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B R Y N M A W R

2017 -2025 Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards

Statement of David R. Ross
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My name is David Ross, associate professor of economics at Bryn Mawr College. I'm the coauthor of a classic industrial organization textbook; my courses include environmental economics; and I serve on my local township planning commission.

In a perfect world, with the price of gasoline reflecting the environmental, national security and public health externalities of fossil fuel consumption, consumers would demand the most fuel efficient vehicles and major auto makers would be rushing to provide them. In our very imperfect world, with the prospect of on-going political gridlock, the proposed CAFE and GHG standards are the single most effective policy option on the table for addressing our overdependence on fossil fuels. At current prices, and with a public woefully misinformed about the consequences of GHG and other tailpipe emissions, no one automobile company would voluntarily shift to a truly fuel efficient fleet. While demand for fuel efficient vehicles is on the rise, proper policy incentives still are needed for a sustained shift to a more fuel-efficient and

climate-friendly fleet. That's why I applaud both the details of the rules you are considering today and importantly the process that led to their preliminary adoption.

The net benefits of proposals to raise fuel economy standards in the past were eroded by vehement industry opposition and conflicting regulatory goals leading to delays through litigation and gaming of the regulatory framework. These 2017-2025 compromise standards represent a consensus of the relevant regulatory agencies and many of the largest private-sector players. The proposed rules make sense for a host of reasons. But, I want to use my time today to address the criticisms that the few remaining opponents have been raising in the media - focusing on affordability, passenger safety, impacts on automobile dealers, consumer freedom, and the consequences for our failing road network.

Critics see the new standards as a “**formula for sticker shock**,” with price increases of \$2000-\$3100 making automobiles unaffordable for low income consumers.¹ History demonstrates that initial estimates of the costs of complying with new environmental standards have proven grossly exaggerated as human ingenuity, when facing the proper incentives, finds novel, cost effective solutions. But, suppose those purchase price estimates are accurate. At current gasoline prices, the savings in lower fuels costs over the lifetime of a vehicle would be approximately \$6000.² Most low income consumers finance vehicle purchases, so that their net out-of-pocket expense would actually be lower from day one.³ Anticipated net savings could be much greater if the real price of gasoline rises between now and 2025, as seems plausible given rising demand for fossil fuels in low income countries, political and economic unrest in oil-rich regions, and the eventual recognition by the public and political elites of the dire consequences of human-influenced climate change.

Are fuel efficient vehicles unsafe? Critics anticipate that weight-reduction will be a major strategy to achieve greater fuel economy in a cost effective manner and that this will increase the likelihood of injury or death from vehicle collisions.⁴ They point to the 50% increase in fatalities resulting from accidents involving passenger cars and light truck/SUVs experienced between 1979 and 1999.⁵ But, it wasn't so much the decrease in weight of passenger cars as the dramatic increase in the light truck/SUV share of all vehicles on the road that drove that statistic. The proposed standard limits any further worsening in vehicle weight disparities by linking fuel economy standards to vehicle footprint.⁶ If fuel economy gains are concentrated in high-end vehicles through new materials or increasing reliance on hybrid technology, then fleet weight disparities may even diminish. In my view, critics have failed to refute the reasonable NHTSA projections of a modest increase in safety under the 2017-2025 standards.

Some automobile dealer groups claim harm through **lost sales and lost jobs.**⁷ In reality, all else equal the projected drop in the net-cost of vehicle ownership will result in an increase in sales. New fuel economy standards are one element in a portfolio of policies needed to protect the U.S. economy from fossil fuel price volatility. Nothing has been more harmful to local automobile dealers than the unpredictable, plummeting demand we have seen following spikes in gasoline prices.

