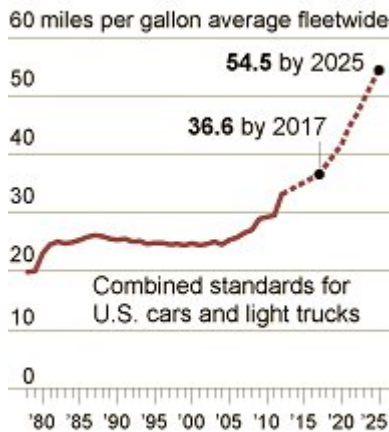


New Goals in Fuel Economy



Source: National Highway Traffic Safety Administration

New Fuel Efficiency Standards

Perhaps lost in the media focus on the Republican convention, the Obama Administration created CAFE standards two months ago. (CAFE stands for Corporate Average Fuel Economy, a fancy name for gas mileage rules.) Romney immediately attacked the rules. It's a very revealing - not to mention acrimonious — dispute.

According to the Administration, the new standards will save the average consumer about \$8000 in fuel prices at an up-front cost of \$2-3,000. As the [NY Times](#) reported, “[t]hirteen major automakers, including General Motors, Ford and Chrysler, endorsed the new standards during lengthy negotiations last year.”

Nevertheless, Mitt Romney has sharply criticized the new standards. Indeed, he seems to be opposed all fuel efficiency standards, which he has [blamed](#) for the woes of the U.S. auto industry. This is one area of policy where the dispute between the candidates is sharply drawn.

In response to the new standards, the Romney campaign said:

“Governor Romney opposes the extreme standards that President Obama has imposed, which will limit the choices available to American families. . . The president tells voters that his regulations will save them thousands of dollars at the pump, but always forgets to mention that the savings will be wiped out by having to pay thousands of dollars more upfront for unproven technology that they may not even want.”

There's actually an interesting feature in the regulation calling for mid-course corrections if the technology does not prove out or if consumers resist the more efficient models. This safeguard apparently has not mollified Romney. Not only does he disapprove of the issuance of the rule, but he has threatened to rollback the fuel efficiency standards.

Obama [replied](#) caustically to Romney's criticisms:

"Just yesterday, my opponent called my position on fuel efficiency standards extreme. . . .It doesn't seem extreme to me to want to build more fuel efficient cars. Maybe the steam engine is more his speed."

Romney's policy advisor has [explained](#) the candidate's opposition to fuel efficiency rules as being based on faith in the market: "But if we actually have technologies that are going to increase efficiency, the market will actually bring them forward without the government telling you you have to buy them." Many (but not all) economists question, however, whether consumers really make rational decisions about tradeoffs involving up-front costs and long payback periods.

It's possible that Romney's view rests on a faith in the perfection of markets, which would raise questions about his support for energy efficiency standards of any kind and about many consumer protection laws. Or perhaps he is responding to complaints from oil companies about the impact on their business, which would raise other kinds of questions about his future policies. If Romney really cares about energy independence, as opposed to oil profits, you'd think he would find the CAFE standards attractive. Either way, this dispute is quite revealing about the differences between the candidates.