA) and the Environmental Protection Agency (EPA) calls for a fleet-wide fuel economy average of 54.5 miles per gallon by 2025. (The 2011 standard is 27.3 miles per gallon.) However, each manufacturer's actual average would vary based on their vehicle mix. Every model would be assigned an individual standard based on its "footprint," a formula that factors its wheelbase and track dimensions. Fines are levied for vehicles that do not meet the standard.

The government pegs the cost of compliance at \$8.5 billion annually, on average,<sup>2</sup> with wide variation between the early and latter years. This translates into a spike in sticker prices of at least \$2,000–\$2,800, according to official projections,<sup>3</sup> which typically run lower than industry estimates.

That is hardly a prescription for reviving a moribund auto industry. According to Edmunds.com, auto sales declined 41 percent from a seasonally adjusted annual rate of 15.72 million in December 2007 to a low of 9.32 million in February 2009. Based on the current pace of recovery, auto sales for 2011 are expected to total 12.9 million—a decline of 17.9 percent from the onset of the recession.<sup>4</sup>

Yet the proposal has been endorsed by most major auto manufacturers. Their acquiescence may be explained, in part, by California's tentative agreement to adopt the federal standard, thereby eliminating the prospect of patchwork production to comply with competing state regulations. Moreover, the Administration has agreed to evaluate in 2018 whether the standards for the years 2022–2025 are technically feasible and cost-effective—raising industry hopes of an escape. Whether the Obama bailout of General Motors and Chrysler played any role in their regulatory surrender is a matter of speculation.

**Mandates Masquerade as Incentives.** Compliance would almost certainly require increased

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production of electric, fuel-cell, and hybrid models to improve fleet-wide averages. For example, automakers would earn twice the credit for each electric vehicle in model year 2017, while a plug-in hybrid would count as 1.6 vehicles. Hybrid trucks, if sold in sufficient numbers, as well as vehicles fueled by natural gas, may also garner extra credits.

But these “incentives” would carry a considerable price. Alternative-fueled vehicles are much more costly to produce and thus far too expensive for the average consumer—even when accounting for fuel savings. Nor are they environmentally benign. As with all automotive products, there are tradeoffs. For example, additional emissions are generated by the manufacture of vehicle components from lightweight materials such as aluminum, plastics, or composites needed for downsizing. There are also environmental consequences to the manufacture of metal hydride batteries, as well as the electricity generated from the combustion of fossil fuels that is necessary to power electric vehicles.

**Policy Drives Unintended Consequences.** Some fuel-efficiency gains would likely result from drive-train re-engineering, improved aerodynamics, and reduced tire resistance. But as in past years, weight reduction would be unavoidable. And with downsizing comes risk.

In past years, the structure of the regulations induced automakers to dramatically downsize some vehicles to meet the standard, which increased traffic fatalities by the thousands.<sup>5</sup> The new standards

would require downsizing to both small and large models, which the government contends will neutralize the risk. However, the NHTSA and the EPA disagree on the extent of the risk, while outside experts say that the danger would be heightened by the extreme stringency of the proposed standards.

Fatalities are not the only unintended consequence. To the extent that the standards increase sticker prices, consumers are more likely to continue using older, less fuel-efficient vehicles. A host of research also documents that increased fuel efficiency, by lowering the cost of driving, actually increases travel—thereby negating at least some of the supposed environmental effects.<sup>6</sup> The government accounts for this “rebound effect” in its benefit calculations, but its low-end assumptions are questionable.

**Dubious Benefit Calculations.** As with virtually all of its most costly regulations, the Administration is claiming that the benefits of the new standard, including fuel savings of \$1.7 trillion, would far exceed the costs. But that is pure speculation given that actual savings would depend on the price of gasoline—which can hardly be accurately gauged 14 years in the future. And especially so given the regulatory obstacles to oil exploration and extraction.

Justification for fuel-efficiency standards has evolved over time, from ending “dependence on foreign oil” to reducing air pollution to mitigating global warming. While various premises are debat-

1. Environmental Protection Agency and National Highway Traffic Safety Administration, *2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards*, November 17, 2011, at [http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cape/2017-25\\_CAFE\\_NPRM.pdf](http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cape/2017-25_CAFE_NPRM.pdf) (November 28, 2011).
2. *Ibid.*
3. National Highway Traffic Safety Administration, *Corporate Average Fuel Economy for MY 2017–MY 2025 Passenger Cars and Light Trucks*, November 2011, at [http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cape/2017-25\\_CAFE\\_PRIA\\_final.pdf](http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cape/2017-25_CAFE_PRIA_final.pdf) (November 28, 2011).
4. Lacey L. Plache, “Auto Sales Forecast 2011,” Edmunds.com, January 2011, at <http://www.autoobserver.com/assets/Auto%20Sales%20Forecast%202011.pdf> (November 28, 2011).
5. See, for example, Robert W. Crandall and John D. Graham, “The Effect of Fuel Economy Standards on Automobile Safety,” *Journal of Law and Economics*, Vol. 32, No. 1 (April 1989), pp. 97–118, at <http://www.fortfreedom.org/s51.htm> (November 28, 2011).
6. Paul R. Portney, Ian W. H. Parry, Howard K. Gruenspecht, and Winston Harrington, “The Economics of Fuel Economy Standards,” *Resources for the Future*, November 2003, at [http://www.econ.yale.edu/~nordhaus/Energy/Portney\\_RFF-DP-03-44.pdf](http://www.econ.yale.edu/~nordhaus/Energy/Portney_RFF-DP-03-44.pdf) (November 28, 2011).

able, the supposed need to reduce greenhouse gases is wholly unsubstantiated.

Contrary to the claims of alarmists, there still exists considerable scientific uncertainty—if not rampant misinterpretation—about the supposed interplay between greenhouse gas emissions and global warming. Indeed, the EPA has been roundly criticized for its sloppy treatment of data. Two months ago, in fact, the EPA's Office of Inspector General took the agency to task for violating federal peer-review requirements with respect to its “finding” that emissions of greenhouse gases constitute a threat to public health and welfare.<sup>7</sup>

**Congressional Action Imperative.** But even assuming that manmade emissions are warming the planet, the reductions actually achieved from the fuel-efficiency standards would have no meaningful effect, which renders the agency's involvement entirely unnecessary. As it is, Congress has never

authorized the EPA to set fuel-efficiency standards to combat global warming or for any other purpose. Absent any real justification for issuing a standard, the EPA is simply dictating to consumers the type of vehicles that agency regulators deem appropriate.

Consumer demand, by comparison, is a far more efficient and beneficial force for the manufacture of practical and affordable automotive products. In comparison, the latest fuel-economy standards are costly, unwarranted, and hazardous. Congress is thus obligated to bar both the EPA and the NHTSA from implementing and enforcing the new standards by either withholding funds or legislating an outright prohibition. Only by exercising these powers can lawmakers protect consumers from the Obama Administration's regulatory extremism.

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7. See Nicolas D. Loris, “New EPA Inspector General Report: One More Reason to Reject Climate-Change Regulation,” Heritage Foundation *Backgrounder* No. 2623, November 16, 2011, at <http://www.heritage.org/Research/Reports/2011/11/New-EPA-Inspector-General-Report-One-More-Reason-to-Reject-Climate-Change-Regulation>.