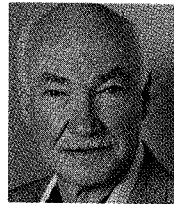


BACKSEAT DRIVER



FUEL-EFFICIENCY FOLLIES

THE TROUBLE WITH OUR ENERGY PROGRAMS IS THAT many of us just don't believe they are anything but talk. Does anyone really believe that even one new nuclear plant will be built in the next 15 years? Or that someone will come up with a way to burn coal without putting carbon into the atmosphere? Or that any serious quantity of oil will result, even two decades from now, from the offshore lands the government is supposedly freeing up?

The point is that we've created a country where there's all kinds of talk, but talk doesn't mean anything. Studies are made, lawsuits are filed, time passes and then there are more studies.

An exception is the government plan to reduce gasoline use by decreeing that by the time the 2016 models are out, new cars and trucks will average 35.5mpg. This might be accomplished—and just might be a disaster.

Everyone likes the idea of getting more miles per gallon. Everyone likes improving our national security by reducing oil imports. Everyone likes to cool the earth by using less CO₂.

But the cost is likely to be great. My estimate to accomplish that 35.5mpg goal is an average \$10,000 per car, pushing the average price close to \$40,000. Our government estimates the cost at \$1,000 a car. This is the same government that pays \$7,000 for a thermos and \$600 for a toilet seat.

Just to give you an idea, batteries for an electric car run \$10,000 to \$20,000. (That's for a range of 40 to 100 miles.) A hybrid system for a pickup costs \$10,000. Then there will be the costs of new, light materials such as carbon fiber and sophisticated engine controls.

Is it possible that car buyers will fall in love with smaller cars? The first of the new small cars to be built on this continent, the Ford Fiesta, will be here in weeks, but we really don't know how it will sell. Small cars really don't do that well now; Daimler sold only 1,397 of its tiny Smart cars here in the first quarter, and BMW

sold only 8,728 of the somewhat more acceptable Mini. That compared with 103,039 Ford F-Series pickups.

Don't think our auto companies will be happy to pump up the volumes by selling small cars at giveaway prices. They need a good price to earn back their investments and make a profit. One trip to bankruptcy court is enough.

So will Americans pay high prices—say, \$25,000 or so by 2016—for a small car? Here's a guess: If we do get to 35.5mpg, there will be fewer car sales overall. Last year's sales of 10.4 million vehicles, a disaster, might not look so bad in comparison.

The key variable in the sale of tiny cars is the price of gasoline. Right now gasoline prices are rising again, toward \$3 a gallon in New York. (It's not that the government is pushing up taxes but that speculators are pushing up the prices.) We can't be certain of what price levels we need to make small car sales boom, but from looking at Europe, I would say \$5 or \$7 a gallon would do the trick.

Of course, gasoline prices like that would probably kill auto sales, adding to unemployment, crushing manufacturing and perhaps rekindling the recession.

Economists and car industry leaders seem to favor pushing up fuel taxes. But then most of our driving is going to work, and, frankly, I have a problem with taxing people to go to work.

You see the issue: Our government has ordered a fuel economy standard that will require pushing up car prices and fuel prices and getting people to want smaller and costly cars—yet all these things might slow or damage American industry, even those plants run by foreigners in Kentucky and Alabama.

Raising fuel economy is a fine goal, but it will push up car prices, which will hurt sales. And what if no one wants the cars?

So what will happen?

Some conservatives believe they will win an election and roll back the 35.5mpg rule. I don't see a rollback.

There might be new ways of powering cars or great improvements—electric cars, hydrogen fuel cell engines, combustion miracles. It's all possible, but not in six years. It will take more like 20 years to get to 35.5mpg with vehicles that are affordable

and that people want to drive.

Perhaps I am completely wrong. Europeans drive small cars and pay more for both the cars and the fuel than we do. We might follow that pattern—but it could take years to take hold.

Perhaps it will be like the plans for nuclear plants or clean coal: lots of talk and government spending, and then things stall, and then they say they are restudying it. **F**



Jerry Flint, a former Forbes senior editor, has covered the automobile industry since 1958. Visit his home page at www.forbes.com/flint.