

ISSUE BRIEF

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Energy Efficiency, Not Efficiency Mandates

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In order to compel American businesses and consumers to act in a manner that suits the federal government, various federal agencies have created mandates and energy-efficiency programs for vehicles, homes, manufacturing processes, appliances, and more since the 1970s.

Proponents of those programs argue that they save consumers and businesses money, reduce energy use, and reduce emissions. They ignore the fact that markets already incentivize Americans to be more energy efficient. They further disregard consumer preferences as well as the unintended consequences and energy inefficiencies that mandates and subsidies cause.

The government should remove efficiency standards and give American families and businesses the freedom to pursue energy

efficiency where it makes sense for them according to their individual preferences and budgets.

Americans Know How to Be Energy Efficient. Energy-efficiency standards and investments receive support from a broad array of interests—both Democrat and Republican—including those who would receive taxpayer money for investing in the efficiency upgrades; the residential, commercial, and industrial energy supplier networks; the laborers to install efficiency upgrades; and the consumers, who are told they will save money.

But businesses do not need taxpayer dollars to improve efficiency and cut costs; they make those investments all the time with their own money. In fact, Senator Jeanne Shaheen (D-NH), co-sponsor of the Energy Savings and Industrial Competitiveness Act, recognized as much: “By installing efficient lighting, new boilers and various demand response techniques, the [High Liner Foods seafood processing] company is making great strides in reducing energy consumption, which allows them to expand their business footprint in the state.”¹ Similarly, The Heritage Foundation installed lights with sensors in the stairwells that dim when the stairs are not in use.

There are countless examples of businesses making these investments on their own. They do not need incentives or rewards for energy-saving behavior, because when the savings outweigh the costs, their reward is reduced energy bills and more competitive prices for their products.

Likewise, consumers understand how energy costs impact their lives, whether at the pump or the plug, and make decisions accordingly to be more efficient. Energy efficiency per dollar of gross domestic product has improved dramatically over the past 60 years. Some might wrongly suggest that this was the result of efficiency standards, but technological improvements and consumer preference are the cause, and energy intensity has been in decline long before a national energy-efficiency policy.² Even Environmental Protection Agency surveys of the voluntary Energy Star program show that consumers consider energy efficiency in their purchasing decisions.³

Americans Have Preferences and Constraints. When businesses and families are not making energy-saving investments, many in Washington assume that, as outgoing energy Secretary Steven Chu put it, they “aren’t acting in a way that they should act.”⁴ The paternalistic view

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of federal intervention in energy efficiency ignores the trade-offs and budget constraints that families and investors face and the preferences they hold.

For instance, someone buying a car may choose to buy a more fuel-efficient vehicle to save money on gas, but he or she may have many other preferences as well, including weight and engine power, safety, enjoyment, or other practical considerations. A family may just decide to pay less up front for a less-efficient vehicle to free up much-needed money for some greater priority such as electric bills, food, or saving for a child's education. This does not mean that they do not recognize that they will pay a little extra for gasoline over time. It simply gives them additional flexibility to manage a real-world family budget, something all too unfamiliar for the federal government. Whatever the preferences may be, auto manufacturers have an incentive to balance those trade-offs and

needs of Americans, because their sales will suffer if they fail to do so.

Failed Attempts and Unintended Consequences.

Economist F. A. Hayek famously said, "The curious task of economics is to demonstrate to men how little they know about what they imagine they can design."⁵ Truer words could not be spoken about the federal government's attempt to micromanage the energy economy by mandating efficiency standards and subsidizing efficiency upgrades. The programs have been fraught with unintended consequences, waste, fraud, and abuse.

Mandating efficiency artificially inflates the sticker prices of vehicles and appliances. This can have a series of unintended consequences. For instance, it can cause people to hold onto their less efficient products longer.⁶ In other cases, some families may not be able to afford to replace a broken appliance at all.

Proponents of efficiency standards argue that the higher cost is a

small price to pay for the long-term savings in fuel and energy costs. But these savings estimates are often overly generous—as has been the case with compact fluorescent light bulbs—and rely on long payback periods, typically much longer than people keep the products.⁷

Furthermore, in some cases mandates have watered down product quality. Fuel economy standards sometimes resulted in smaller, less safe vehicles as a way to meet the federal mandate. And some energy-efficient appliances have had reduced product performance, resulting in longer or less effective washing cycles in washing machines and dishwashers, negating both the energy and cost savings.⁸

Not only do Americans pay for the increased cost of some products; they also pay for them again in tax dollars to subsidize government incentives for builders, companies, and individuals to install energy-efficient products, often resulting in substandard quality.

