OVERSTEER
Twenty Years of Federal Auto Policy

Frank Gregorsky

IN 1965, THE AMERICAN AUTOMOBILE and the companies that made it seemed invincible. Since John Kennedy's inauguration, the number of registered cars had gone up by 22 percent, while new-car prices had gone down by 4.5 percent. A gallon of gas cost exactly what it had five years earlier, and the GNP was soaring. "I do not believe recessions are inevitable," Lyndon Johnson told the Congress as it prepared to enact most of his Great Society program. It was easy to be overconfident about what government could do.

U.S. cars were coasting on decades of world dominance. During the 1950s, seven of every ten cars sold in the world had been made in the U.S.A. Industry leaders had little use for protectionist nostrums, and Henry Ford III even wanted to get rid of the 10 percent duty on foreign cars: "In order to buy from us, they must be able to sell to us." The Japanese were no threat at all. When Toyota tried to invade the U.S. market in 1958 with an underpowered "Toyopet," it was a flop. During 1961, even the Belgians sold more cars to Americans than did the Japanese.

Frank Gregorsky edits The House Republican, *a Capitol Hill newsletter. This is adapted from a report released last spring by the House Republican Study Committee.* *The author would like to acknowledge his debt to William Tucker's pioneering article on automobile trends and energy policy (*Harper's, *November 1980).*

True, imports had peaked at 10 percent of new-car sales in 1959, after two recessions and the rise of the Volkswagen Beetle. But Detroit struck back with compacts like the Ford Falcon, GM Corvair, Plymouth Valiant, and by 1962 had driven imports back down to 4.8 percent of new-car sales. Not until 1968 would they get back up to 10 percent.

Admittedly, American drivers were beginning to depend on foreign oil. The basic cost gap was immense: it required just 16 cents to extract a barrel from a Mideast field, compared with $1.73 in this country. By early 1959, oil imports had risen from nothing to 30 percent of domestic consumption. But President Dwight Eisenhower put on import quotas in March of that year. Combined with economic sluggishness, this policy drove foreign-oil dependency down to nonthreatening levels for several years. Having beaten back the import threat by 1962, Detroit let its horsepower and its car lengths expand along with the economy. Compacts were out, and all-time sales records were set in 1965.

Then came an abrupt turning point, in which a generally admired industry, in a space of two years, lost both its popular luster and its freedom of maneuver. "From this point on," noted Robert Sobel in *Car Wars*, "American automakers found themselves in an adversarial position vis-à-vis the federal government."

The industry had generally sought to make its vehicles safer. Now it was expected by the

media and by Washington regulators to make *accidents* safer. The demographics give a clue as to the source of this new political issue. Traffic deaths per vehicle-mile had bottomed out in 1961, then started back up. This was partly due to the first wave of baby-boomers driving "muscle-cars" like the fabled Pontiac GTO. Traffic deaths also tend to increase with cheap gas and economic growth, both of which were operating.

Traffic safety was an issue for a prosperous time. Families gathered in living rooms to take Walter Cronkite's televised safe-driving tests. Insurance costs leapt. The American Trial Lawyers Association published a report entitled "Murder by Motor" and faulted the "inadequate government role." Ralph Nader launched his movement with $284,000 of out-of-court settlement money from General Motors. The Great Society Congress (1965–66) responded by creating the National Highway Traffic Safety Administration. NHTSA did not invent safety recalls—they had been going on for years—but helped make them a regular public news item.

The environmental movement, boosted by the Santa Barbara oil spill of 1969, soon carried public concern to new and apocalyptic heights. Science fiction productions set in 1985 showed Americans wearing gas masks on the street, and serious people—at least they said they were serious—talked of limiting family size by decree. (Economist Kenneth Boulding suggested a market-oriented "green stamp" plan under which the right to have children could be bought and sold.) Twenty percent of the bills introduced in the Ninety-Second Congress (1971–72) had to do with the environment. Federal laws and regulations knocked two miles per gallon off new-car efficiency for the 1973 model year, and cut into performance as well. Political posturing kept oil beneath the tundra of Alaska's north slope, by stalling the pipeline's start for more than three years.

The mood of most political activists was anti-car, anti-highway, and anti-growth. . . . With federal aid, they would rise above conspicuous consumption.

