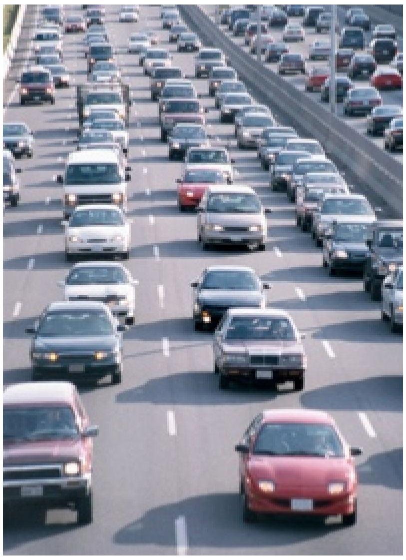
Obama's Automobile Standards Could Drive Industry Over a Cliff



The most significant new mandate is a Corporate Average Fuel Economy (CAFE) standard of 54.5 miles per gallon, to be met in 2025. "The increase piggybacks Obama's 2009 mandate for a CAFE average of 35.5 by 2016," says *Popular Mechanics*, "and is the largest mandatory fuel economy increase in history." The administration claims this requirement will reduce America's dependence on foreign oil — an objective all previous CAFE standards failed to achieve — and cut down on carbon emissions, thereby reducing the threat of "global warming."

It's easy to sit in a plush office in Washington and order automakers to produce cars that meet with your approval; it's quite another to produce those cars and to do so at a reasonable cost.

According to the NADA handout, the federal government estimates that the new CAFE standards will add over $3,000 to the cost of an average vehicle in 2025. Wood told CNSNews.com that $3,000 was a "softball estimate," saying that the Center for Automotive Research has estimated the increase could run as high as $10,000 per vehicle. In addition, reports CNSNews.com, "according to the Energy Information Administration, vehicles that currently cost $15,000 will be regulated out of existence and be replaced by more expensive cars that meet fuel economy and emissions requirements."

This all assumes, of course, that cars that get 54.5 miles per gallon can even be produced. "Not a single car — big or small, hybrid or non-hybrid — currently delivers this kind of mileage," observes columnist Shikha Dalmia, adding:

> Indeed, Sean McAlinden, chief economist at the Center for Automotive Research, notes that it is technologically impossible to squeeze anything beyond 45 mpg in fuel economy from current vehicles. That's why Europe's fuel economy has plateaued at that level, despite $8 per gallon gas. The 56-mpg-mandate will require a total, top-to-bottom overhaul of cars. Every part of a vehicle from its transmission to its engine would have to be replaced. "Even a vehicle's screws and fasteners would have to be secured with epoxy glue," McAlinden maintains.

Undoubtedly much of this overhaul would center on lightening the load (hence the glue rather than metal fasteners). "But," explains Dalmia, "every 100-pound weight reduction results in a 4.7 to 5.6 percent increase in the fatality rate. A 2002 National Academy of Sciences study concluded that CAFE's downsizing effect contributed to between 1,300 and 2,600 deaths in a single representative year, and to 10 times that many serious injuries." For an administration that claims to be working to reduce healthcare costs, forcing Americans into smaller, less crashworthy cars seems a bit counterproductive.

The administration thinks automakers can achieve the required gas mileage in large part by producing more hybrid or electric vehicles, so it is also mandating that "25 to 66 percent of vehicles on the market by 2025 … be hybrid or electric," according to CNSNews.com. "Given that these vehicles now occupy only 3 percent of the market despite hefty subsidies," Dalmia maintains, "it is a foregone conclusion that expanding their presence will mean massively expanding subsidies to them."

NADA calculates that complying with the new regulations will cost the automotive industry $150 billion between 2017 and 2025. (The Environmental Protection Agency says the cost for market year 2011 is $1.46 billion and will total $51.7 billion over the period 2012 to 2016.) Those costs will all be passed on to consumers, who will, in turn, blame automakers and dealers, not the government. Uncle Sam will then swoop in with more subsidies to keep the auto industry from crashing. Avers Dalmia:

> If Washington could not resist showering taxpayer dollars on General Motors and Chrysler to prevent job losses now, it is unimaginable that it will sit back when the entire industry confronts a carmageddon. Indeed, the $100 billion that taxpayers have spent on the current bailout will look like chump change compared to what's to come.

Without such subsidies, job losses are almost certain. The DeFour Group, cited by NADA, estimates 220,000 jobs may be gone by 2025 as the auto industry struggles to meet the new standards. "This is making even the UAW nervous," says Dalmia, "causing it to join ranks with automakers to oppose the standards" — a complete reversal for the union, which last year was trumpeting its "important role in negotiating" the standards. At that time the UAW said the standards would not "jeopardiz[e] any American auto jobs" and would, in fact, "mean new jobs in the auto sector" because of the "bonanza for auto suppliers" in manufacturing new parts to meet the standards — with help from "grant and loan programs" supplied by "the Obama administration." With frugality the new watchword in Washington and Obama's reelection less than secure, the union may have decided that it could no longer count on a pal on Pennsylvania Avenue to keep its members' employers — in some of whom it now has a significant stake — afloat.

For all the negative consequences the new CAFE standards are likely to have, the good news is that they don't take effect for another 14 years. By then the presidency will have changed hands at least twice, and possibly the government will no longer own any auto companies — both of which will greatly alter the dynamic in CAFE negotiations. Moreover, as 2025 approaches and it becomes clear that automakers simply cannot meet the impending standards, the government will have little choice but to relax them or risk the loss of an entire industry and millions of jobs. Even the dullest politician can recognize the mileage to be obtained by applying the brakes to impossible regulations rather than driving the entire auto industry over a cliff.