

Throw That Drowning Man An Anvil...

He hasn't been in office a week, and Obama has already decided that it's a good idea to make it more difficult for the struggling auto industry to manufacture vehicles. Sorry, Michigan, it's too late to change your votes.

The State of California (and several other states) had asked the Environmental Protection Agency (EPA) for a waiver of federal fuel efficiency and emissions standards so that the state could enforce even stricter standards. The Bush Administration denied the request. Looking at the action only on the surface, some could (and many did) make the argument that George W. Bush is a mean-spirited Neanderthal who wants the children of California to die prematurely from auto emissions while their parents are prevented from buying wonderful, modern, and efficient, high-mileage vehicles.

Those who examine the situation with a more critical eye, however, understand the logic of denying the waiver requested by California. A multitude of federal emissions and fuel-efficiency standards are already in place, as defined by the EPA. The automakers have spent billions of dollars over the years to make vehicles that pollute less and use less fuel. Great strides have been made. A perfect vehicle does not exist, and never will, but today's vehicles are certainly preferable to those manufactured 25 years ago.

A modern automobile is comprised of thousands of parts. The modern assembly line is an amazing feat of American ingenuity, combining the efforts of robotic machines and experienced workers. But needing 50 assembly lines because the 50 states each have their own individual fuel-efficiency and emissions standards is a prescription for incredible complexity and expense. It is, on its surface, ludicrous. Whether the automakers must comply with varying standards from 50 states or 15 states doesn't change the fact of the lunacy, it merely affects the complexity of the lunacy.

It is already difficult and expensive for automakers to comply with federal standards. When those standards are changed, the automakers must go back to the engineering calculations, drawing boards, and test tracks to come up with a way to meet the new requirements. Consider the added burden of having to comply with different regulations from several or all 50 states - all changing unexpectedly and unpredictably, and all requiring new solutions to the problem of squeezing additional mileage and fewer emissions out of a gallon of gas. Every incremental increase in mileage and emissions requirements imposes exponentially monumental costs on the automakers, and there is no guarantee that there are, in fact, cost-effective ways to satisfy the requirements.

Obama has now decided to give the EPA the go-ahead to let California, and 13 other states, impose standards that are stricter than those of the EPA. There *will* be consequences to that action.

Assuming they can even meet the tougher state standards, the automakers may decide they have to manufacture vehicles on a state by state basis. The added complexity will most certainly make the vehicles more expensive to produce. The automakers cannot

print money (only the government can do that), and will therefore pass the added costs to the consumer in the form of higher vehicle prices. That will cause sales of new cars to go down in those states (the consumers can't print money either), and cause job losses for new car salesmen and car mechanics. People in the market for a new car in those heavily-regulated states may decide to forego the purchase of a much more expensive new car and buy a less expensive used car instead. Ironically, this will put on the road cars that pollute more and burn more gas than new cars.

Alternatively, the automakers may choose not to custom-manufacture cars on a state by state basis, and will instead apply the state standards to *all* vehicles they manufacture. *That is, the automakers will be at the mercy of whatever state imposes the strictest standards.* If California demands 45 miles per gallon and Vermont demands 50, the automakers will have to produce 50 mpg vehicles.

The problem, of course, is that the automakers are not able to produce entire fleets of 50 mpg vehicles... at least not vehicles that people want. Yes, they can produce 50 mpg automobiles but, for the most part, few people are buying them. The automakers manufacture and sell high-mileage "econoboxes" in order to satisfy the federal Corporate Average Fuel Economy (CAFÉ) standards, but they generally lose money on those vehicles because, well, they are small, basic, vehicles stripped down to reduce weight and burn less fuel, and contain few of the profit-making accessories that many Americans want. The automakers are forced to manufacture them, because the CAFÉ rules require it, but consumers don't want them. The prices have to be reduced to below-cost levels just to get them sold and off the dealers' lots. To compensate for the money lost on the small, undesired vehicles, the automakers must raise prices on the desired vehicles in order to stay in business. (But because the prices of the desired vehicles are inflated, demand for them falls. That causes the industry to go into a tailspin.)

