Insight

CAFE's Costs Outweigh Benefits

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Imagine Steven McQueen's high-speed chase in Bullitt, only this time he's not in a '68 Mustang GT Fastback with a 390 CID, 325 HP carbureted V8; he's clambering after mobsters in a 90 horsepower, 65 MPG electric hybrid. This is not an alternate reality; it's the Environmental Protection Agency's CAFE future, scheduled to be finalized this summer.

EPA wants to double current MPG requirements by 2025: a noble regulatory target, but one that carries great costs for the industry, consumers, and the broader economy. EPA admits the proposed rule could generate "net costs" upward of $141 billion. However, buried in its 833-page regulatory impact analysis, are the hidden, the obfuscated, and the under-reported costs the administration would rather ignore.

For example, one method EPA uses to match costs and benefits is by counting benefits years into the future. With a regulation scheduled into 2025, this may make sense, until you read the language: "anticipated to extend over a period from approximately fifty to two hundred or more years in the future." These so-called "intergenerational benefits" of reduced CO2 levels are expected to generate $45.6 billion in benefits.

When one counts benefits centuries into the future but stops counting costs in 2025, it's easy to fudge the figures. But this misses a broader point. The proposed CAFE rule will impact less than one percent of global CO2 emissions. If the entire world doubled their CAFE standards, EPA could talk about a measurable reduction in carbon output, but it's absurd to assume this rule will produce immediate CO2 benefits for Americans. EPA claims, by 2018, Americans should experience $1.6 billion in CO2 benefits. Got it?

The gamed cost-benefit analysis isn't the whole story. Impacts on economic growth, sales, and employment are more substantive. EPA admits aggregate vehicle prices could spike by $293 billion during the regulated period. The Agency declined to measure this impact on sales and employment, despite overwhelming evidence that increased vehicle prices depress sales.

EPA does reveal how much their regulation will cost, per vehicle, per year. If you include the current law baseline and average vehicle price increases during the last ten years, a car should cost roughly $42,000 by 2025. Once you add in CAFE "technology costs or fines per vehicle", EPA regulation is set to raise prices $8,394 in real dollars, or 19.9 percent, by 2025. No wonder EPA admitted that "potentially severe economic consequences" could result.

This 19.9 percent hike would obviously have a tremendous impact on sales and employment. Generally, for every one percent increase in prices, sales will decline by one percent. Thus, a 19 percent increase could reduce sales by 19 percent and easily cost the automotive industry $195 billion: not exactly a boon for job creation. Now, it's easy to see why the administration excluded these figures.

Perhaps most troubling, however, is that this regulation and this administration, have done nothing to achieve "energy independence." The U.S. instituted CAFE standards in 1975 after the Arab Oil Embargo in attempt to diminish our dependence on foreign oil as a transportation fuel. That year, we imported roughly 35 percent of our oil from other nations. In 2010, the most recent year with final data, we imported roughly 50 percent; we are further from independence today than we were in the 70s and it's clear that regulations like CAFE aren't improving our lot.

A successful 21st Century energy roadmap requires expanded development of domestic energy resources, investment in innovative fuels of the future, and use of efficient fuel alternatives. What's the White House plan? Regulate the U.S. to prosperity.

Smaller cars with fewer horsepower might be an inconvenience to some drivers – and would certainly make cinema far less dramatic – but the real story here is a CAFE rule that will downsize not just engines, but car sales and employment too. EPA may have conveniently ignored the dramatically higher vehicle prices in analyzing their rule, and may have duplicitously inflated benefits, but the economic impacts could cripple a burgeoning American industry. That's not the "all-of-the-above" energy strategy the nation needs.

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