

IRET Congressional Advisory

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CORPORATE AVERAGE FUEL ECONOMY: WHERE PRO-LIFE AND PRO-CHOICE MEET

In 1978, during the height of the energy crisis, Congress passed the Corporate Average Fuel Economy program, commonly known as CAFE, as part of The Energy Policy and Conservation Act. The Act mandated certain levels of fuel efficiency for cars and light trucks sold in the United States and empowered the Department of Transportation (DOT) to raise the standards in the future. Currently CAFE standards are 27.5 miles per gallon for cars and 20.7 MPG for so-called light trucks (including SUVs and many mini-vans). These averages apply to the entire fleet of automobiles in each category sold by a company in the U.S. market.

CAFE standards are an assault on individual liberty and have been shown to decrease auto safety, costing thousands of lives each year. Congress froze the standards in 1997 by withholding funding for any tightening. The existing freeze on the CAFE standards should be continued in the current budget work, followed as soon as possible by the total elimination of the CAFE program.

Some History

During the 1970s, the Nixon, Ford, and Carter price controls on oil and gasoline were causing a severe decline in domestic oil exploration and refinement while encouraging consumers to demand quantities of gasoline that could not be sustained at the controlled prices. By the mid- 1970s all exploration for new domestic sources of crude oil had come to halt. Literally no new wells were being drilled and consequently oil imports were on the rise. The results were policy induced gasoline shortages and chaos in energy markets. Instead of adopting the common sense approach, later taken by Ronald Reagan, i.e., abolish the price controls, Congress and the Carter Administration pursued a policy of demand management, attempting to constrain the choices of American automobile consumers. The purpose of CAFE regulations was, and still is, to force American consumers out of the cars and trucks they would naturally prefer and force them into the types of vehicles favored by legislators in Congress and bureaucrats at the DOT.

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With the abolition of energy price controls in 1981 came a flood of new investment in oil and a decline in prices. The original misguided justification for

CAFE disappeared. Even from the perspective of those who favored the regulations, abolition was in order and free consumer choice should have been restored. But during the 1980s, those favoring CAFE regulations shifted their argument from “managing an energy crisis” to saving the environment. By the 1990s, the primary justification for not only continuing but raising the CAFE standards became to fight off the evils of global warming. According to the Sierra Club, “Increasing the fuel efficiency of automobiles is the biggest single step the United States can take to reduce the consumption of fossil fuels and the threat

of global warming. We have a tool to achieve this goal in the form of CAFE standards.”

The Freeze: Why it Should Be Reauthorized

Since 1997 Congress has prevented increases in CAFE standards by refusing to fund the DOT office in charge of CAFE. The Clinton administration favors increasing the standards, and they would be raised if this funding freeze were lifted in this year's budget negotiations.

The freeze on CAFE standards should not only continue but the entire program should be abolished. As noted, the energy crises which prompted the program disappeared as soon as price controls were eliminated. Since 1981, oil has become less scarce, not more. The most important evidence of this has been the continuous decline in real oil prices over the past 18 years. In fact, except during major wars and the period of price controls during the 1970s, the entire history of oil, and indeed energy in general, has been one of reduced scarcity over time. The real price of oil has been declining almost continuously since 1860.

Contrary to popular opinion, then, in economic terms, oil has become more and more plentiful. But even if this were not true, there would be no justification for public policies meant to encourage so-called “energy efficiency.” As any resource becomes more scarce, prices adjust upward to encourage both a reduction in quantity demanded and a shift to substitutes. Nearly all economists will agree that markets are more likely to generate an efficient use of scarce resources than government management.

The argument that an increase in CAFE standards would have any effect on future climate conditions is scientific nonsense. Supposedly, since the burning of gasoline releases carbon dioxide, a greenhouse gas, reduced gasoline consumption will

lessen the effects of global warming. This argument is flawed on several counts. First, the case that increased CO₂ emissions are or will cause global temperatures to rise significantly, or at all, has yet to be made. In spite of the fact that atmospheric CO₂ has risen over the past 50 years, global temperatures have not. Indeed, data from satellites and weather balloons have shown a slight decline in

temperatures over the past twenty years. Second, even within the context of models that are predicting future global warming, it is clear that no country reducing CO₂ on its own, and especially from a single source like automobiles, could have any impact on the climate. In fact studies have shown that even with a world-wide cutback in CO₂ emissions

consistent with those that are being called for by the Kyoto Protocol, which would include a 7 percent reduction over 1990 levels by the United States, the earth would only be 0.13° F cooler by the year 2050. This amount would be virtually undetectable.

Finally, the assumption that CAFE regulations necessarily lead to a decrease in gasoline consumption is not consistent with economic analysis. The most basic principle of economics is that the lower the cost of doing something the more of it you will do. To the extent that automobiles get higher gas mileage, the per mile cost of driving is reduced. This means that higher CAFE standards would lead to an increase in the amount of miles that are driven. Better gas mileage leads to longer and more frequent trips. Depending on the extent to which people would increase their time spent behind the wheel in response to the lower costs of driving, gasoline consumption could rise.

In addition, since CAFE standards have led to smaller cars that carry fewer people, passenger miles per gallon of gasoline may decrease. Just ask any soccer mom about the value of larger cars for car pooling. Less gasoline is used if seven people use one minivan that gets 20 mpg than if they are transported in two sub-compacts that can carry no

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more than four people each, even if they get 30 miles to the gallon. In fact, it takes a third more fuel to transport the seven people using the two more fuel efficient cars.

Blood for Oil

The most distressing aspect of CAFE standards is they have led to increased numbers of highway fatalities. To meet the standards, auto manufacturers have had to make their cars smaller and lighter, providing less protection for drivers and passengers involved in accidents. Since the 1970s, the average weight of a new car has decreased by 1,000 pounds. About half of this increase is due to CAFE standards. The National Highway Transportation Administration has concluded that for each 100 pound increase in the weight of new cars 300 lives would be saved annually. Writing in the *Journal of Law and Economics*, Economists Robert Crandall and John Graham, in the most extensive study of this issue ever done, concluded that from 14 to 27 percent of this nation's automobile passenger deaths are due to CAFE regulations. This means that CAFE standards were responsible for somewhere between 2,500 and 4,500 traffic fatalities

during 1998 alone. Professor Graham, in a follow-up study has estimated that an increase in CAFE standards to 40 mpg would bring about an additional 5.5% annual increase in highway fatalities. President Clinton and Vice President Gore are on record as favoring a CAFE increase to 45 mpg.

Conclusion

CAFE standards restrict consumer choice and cost thousands of lives each year. There are no discernable benefits from the program. The original justification, coming out of the 1970s energy crisis, was misguided then and clearly has no merit today. Current arguments for increasing the CAFE standards to fight global warming have no basis in sound science. As a first and immediate step, Congress should continue its freeze on funding the CAFE program to prevent the DOT from raising the standards. Then, Congress should save lives and restore consumer choice by abolishing the program completely.

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