1. Senator Jeanne Shaheen (D-NH), "American Energy Security and Innovation: An Assessment of Private-Sector Successes and Opportunities in Energy Efficient Technologies," testimony before the Subcommittee on Energy and Power, Energy and Commerce Committee, U.S. House of Representatives, February 26, 2013, <http://docs.house.gov/meetings/IF/IF03/20130226/100307/HHRG-113-IF03-Wstate-ShaheenJ-20130226.pdf> (accessed March 4, 2013).
2. U.S. Department of Energy, Energy Information Administration, "U.S. Energy Intensity Projected to Continue Its Steady Decline Through 2040," March 1, 2013, <http://www.eia.gov/todayinenergy/detail.cfm?id=10191> (accessed March 4, 2013).
3. U.S. Environmental Protection Agency, "National Awareness of Energy Star for 2011: Analysis of CEE Household Survey," <http://www.energystar.gov/ia/partners/publications/pubdocs/National%20Awareness%20of%20ENERGY%20STAR%202011.pdf> (accessed March 4, 2013).
4. Friedrich Hayek, *The Fatal Conceit: Errors of Socialism*, vol. 1 of *The Collected Works of Friedrich August Hayek*, ed. W. W. Bartley III (London: Routledge, 1988), p. 76, <http://www.libertarianism.org/livros/fahtfc.pdf> (accessed March 4, 2013).
5. ConsumerReports.org, "Higher Prices Prevent Some Consumers from Going Green," September 24, 2012, <http://news.consumerreports.org/home/2012/09/higher-prices-prevent-some-consumers-from-going-green.html> (accessed March 5, 2013).
6. Rebecca Smith, "The New Light Bulbs Lose a Little Shine," *The Wall Street Journal*, January 19, 2011, <http://online.wsj.com/article/SB10001424052748704259704576033890595565026.html> (accessed March 4, 2013); and Nicolas D. Loris and Derrick Morgan, "Cap-and-Trade for Cars Means Higher Prices and Less Choice for Car Buyers," Heritage Foundation *Backgrounders* No. 2751, December 17, 2012, <http://www.heritage.org/research/reports/2012/12/cap-and-trade-for-cars-means-higher-prices-and-less-choice-for-car-buyers>.
7. ConsumerReports.org, "Tougher Dishwasher Standards Could Mean Longer Cycle Times," July 20, 2011, <http://news.consumerreports.org/home/2012/09/higher-prices-prevent-some-consumers-from-going-green.html> (accessed March 5, 2013); and ConsumerReports.org, "Some Energy-Saving Front Loaders Spend More Time Per Load," July 16, 2012, <http://news.consumerreports.org/home/2012/07/front-loaders-with-long-washing-cycles.html> (accessed March 5, 2013).
8. See, for instance, U.S. Department of Energy (DOE), Office of Inspector General, Office of Audit Services, "Audit Report: The State of Illinois Weatherization Assistance Program," October 2010, <http://energy.gov/sites/prod/files/igprod/documents/OAS-RA-11-01.pdf> (accessed March 5, 2013); and DOE, Office of Inspector General, Office of Audits and Inspections, "Cuyahoga County of Ohio Department of Development—Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009," September 2011, <http://energy.gov/sites/prod/files/OAS-RA-11-19.pdf> (accessed March 5, 2013).

When the government doled out billions of dollars in the stimulus bill to make homes more energy efficient, shoddy workmanship requiring follow-up work, uncompetitive bidding, poor record keeping, and overcharging for energy-efficient light bulbs and carbon monoxide detectors became apparent across the U.S.⁹

The federal government's involvement in deciding which companies receive contracts to install energy-efficient devices also means that these businesses will send more lobbyists to Washington not only to compete for the contracts but also to expand the programs.

Congress Should Remove Mandates and Remove Efficiency Impediments. Producers have a much better ability to meet consumers' demands than any government mandate or subsidy program. Congress should recognize how markets have improved energy efficiency in the U.S. It should:

- Prevent new efficiency standards for any new appliances and federal funding for efficiency improvements in manufacturing processes and residential, industrial, and commercial buildings.
- Withhold funds or pass legislation that repeals efficiency standards and instead promotes voluntary programs such as EnergyStar, which provides consumers with information about energy savings for appliances.
- Promote a free-market energy policy as the best way to ensure accurate energy prices. American families and businesses respond to higher energy prices by putting a greater value on efficiency. This creates competition to produce less expensive energy and greater efficiency.

Let the Market Save. Energy-efficiency spending programs and

legislation have largely enjoyed bipartisan support because the special interests involved stand to gain from these programs. However, the practices of being resourceful and saving money are inherently desired, which means that the economy does not need government mandates, rebate programs, or spending initiatives to make businesses and homeowners more energy efficient.

When companies and consumers do not take full advantage of efficiency gains, it is because they are weighing other factors that influence decision making. Markets have driven the energy economy in the right direction. Mandates do the opposite.

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9. See, for instance, U.S. Department of Energy (DOE), Office of Inspector General, Office of Audit Services, "Audit Report: The State of Illinois Weatherization Assistance Program," October 2010, <http://energy.gov/sites/prod/files/igprod/documents/OAS-RA-11-01.pdf> (accessed March 5, 2013); and DOE, Office of Inspector General, Office of Audits and Inspections, "Cuyahoga County of Ohio Department of Development—Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009," September 2011, <http://energy.gov/sites/prod/files/OAS-RA-11-19.pdf> (accessed March 5, 2013).