The mood of most political activists was anti-car, anti-highway, and anti-growth. They liked the mass transit subsidies started by Kennedy and expanded under Johnson. They lived or aspired to live in the crowded Northeast. With federal aid, they would rise above conspicuous consumption. The average voter, of course, had other opinions—which soon made themselves felt in the electoral arena.

The 1972 Campaign and Its Consequences

The economics of auto manufacturing has long been such that a big car can be built for only a few hundred dollars more than a small car. When gas is cheap, as it was in the 1950s, consumers reject small cars. With gas around 28 cents a gallon in the Northeast and even less in the South, the birth of the "compact" Rambler in 1950 was met with profound indifference. The typical car grew from a V-6 with less than 100 horsepower at the start of the 1950s to the famous behemoths of the late 1950s, combed with chrome and sporting 250-horsepower engines and audacious tail fins. During the 1960s, styles calmed down but engines stayed strong. The actual measured mpg of all cars on American roads fell from 14.3 to 13.6 during the decade. As late as 1968 an advertisement for the Newport, perhaps the most opulent car of its era, announced: "And every Newport is full-size. *We build no small Chryslers.*"

When the 1970 recession put an end to the great 108-month economic expansion, domestic new-car sales fell to levels not seen in eight years. Combined with the trend toward environmentalism, especially among youth put off by the gas-guzzlers of their parents, the recession created another opening for imports. Detroit again responded with a massive roll-out of small, efficient cars—the Maverick, Pinto, Vega, Hornet, and Gremlin. During President Nixon's first term, 80 percent of new manufacturing capacity was for smaller models. Not all these initiatives were successful—labor and engineering problems haunted the Vega and the Pinto—and large cars still dominated the new offerings. In addition, the "environmental" appeal could take odd forms: campers making 6 or 8 mpg were offered in "glacier" and "painted desert" decors. Still, it is hard to fault Detroit in these years for not providing the sought-after

leadership away from gaudiness and "planned obsolescence."

But the government was moving in a very different direction. While regulatory policy was trying to put the brakes on the big-car leviathan, monetary and fiscal policy was gunning its engine. Richard Nixon had seen his party suffer recession-induced electoral losses in 1954, 1958, 1960, and now 1970. In early 1971, the Nixon administration began crafting the most extravagant election-year boom ever, based on two-year monetary growth of 16 percent, two-year budget deficits that were two-and-a-half times all those of Lyndon Johnson combined, and wage-price controls to delay the inevitable inflationary spiral. In August Nixon devalued the dollar and raised the tariff on imported cars from 3.5 percent to 10 percent, while prevailing on Congress to remove the 7 percent federal excise tax on car purchases. That, he told TV viewers, "will mean a reduction in price of about $200 per car."

In September 1971, sticker prices for new Pintos and Gremlins were only a percent or two higher than the previous year's models, and the new Vega was actually a few dollars cheaper. Conversely, the tariff and tax shifts caused the Datsun 1200's price to leap 14 percent, and the Toyota Corolla's almost 9 percent. Imports maintained a 14.7 percent market share during 1972, but the number of buyers rose so fast that sales of new U.S.-made cars soared 2.2 million over two years. George McGovern lost normally Democratic Michigan by a 56–42 margin, plus forty-eight other states.

Gas at the pump averaged what would later be shown to have been its all-time low in real terms—36.1 cents a gallon. And the next year, not by coincidence, the American auto hit its worst all-time mpg record and its highest all-

Controlled sticker prices plus falling gas costs encouraged buyers to trade up to fancier and heavier models.

time annual fuel consumption. Although environmentalists and college kids were still buying the subcompacts, middle-class Americans were not. In fact, Chrysler was completing a $450 million restyling of all its large cars—as William Tucker put it, "the most costly investment decision of the decade for an auto company." Controlled sticker prices plus falling gas costs encouraged buyers to trade up to fancier and heavier models.

The direct result of that, and the indirect result of the Nixon campaign, was a sharp escalation of oil imports. In April 1973, Nixon found himself obliged to remove the Eisenhower quotas. As Table 1 suggests, the dynamics of the first oil price shock were already in the process of being locked in.