Some – including the Wall Street Journal editorial board⁸ – see the proposed standards as unwarranted government **interference in the market place**, forcing the industry to sell vehicles consumers won't want.⁹ As a township official, I know that government has a responsibility to act to protect the health, safety and welfare of citizens. As an economist, I know that the status quo the Journal editorial board hails reflects a profound market failure whereby buyers and

sellers aren't facing the environmental, national security, and health costs they are imposing on the rest of us. Correcting this market failure is an obligation of government.

Thoughtful observers note that higher fuel economy standards threaten to increase the **funding shortfall facing our failing road network**.¹⁰ This is certainly true. Road maintenance revenues flow primarily from gasoline taxes, while costs are a function of miles driven. By lowering vehicle operating cost per mile driven, new fuel economy standards may actually increase total wear and tear on our roads. The solution is to reform funding mechanisms for road repair, not block these necessary new standards.

Thus, none of the criticisms I've encountered hold water. As an economist and a local government official I'm clear that the benefits of these standards far outweigh the costs – for our environment and our economy. I thank everyone involved in developing the proposed standards; I thank you for your patience in hearing me out; and urge finalization of strong standards for model years 2017-2025 this summer.

¹ Katz, D., 2011, November 28. CAFÉ Standards: Fleet-Wide Regulations Costly and Unwarranted. WebMemo. Heritage Foundation (3421). Retrieved from NADA. 2011, November 16.

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² UCS. 2011, November 16. White House Proposes Strong Fuel Efficiency and Auto Pollution Standards. Union of Concerned Scientists. News Center. Retrieved from

http://www.ucsusa.org/news/press_release/white-house-fuel-efficiency-pollution-0571.html

³ Kliesch, J. and Tonachel, L. undated. Saving Money at the Gas Pump. Union of Concerned Scientists. Retrieved from http://www.ucsusa.org/assets/documents/clean_vehicles/ucs-nrdc-state-by-state-savings.pdf

⁴ Katz, D., 2011, November 28. CAFÉ Standards: Fleet-Wide Regulations Costly and Unwarranted. WebMemo. Heritage Foundation (3421). Retrieved from <http://report.heritage.org/wm3421>

O'Dell, J. 2011, November 16. 6 Ways New CAFÉ Standards Could Affect You. Edmunds. Retrieved from <http://www.edmunds.com/fuel-economy/6-ways-new-cafe-standards-could-affect-you.html>

⁵ Friedman, D., et al. 2001. *Drilling in Detroit: Tapping Automaker Ingenuity to Build Safe and Efficient Automobiles*. Union of Concerned Scientists. Retrieved from http://www.ucsusa.org/assets/documents/clean_vehicles/drill_detroit.pdf

⁶ U.S. EPA & NHTSA. 2011, December 1. 2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards. Sec. II.G. Safety Considerations in Establishing CAFE/GHG Standards. Retrieved from http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cafe/2017-25_CAFE_NPRM.pdf

⁷ NADA. 2011, November 16. NADA: Can Consumers Afford the Upfront Costs of Fuel Economy Hikes? National Automobile Dealers Association. Retrieved from http://www.nadafrontpage.com/NADA_Statement_CAFE_Rules_2017_2025.xml
Eisenstein, P.A. 2011, June 29. Big battle brewing over fuel economy standards. MSNBC.COM. Retrieved from http://www.msnbc.msn.com/id/43563407/ns/business-going_green/t/big-battle-brewing-over-fuel-economy-standards/

⁸ Wall Street Journal. 2011, November 28. The United States of EPA. Editorial. Retrieved from <http://online.wsj.com/article/SB10001424052970204630904577056393981840650.html>

⁹ Katz, D. 2011, November 28. CAFÉ Standards: Fleet-Wide Regulations Costly and Unwarranted. WebMemo. Heritage Foundation (3421). Retrieved from <http://report.heritage.org/wm3421>

¹⁰ O'Dell, J. 2011, November 16. 6 Ways New CAFÉ Standards Could Affect You. Edmunds. Retrieved from <http://www.edmunds.com/fuel-economy/6-ways-new-cafe-standards-could-affect-you.html>