

Even With Low Gas Prices, Vehicle Standards Offer Consumers Big Savings

Efficient vehicles save at the pump, protect against price hikes

In 2012, when the Obama administration finalized strong standards for fuel economy and global warming emissions for passenger vehicles for 2025, oil prices topped \$100 per barrel and gasoline prices averaged nearly \$4 per gallon. Today, with both prices cut in half, automakers suggest that the nation should weaken the standards. To do so, however, would not just put consumers at risk, repeating the mistakes of the past—it could damage the US economy as a whole.

Birth of the Standards in Volatile Oil Prices

The federal government first commissioned vehicle efficiency standards in response to an oil crisis. During the 1973 Arab Oil Embargo, the price of oil quadrupled in a matter of months, and gas shortages plagued drivers around the country (Figure 1). Then, even before the standards could take hold, the Iranian

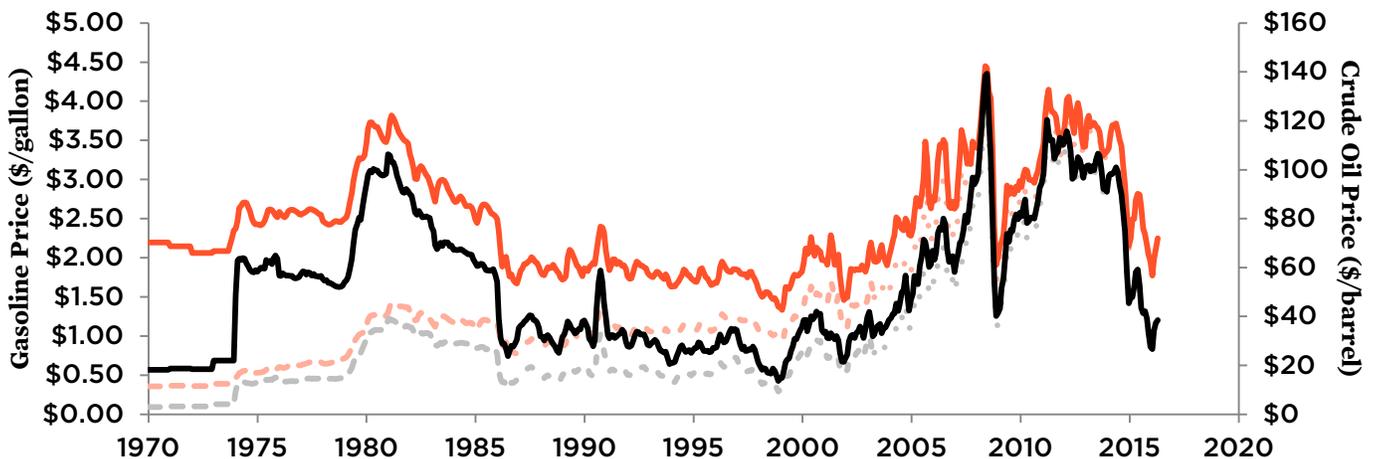
revolution again sent oil prices upward.

Historic Mistake Leads to Economic Disaster

Over the next 20 years, oil prices declined on average, and gasoline prices followed suit, remaining on par with inflation. In turn, the United States did not raise fuel economy standards for cars for nearly 30 years. As a result of this complacency, fuel economy totally stagnated. From 1982 to 2006, real-world fuel economy of the average new passenger vehicle actually decreased slightly, from 22 to 21 miles per gallon (EPA 2015). Instead of improving efficiency, automakers made cars bigger and more powerful, doubling the average horsepower.

That stagnation made Americans susceptible to the same price shocks that led to the standards in the first place. Indeed, the economic impacts were devastating when oil prices again

FIGURE 1. Volatility of the oil market



Prices for gasoline (red) and crude oil (black) can shift rapidly. While rapid increases in the 1970s and 2000s led to major nationwide problems, even short spikes can affect consumer welfare significantly, particularly in a tight economy. Given the immense fluctuations since the 1970s, it is more prudent to minimize their impacts rather than assume prices will remain at today's historic lows.

Solid lines indicate inflation-adjusted prices in constant (2016) dollars. Dashed lines indicate nominal prices (the price paid at the time).

SOURCES: EIA 2016A; 2016B

quadrupled and gas prices doubled, peaking in 2008 at nearly \$150 per barrel and over \$4 per gallon, respectively.

With the United States spending nearly 6 percent of its gross domestic product (GDP) on oil (SAFE 2016), the spiking prices contributed to the Great Recession (see, for example, Hamilton 2009 and Bildirici, Alp, and Bakirtas 2010). US automakers were headed toward bankruptcy, with a lack of efficient options for consumers and plummeting sales of high-margin SUVs (Carty 2009). American households shelled out \$2600 a year for fuel even as their taxes were bailing out General Motors and Chrysler (SAFE 2016).

Stronger Standards to the Rescue

Amid the backdrop of high gas prices, the federal government stepped in. Strong standards extending out to 2025 put the auto industry and its customers on a more sustainable course.

Fuel economy standards reduce fuel costs to consumers by ensuring they have more choices of efficient vehicles, from sedans to SUVs and pick-up trucks. Even though the price of a new vehicle may reflect costs for technology to reduce fuel consumption, the average car buyer actually saves money as soon as he or she drives off the lot, even at today's historically low gas prices (Comings, Allison, and Ackerman 2016).

Standards also help reduce the impact of a volatile oil market on the whole economy. Whatever drivers spend at the pump, they cannot spend on housing, food, or other goods and services. Moreover, a volatile global oil market and overreliance on oil leave the nation at risk of price shocks from conflict or disasters. The United States spends roughly \$20 per barrel of oil in costs related to trade and energy security (Leiby 2011).

Standards Result in Jobs as Well as GDP Increases

Said another way, using less gasoline puts more of the nation's household income to work in the economy. And lowering fuel costs for consumers means that any future price increases would affect a smaller share of household spending. This, too, helps the economy.

Vehicle efficiency standards have saved money at the pump for Americans—more than \$17 billion to date. UCS analysis shows that by 2030, the standards will net the public over \$400 billion, even after considering additional technology costs. That equates to nearly \$2,800 per household.

Those financial savings translate into economic growth. All told, UCS estimates the standards will increase the GDP by \$25–\$30 billion by 2030, creating 650,000 full-time jobs (UCS 2016).

Good for the Auto industry, Too

As previous analyses have shown, more than 50,000 of those full-time jobs will be in automotive manufacturing and assembly (ACEEE and BGA 2012; MIS 2011). And that is not the only economic benefit for automakers. The standards also give them a hedge against fluctuating oil prices, assuring profitability regardless of whether gas prices are low or high (Baum and Luria 2016).

Were the standards weakened, however, the Detroit Three (Ford, Fiat-Chrysler, and General Motors) would be particularly susceptible to fluctuations in gas prices. And if fuel prices again reach \$4 per gallon—again driving consumers toward more efficient cars—weaker standards could cost the Detroit Three more than \$1 billion. Suppliers, too, would see investments squandered and orders lost.

Providing Certainty in an Unstable World

Rolling back the fuel economy standards would put hundreds of thousands of jobs and billions of dollars at stake. In an uncertain world, fuel economy and emissions standards provide stability for consumers and the industry and economic benefits for the nation as a whole. Now is not the time to put that at risk.

Union of Concerned Scientists

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