1973–75: Knitting the Straitjacket

In October 1973, protesting U.S. support for Israel in the Yom Kippur War, the Arab oil producers cut their output from 8.3 million to 6.5 million barrels a day. By year's end, oil prices

Table 1
EFFECTS OF CHEAP-GAS POLICY

Year	Real Gas Prices (cents per gallon, 1972 base)	Real GNP Growth (percent)	Registered Passenger Cars (millions)	Fuel Use per Car/ Year (gallons)	Imports as Share of Oil Use (percent)
1970	39.0	−0.2	89.2	735	21.5
1971	37.9	+3.4	92.7	746	24.3
1972	36.1	+5.7	97.1	755	27.6
1973	36.7	+5.8	102.0	763	34.8

Note: Gas price for leaded regular. All energy data from the Energy Information Administration's *Annual Energy Review*, 1984.

stood at $11.65 a barrel, or six times their 1970 levels. "The era of readily abundant fuel has ended for good," declared *Time* with a harrumph.

The *Economist* of London, typically clear-headed, predicted an end to energy shortages within five to ten years. In other quarters, hysteria ran rampant. Ralph Nader charged that the shortage was "calculated" by the major oil companies. United Mine Workers chief Arnold Miller predicted solemnly that "by 1985, the United States will be running out of domestic oil and domestic gas. . . ." Nixon ordered the printing of millions of ration coupons and banned Sunday gas sales. Congress forced states to cut their speed limits to 55. Federal workers in Washington got assigned parking spaces based on how many people they took to work in their car.

Over the five-month course of the embargo there was a sharp swing toward smaller cars. GM closed sixteen big-car plants, idling 137,000 workers. Average fuel use per registered automobile fell by a welcome 8.4 percent during 1974, the first gain for conservation in eleven years. In mid-year gas prices leveled off, however, and small-car sales slumped. By early 1975 automakers were resorting to "rebates" to move the subcompacts. "Chrysler, which initiated the idea, rebated its entire line, but put the highest discounts on its smallest cars," William Tucker reported. "When Ford and GM followed, they offered rebates only on their subcompact lines. American Motors was also forced to start offering rebates on the Gremlin, which had been selling at record rates only six months before." In September GM introduced the Chevette, which *U.S. News* described as the "smallest mass-produced car turned out in the U.S. since the Crosley, last built in 1952." The Chevette was ten inches shorter and 500 pounds lighter than *any* U.S. model and turned in 40 mpg or more on the highway. It did not sell well.

As rising oil importation became a seemingly permanent crisis, hardly anyone spoke of deregulating the industry. In 1974 Congress passed a bill that would have rolled back U.S. oil prices, banned any taxes or user fees aimed at restraining demand, given Washington the right to reorder transportation schedules on command, and allowed the new emergency czar to order private oil producers to produce full-tilt regardless of profitability. Nixon vetoed that one. But enough other legislation did pass to wrap a straitjacket around the American energy market. There were soon many "tiers" of oil price controls—regulation never comes without tiers—distinguishing between "old oil," "new oil," and "stripper oil" from small wells (only the latter could be market-priced). Another part of the straitjacket was an "entitlements" program forcing some refiners to subsidize others. There was the "small-refiner bias," which spurred the creation of dozens of "teakettle" refineries, later doomed by decontrol. There was a supplier/purchaser freeze, which required oil sellers to offer the same share of their output to each buyer as they had in the corresponding month of 1972, despite shifts in demand and population. Every sort of exemption was sought by every sort of business and consumer group.

President Gerald Ford's courageous efforts to phase out price controls were repeatedly rejected by a hostile Congress, which got great political mileage from the threat of dollar-a-gallon gasoline. The House said no to several proposed phase-outs, even when coupled with a tax on windfall profits—decontrol over twenty-four, thirty, and even thirty-nine months was too fast. Ford's efforts to discourage oil imports by tariff were also thwarted by congressional populists and finally by court order. Breaking historical patterns, oil imports kept rising despite high unemployment.

