Unsafe at Any Speed?

"The Regulation of Fuel Economy and the Demand for 'Light Trucks'" by Paul E. Godek, in *Journal of Law and Economics* (Oct. 1997), Univ. of Chicago Law School, 1111 E. 60th St., Chicago, Ill. 60637.

Amid great fanfare, Congress passed legislation in 1978 supposedly aimed at compelling Detroit to save energy by producing more small, fuel-efficient cars. In reality, says Godek, of Economists Incorporated, a Washington, D.C.-based consulting firm, the much-ballyhooed Corporate Average Fuel Economy Standard (CAFE) was "an attempt to subsidize domestic car production disguised as a conservation policy." Much of its attempt to cut gas consumption backfired, even as it compromised motorists' safety and sparked a boom in minivans, sport utility vehicles, and other light trucks.

CAFE set an average miles-per-gallon (mpg) minimum that a domestic manufacturer's new car fleet had to meet every year—18 mpg in 1978 and 27.5 today. Failure to meet the standard meant fines. The regulation gave U.S. automakers, already facing stiff competition from fuel-efficient imports, an incentive to turn out fewer large cars relative to small cars. They were barred, moreover, from importing foreign-made vehicles to meet the standard. That meant that they had to keep open small-car production lines they might otherwise have shut down—and keep employing workers they might have laid off.

CAFE did encourage Detroit to build lighter cars, Godek says, but the resulting fuel economy came at the cost of reduced safety. A study of 1989 vehicles showed that CAFE cut their average weight by some 500 pounds, which "is associated with a 14-27 percent increase in occupant fatality risk." Big-car production dropped from nearly 70 percent of all vehicles in 1980 to less than 50 percent in 1995. But the proportion of small cars, after a modest initial increase, actually fell. It is now just above 10 percent. What increased instead? Production of light trucks.

Congress had left a loophole. The CAFE standard for light trucks was much less stringent than the one for cars, rising from 17.5 mpg in 1982 to only 20.6 mpg today. Why? Godek thinks that it is no coincidence that Detroit faced relatively little foreign competition in this category. If Congress was more interested in saving jobs than fuel, as Godek believes, there would be no point in clamping down on light trucks.

In any event, consumers who were worried about auto safety knew what to do. From under 20 percent of all passenger vehicles in 1980, light trucks' share grew to about 40 percent in 1995. Godek calculates that the regulation was responsible for about half of that increase. Moreover, Godek says, as gas prices (adjusted for inflation) declined through the 1980s, consumers opted for *heavier* light trucks, ones that weighed about the same as pre-CAFE passenger cars. By 1995, he calculates, additional light truck sales encouraged by CAFE added about 300 pounds to the average weight of motor vehicles, thus erasing about 75 percent of the reduction CAFE would have wrought.

If energy conservation had been its chief concern, Godek observes, Congress could have achieved it more effectively with a stiffer tax on gas. Instead, Congress wanted to save jobs—and it sacrificed some fuel economy and some auto safety to do it.

Abstemious Spenders

"What Spending Spree?" by Cheryl Russell, in *American Demographics* (Sept. 1997), 11 River Bend Dr. S., Box 4949, Stamford, Conn. 06907–0949.

If you believe the *Wall Street Journal* and the rest of the business press, American consumers in the 1990s have been on a shop-til-you-drop spending spree. In reality, however, asserts Russell, author of *How We Live: The Mid-Youth Market* (1996), they have been cutting back.

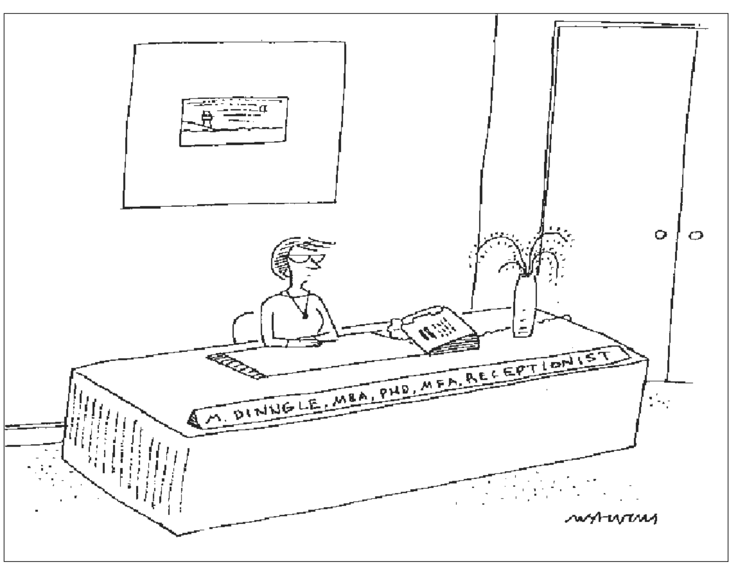
Consumer spending as a whole, she notes, has indeed risen in real terms, from $3.2 trillion in 1990 to $3.3 trillion five years later—a four percent jump. But during the same period, the number of households ("consumer units") increased by six percent. Expenditures *per household* actually fell by 2.5 percent.

People spent more on certain necessities (34 percent more on property taxes, for instance), Russell says, but they spent less on things they could live without: 13 percent less on men's clothes, 18 percent less on women's clothes, 19 percent less on restaurant food, 12 percent less on new cars and trucks, three percent less on entertainment, and nine percent less on books, magazines, and newspapers. Consumers, Russell says, "are paying their bills, reducing their debts, and repositioning themselves for survival in our tough-as-nails economy." That may help explain why the rate of inflation has stayed low—but it also suggests that the prospects for further consumer-driven economic growth are limited.

Educated Illiterates

"Wages and the University Educated: a Paradox Resolved" by Frederic L. Pryor and David Schaffer, in *Monthly Labor Review* (July 1997), Bureau of Labor Statistics, U.S. Dept. of Labor, Washington, D.C. 20212.

Every spring, graduating college seniors all around the country giddily march up to the podium to accept their degrees and then stride off hopefully into an employable future. In recent decades, however, the flood of graduates has been so great that an increasing proportion—9.6 percent in 1995, compared with 5.7 percent in 1971—have found themselves, within a few years, working as sales clerks, cab drivers, and in other jobs that don't require a college degree. Despite this apparent surplus of people with sheepskins, the real wages of college-educated workers have been going up. Economists Pryor, of Swarthmore College, and Schaffer, of Haverford College, explain the paradox.



Analyzing census data on prime-age (25 to 49) workers and the results, by education and occupation, of the 1992 National Adult Literacy Survey, they find that it is mainly those college graduates who do not have the "functional literacy" (i.e. the practical ability to read, interpret documents, and do arithmetic) traditionally associated with college degrees who are taking jobs that might previously have gone to people with high school diplomas only. The wages of these folks, after adjustment for inflation, have remained roughly constant over the years (about $15 an hour in 1994). And they still get a payoff from having a college degree: workers with only a high school diploma earned about $11 an hour.

Pryor and Schaffer also find that the major wage increases are going chiefly to the college graduates who are in jobs, such as management analysis or financial administration, requiring the level of functional literacy that college degrees traditionally have represented. These workers