If the California mileage requirement applies to the "average" of all vehicles sold (as does the CAFÉ standard), raising it will not necessarily eliminate SUVs or luxury sedans in California altogether, but it will cause their prices to be increased. That will be necessary because the automakers will have to *discourage* sales of low-mileage vehicles and *encourage* sales of high-mileage vehicles, in order to satisfy the average mpg standard. The higher the mileage standard, the more the price has to be increased on the "bad" product (minivan, SUV, truck, or luxury sedan) in order to stimulate sales of the "good" product (econobox). If the vehicle you want doesn't get great mileage you will not only be spending more money on gas, you will also be paying an inflated price for the vehicle itself in order to subsidize those consumers who opt for the high-mileage vehicles. (Don't expect them to thank you.)

Should California require that *all* vehicles sold in that state (rather than an average of all vehicles sold) get at least 40 mpg, the automakers will literally be forced to stop selling vehicles that get less than that. *No more minivans, SUVs, trucks, or luxury sedans could be sold in California!* That is the result of a tougher standard. The result will *not* be, as advocates of the standards hope or assume, that the automakers will simply "fix it" so that all their vehicles will get at least 40 mpg. Why? *Because the automakers don't know*

how to do that! Legislating an outcome does not necessarily cause it to happen. A law that requires all cars to satisfy an unattainable mileage standard is merely wishful thinking. You can't pass a law forcing someone to invent a perpetual motion machine.

If you are an automaker and you are faced with the requirement of being able to sell only (or mostly) your highest-mileage vehicles in California, and if those are the vehicles that lose money for you, why in the world would you bother selling *any* cars in California? If you are permitted to sell only low-profit or no-profit high-mileage econoboxes and prevented from selling high-profit SUVs and luxury sedans, it would be sound business practice to simply close down all California showrooms and let Californians ride bicycles. What could California legislators do? They can't very well *force* automakers to keep open dealer locations that are losing money.

If you are a California resident and you *want* a large SUV or luxury sedan, you'll likely be out of luck. Can you buy a new SUV in Arizona and then drive it home to the Golden State? Sorry, California lawmakers already thought of that and made it illegal. (California, by the way, has a new law going into effect on April 1, 2009. The new rules require all gas stations to purchase and install equipment that reduces vapor emission at the pump. Station owners will raise the price of gas to recoup the costs. But owners of many small-volume gas stations have decided to simply close down rather than install the expensive equipment. To some, that sounds like "lost jobs" rather than "green jobs.")

If California requires that *all* vehicles get at least 40 mpg won't the automakers simply comply? That question suggests that the automakers are *capable* of doing that now and *choose not to*. Why would they *not* be doing so already if they could? General Motors, Chrysler, and Ford lost *billions* of dollars in 2008. If they were capable of making large SUVs and luxury cars that *could* get 40 or 50 mpg, why would they not be making them? With such a product they could recoup their recent losses, earn billions in new profits, and take market share away from Toyota and Honda. Why aren't they doing that? Are they *intentionally* losing money and market share?

The naïve believe that record losses and the possibility of going out of business is not enough of an incentive to get the automakers to open the vault and bring out the magic "150 mpg carburetor" that the oil companies have allegedly paid them to keep secret for 50 years, but the mere signature of the Governor of California on legislation will suddenly make engineers able to create BTUs out of thin air. Nonsense.

To argue that the automakers need laws to force them to build products the consumers demand is ludicrous. Companies stay in business and thrive by giving consumers what they want. The automakers know the consumers want high-mileage, safe vehicles that are also large, luxurious, and full of cup-holders and creature comforts. They also know that consumers do not want tiny econoboxes that get good mileage but are otherwise tin cans on roller skates. The California legislature wants the consumer to desire the econoboxes. But because it cannot tell the consumer what it must buy, it chooses instead to regulate what the automakers manufacture. (It's easier to oppose a big, greedy, capitalist industry than to oppose individual voters.)

Obama certainly understands that it is more reasonable for automobile emissions and mileage standards to be set by the EPA than by a patchwork of varying state regulations. But it is politically beneficial for him to let the states do his dirty work. If Californians are outraged that they will not be able to buy the cars they want and are instead limited to minuscule, lawnmower-powered sedans, their anger will be directed at their state legislators... and Ed Begley, Jr. Obama, who is conveniently letting someone else throw an anvil to the drowning man, hopes he can escape the blame. But don't forget that it's Obama who gave the anvil to the California lawmakers.

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