In December, Congress passed and a weary President Ford signed into law the culmination of the 1970s approach—the Energy Policy and Conservation Act of 1975, which put the heart patient on a chocolate cake and ice cream diet. EPCA restrained gas prices and extended controls to "new oil," then tried to counteract this cheap-energy policy by instructing the auto industry to make much more efficient cars. The industry was already doing that: GM's new offerings in late 1975 got 37 percent better mileage than those of two years before. The problem was convincing Americans to buy the more efficient models.

In December, Congress passed and a weary President Ford signed into law the culmination of the 1970s approach—the Energy Policy and Conservation Act of 1975, which put the heart patient on a chocolate cake and ice cream diet.

1976–78: The Roar of the Recidivist

From the fall of 1975 to the spring of 1976, the period in which EPCA was enacted, gas prices fell in both real and nominal terms. Unemployment dropped by a full percentage point, and a boom was on.

Chevettes and other subcompacts suffered. "Seven months after its introduction," wrote Ed Cray in *Chrome Colossus*, "the corporation cut its output and reduced its sales estimate to 200,000. . . . Rumors suggested that the compa-

ny was losing $400 on each Chevette sold." Plans for a second plant were scrapped. For the year, only 140,000 Chevettes would find homes —this in a booming market where domestic car sales were soaring 22 percent over 1975 levels. *Time* noted in April 1976 that the subcompacts had declined to 7.7 percent of the market from 10 percent just after the embargo.

During the bicentennial year, passenger-car production rose 14 percent at Ford and 33 percent at GM. Production at Chrysler, which had placed its heaviest bets on its biggest makes, rose by nearly half. Real GNP grew 5.4 percent that year and 5.5 percent the next. By the end of 1977, the results of controlled energy were in: Cadillac sales up 21 percent. Chevy Camaro sales, up 33 percent. Mercury Cougar, up 66 percent. Thunderbird and Lincoln, 73 percent each. Intermediate models (Aspen, Volare, Nova, Fairmont, Granada, and Malibu) showed no trend. Except for the Chevette, which was finally catching on, the smallest models did poorly. Pinto sales were off a third from the levels of 1976.

Detroit's little brother, AMC, found no joy during these heady times. Its 1976 market share was halved. The company begged for higher gas prices. Soon it would be driven into a marriage with Renault, the French firm. AMC head Roy Chapin "has given the market what it needs, not what it wants or is willing to buy," said a sympathetic *Forbes*. "People seem to have forgotten that there is an energy crisis," Chapin said. "There is no guilt complex attached to buying a big car. . . . Jimmy Carter will serve this country well if he has the guts to tell people the truth about how bad the energy situation really is."

That hope, too, was baseless. Back in July 1975, at the National Press Club, Carter had condemned the program—gradual decontrol with a windfall profits levy—that he would, as President, be compelled to adopt:

> If the Gerald Ford/oil industry policy is implemented, it will add from 3 percent to 4 percent to the nation's inflation rate; it will cost us consumers more than $30 billion annually . . .; it will not result in decreased consumption equivalent to price increases because of inelastic demand for certain petroleum products. . . .

He added that "the price of all domestic oil should be kept below that of OPEC oil."

Carter's 1977 proposal to Congress sounded a greater note of urgency than his campaign promises, but he proposed to deregulate neither oil nor natural gas. Instead, conservation was to be achieved with new taxes on gas-guzzlers and on crude oil. The guzzler-tax survived; the rest of the program was blocked in the Senate.

As 1978 got going, there was a deceptive calm. Adjusted for inflation, gas prices were actually down by one-tenth since 1974. The nation was wide open to another shock. The public remained indifferent. A CBS/*New York Times* poll the previous August showed that only 48 percent were even aware that the United States imported oil, while 33 percent thought the country self-sufficient. In fact, foreign-oil dependency had come close to 50 percent during 1977, with seven of every ten imported barrels coming from OPEC states.

During 1978, gas, oil, and new-car prices continued to trail the general inflation rate. With signals like that, the car culture completed its reversion to 1960s ways. Luxury vans prowled the highways getting 10 to 12 mpg. Camaro and Chrysler LeBaron sales rose another 25 percent, and Pontiac LeMans 72 percent.

