Fuel Economy Proposal is Bad and Wrong

- No one said that fuel economy regulations are optimal. Data and economic analysis conclude that a carbon tax or cap and trade schemes work the best.
- But absent that type of evidence-based policymaking, fuel economy rules are the behavioral nudge that incentivizes capital investment in a capital stock that will be more energy efficient.
- Last week’s announcement is looking in the rear-view mirror.

Last week the U.S. Administration announced a call for rulemaking which would freeze car and truck fuel economy regulations in 2021—2026. This is pure and simple counterproductive and damaging to the environment. Instead of a gradual rise in requirements that automakers continue to improve fuel efficiency of cars and trucks to an average of 43.7 miles per gallon for cars and 31.3 MPG for light trucks (see here), the proposed rule would freeze this requirement at 30 miles per gallon through 2026.

The top chart shows the Environmental Protection Agency measure of fuel economy since 1975. Average fuel economy stagnated in the 1990s and early 2000s as companies offered more crossovers and SUVs and consumers bought them. During this period, the standards were essentially unchanged even as technology improvements continued on other features (see Mackenzie and Heywood’s paper, which includes a citation to UMEE’s John DeCicco’s work).

Flat fuel economy standards in that era translated into a modest commensurate decline in CO₂ emissions (see 2nd chart), which stagnated for nearly three decades, followed by an average annual decline of just 2.1% since 2004. It would be generous to conclude from this performance that the policy has been effective on either count of fuel efficiency or CO₂ emissions. While it is true that this technology can be expensive, the auto industry is now transitioning toward a cost effective electrified vehicle, and to connected and automated vehicle tech which, with pooling, can mitigate harmful emissions from the mobility industry.

One of the important conclusions from economist William Nordhaus’ recent article on climate policies (found here) is that we need to increase the price of carbon that much more because we have waited so long to take action. Nordhaus’ modeling results are a clarion call to account for the uncertainty of long-range forecasts by taking decisive action now and not to wait any longer. Freezing fuel economy standards is doing just the opposite. Our nation’s scientists say it is time to figure out how to incentivize consumers and businesses to put less greenhouse gas in the air for the sake of future generations. Our leaders have a playbook of data. We just need to use it.

There is ample evidence to indicate that rising greenhouse gas emissions are bad for people’s health, bad for the environment, and something we can fix with the right policy mix.