

ENERGY EFFICIENCY STANDARDS: ROBBING THE AMERICAN CONSUMER

When the Senate reconvenes next week, one of the first items on its docket will be S. 83, a bill that would impose minimum energy efficiency standards on household appliances sold throughout the United States. Although touted as a "pro-consumer" measure, the legislation in fact would severely rob American consumers. The price that they pay for household appliances would jump by as much as \$1.4 billion annually, and countless useful products could be driven off the market. These were the reasons that correctly prompted Ronald Reagan to "pocket-veto" a similar version of this legislation last year. This year's plan is as flawed as last year's.

Under S. 83, Congress would set efficiency standards for eleven categories and 52 subcategories of such household appliances as refrigerators, air conditioners, water heaters, furnaces, and dishwashers. The Department of Energy could raise the congressionally set standards in the future but could not lower them. The proposed standards would limit sharply the choice of appliances available to the American consumer. Example: 90 percent of the refrigerator and air conditioner models and over half of the oil and gas furnaces now on the market could no longer be sold. Example: Over 80 percent of freezers currently available would be barred from the market.

Even supporters of the measure, such as the American Council for an Energy Efficient Economy (ACEEE), concede that consumers would pay about \$1.4 billion more each year in higher appliance prices if these standards were enacted. According to the ACEEE, consumers would pay about \$20 to \$40 more for a refrigerator, \$30 to \$50 more for a room air conditioner, \$100 to \$125 for central air conditioning, and up to \$150 more for a gas furnace.

The benefits to consumers of mandated "energy efficiency" standards are nebulous at best. ACEEE claims that the amount saved by consumers through improved efficiency standards will outweigh the higher purchase costs over the next fifteen years by over \$28 billion. But there are severe problems with this calculation. Since a dollar fifteen years from now is worth much less than a dollar today, future energy savings must be discounted to determine their

value today. Supporters use only a 5 percent discount level--much less than most available investments. A more realistic 15 percent discount reduces the purported savings by over two-thirds. Further, the ACEEE assumes energy prices to be at their 1985 levels. Factoring in today's lower cost of energy would further diminish the purported savings.

More important, Congress is in no position to determine whether consumers would be better off if they bought more expensive, but more efficient, appliances. Consumers are in the best position to do this, and to decide whether they prefer to save money now on the purchase price, or later, in lower energy bills. A consumer who uses an air conditioner for just a few weeks each summer, for instance, generally would prefer a low purchase price. Poorer consumers, who already must minimize appliance use, would benefit least from higher efficiency and would especially prefer lower purchase prices.

When efficiency can make a difference, moreover, consumer demand itself will bring efficiency savings. Thus, with rising energy costs, refrigerator efficiency has improved on average by 48 percent and central air conditioner efficiency by 27 percent since 1972--without mandatory federal standards.

Some federal lawmakers support federal "efficiency standards" on the argument that congressional action would save consumers from even more onerous state standards. Some state legislatures, in fact, seem on the verge of enacting such standards. Yet the proposed federal standards are more strict than nearly all existing state standards. And while the proposed federal legislation would prevent states from imposing standards on their consumers in the future without Washington's approval, it would do so by imposing burdensome restrictions on consumers now. The proposed federal "efficiency standards," in short, would "save" consumers from future regulations by sacrificing their interests now.

Were Congress to impose energy efficiency standards, countless household appliances would be chased from the market. American consumers would pay a heavy cost. Worse, imposing such standards assumes that the politicians and bureaucrats in Washington can decide better what is good for American consumers than they can themselves. Ronald Reagan was right to veto the idea last year. He should put Congress on notice that he will do so again.

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For further information:

"Reagan Pocket-Vetoes Energy Standards Bill," The Washington Post, November 3, 1986, p. A13.

Steven Prokesch, "Wastrels No More in Energy: U.S. Practices Conservation," The New York Times, February 12, 1986, p. D1.