Figures for the year show a slight rise in market share for compacts and subcompacts. But "economy cars" are often not efficient during times of strong GNP growth and falling real gas costs. Buyers add on air-conditioning, automatic transmission, and other options. The statistic to watch is raw-dollar spending on motor vehicles and parts. In 1978, that figure was 72 percent above its 1975 level. Its surge was approximately twice that of car sales by unit, nominal personal income or nominal GNP. No wonder people had tuned out President Carter.

Detroit's Big Three may have been getting rich, but they had been placed by federal policies in a long-term trap. As corporate planners, perhaps reinforced by EPCA's mandate, prodded first GM, then Ford, then finally Chrysler, to shrink their new cars and make them more efficient, price controls were nudging the typical American to drive more, drive bigger, and order air-conditioning and V-8s. A GM analyst quoted by Cray despaired of consumers' supposed fickleness: "Give 'em large, they wanted small; give 'em small, they wanted large." Fuel use per auto held pretty much constant—704 gallons in 1974 versus 715 in 1978 —but the number of cars in use had risen nearly

12 million. That meant more oil imports and less national security.

1979–82: The School of Hard Knocks

Jimmy Carter's free-lunch bills came due, as did Richard Nixon's before him. In January 1979 the Shah was driven out of Iran, and its oil wells were shut down for over two months. In March, as Egypt and Israel signed a peace treaty, the Saudis cut oil output further, and OPEC raised prices 14.5 percent. In April U.S. gasoline prices clicked past the 75¢ mark.

By May there were gas lines on the West Coast, in the nation's capital, and even in Houston. Federal allocation regulations, by now seven years out of date, turned the import shortfalls into pockets of disaster. In June one poll showed the President's approval rating down from 42 to 30 percent in only three months. People were furious.

Belatedly, Carter sought a serious policy. In April, he announced oil decontrol, stretched over twenty-six months. But in bringing to an end the era of energy-policy nonsense and anti-market populism, Carter also brought to an end his coalition. The House Democratic Caucus, in a nonbinding assertion of ideological purity and political cowardice, repudiated decontrol and its own President, 138 to 69. Rep. Toby Moffett (Democrat, Connecticut) said of Carter's proposal, "It's an outright declaration of war on the American consumers, particularly blue-collar workers." Rep. John Brademas (Democrat, Indiana) touted a Congressional Budget Office study denying that decontrol would lead to major gains in production or conservation. Kathleen O'Reilly of the Consumer Federation of America called decontrol "the most inflationary, anti-consumer action of this century." Arthur Schlesinger, writing in the *Wall Street Journal*, asked, "Does anyone really believe . . . that decontrol will relieve the oil shortage?" (Some of these quotes deserve to be emblazoned on coins, or on statues in front of federal regulatory agencies.)

Kathleen O'Reilly of the Consumer Federation of America called decontrol "the most inflationary, anti-consumer action of this century." Arthur Schlesinger, writing in the Wall Street Journal, asked, "Does anyone really believe . . . that decontrol will relieve the oil shortage?"

As oil prices took off, there was another emphatic swing toward fuel economy. Subcompacts claimed 24.3 percent of domestic sales during the first three weeks of March, up from 9.5 percent two years earlier. In just two days in April, Chevy dealers sold out of the newly unveiled Citation, with its 22–38 mpg rating. (Sales for the year would break 300,000.) And this time conservation gains would last, not because of White House exhortation or fuel efficiency regulations, but because of pain—pain from unemployment and pain from the gas pump. Barrels of oil refined into gas would fall from their peak of 7.5 million a day in 1978 to 6.7 million in 1982.

Market pricing inflicted its salutory pain not only on fuel consumption but on every aspect of the industry (see Table 2). Factories were retooled, five thousand dealers went out of business, and Chrysler survived only by securing federal loan guarantees and abandoning full-size cars. With a third of its membership on layoff, the United Auto Workers agreed to roll back its lush 1979 contract. The stereotype of the feather-bedded and booze-headed auto assembly worker began to fade. In 1984, sales of new domestic makes had their best showing in six years. Real gas prices are down one-fourth since 1981, while personal outlays on cars and car parts are up by well over half. The pain is gone, and happy days are here again.

Table 2
EFFECTS OF MARKET-PRICE GAS POLICY

Year	Nominal Gas Prices (cents per gallon)	New Car Sales (domestic only, millions)	Unemployment Rate (percent)	Fuel Use per Car/Year (gallons)	Domestic New-Car Fuel Economy (mpg)
1978	62.6	9.3	6.0	715	19.67
1979	85.7	8.3	5.8	664	20.54
1980	119.1	6.6	7.0	603	23.11
1981	131.1	6.2	7.5	579	25.23
1982	122.2	5.7	9.5	587	26.13

Note: Gas price for leaded regular.

Although America's need for foreign oil remains high, and U.S. production may face severe long-term challenges, OPEC is for now without leverage. Seven years ago, 60 percent of

the free world's oil came from OPEC states; now the proportion is about half that. The United States is buying vastly more from Mexico, Great Britain, and Canada. Nigeria's exports to the United States have fallen by four-fifths, and President Reagan, unlike his predecessor, need not hold African policy hostage to the whims of that or any other country.

The Lessons of Twenty Years

Not every federal regulation led to disaster. At a cost of roughly $1,000 per new car, pollutants have been cut 80 percent since the 1960s. Traffic fatality rates are a mere half their 1966 peaks. But the overall energy fiasco of the 1970s was a different matter, mostly suggestive of economic irrationality and political opportunism.

In the years since, events have vindicated "conservatism," not as an ideology but as a collection of tenets for sensible living. Sooner or later, there will be links between cause and effect, pain and gain, power and responsibility. Presidents Eisenhower and Ford understood that; Presidents Nixon and Carter had other ideas. If only this brand of conservatism had been applied more deliberately, we might rest assured that Washington's regulators had learned something. We shall see. At any rate, we continue to reap rewards from the sacrifices of 1979–82.

One thing is certain. Since World War II, when gas is down and GNP is up, Americans prefer big, sporty, or powerful cars. No surprise therefore that, since the last recession, that is what we are back to. ■

Selected Readings

Bruce-Briggs, B., *The War against the Automobile* (New York: E. P. Dutton, 1977).

Cray, Ed, *Chrome Colossus: General Motors and Its Times* (New York: McGraw-Hill, 1980).

Horwich, George, and David Leo Weimer, *Oil Price Shocks, Market Response, and Contingency Planning* (Washington, D.C.: American Enterprise Institute, 1984).

Rae, John B., *The American Automobile: A Brief History* (Chicago: University of Chicago, 1965).

Sobel, Robert, *Car Wars* (New York: E. P. Dutton, 1984).

Tucker, William, "The Wreck of the Auto Industry: Cheap Gas Put Detroit on the Road to Ruin," *Harper's*, November 1980.

Stretching Delaney Till It Breaks

Richard M. Cooper

(Continued from page 17)

supporters and critics that the Delaney clause manifests an intent to accept no risk of human cancer from food additives, and that no threshold for carcinogens can be identified. That may no longer be good public policy, but there can be little doubt that that is how the Delaney clause has been widely understood.

So, although it is possible to agree that extending quantitative risk assessment to direct additives would be good public policy and a logical extension of prior regulatory decisions, it does not follow that such a decision should be left to the FDA. Such a dramatic departure from years of interpretation and public policy ought to be made by the Congress. By overturning a settled interpretation and policy in connection with these color additives, the agency places at risk its scientific credibility, its fidelity to law, and its political stature. This past June, before the agency's decision on the carcinogenic color additives, the House Committee on Government Operations issued a report that concluded without objection from any member—Democrat or Republican—that the FDA's failure up to that point to ban these additives was "in clear violation of the requirements of law." The agency's failure to ban the additives is also currently under challenge in U.S. District Court in Washington.

Some may believe that these risks to the agency are worth taking in order to torpedo the flagship of the health protection forces that prevailed during the roughly two decades prior to the 1980 elections. But on a neutral and longer view of the process of policy development, I would argue that the FDA has acted prematurely. For major regulatory change to be stable, it must be accepted, at least tacitly, by the Congress. Because the FDA's general policy has broad support outside as well as within the agency, the Congress may still ratify it through a change in law (twelve of the sixteen Republicans on the House Government Operations Committee have recommended this course). But because the agency acted unilaterally, and arguably beyond its authority, it has created a substantial risk of being overruled in court or of creating a congressional backlash. All of us who care about sound policy may be the losers. ■