

Institute for Policy Integrity
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STUDY: FEDERAL FUEL EFFICIENCY PROPOSAL FOR TRUCKS MAKES ECONOMIC SENSE

Plan would correct market failures and clean up the trucking industry

New York City, February 2—Economists generally agree that when free markets fail the government must step in.

That’s the case in the trucking industry, according to a [report](#) released today by Policy Integrity and it’s one of the reasons the EPA should proceed with requirements for more efficient vehicles.

American businesses would save upwards of \$150 billion in fuel costs over nearly forty years if they switched to more fuel efficient vehicles, reducing unhealthy pollution with every tank of gas. But companies can be wary of taking the risk of investing in new technology if other businesses can piggy-back on the savings once it’s been proven to work.

This leads to a market failure where no one is willing to make the first move.

“It’s like playing a game of chicken, except public health and the environment are the stakes,” said Michael Livermore, Policy Integrity’s Executive Director. “Risk-averse companies are trying to save a buck, but collectively they lose out on long term savings.”

The compliance costs of the federal government’s proposed regulations would be about a sixth of the benefits in the first forty or so years. Meanwhile, the benefits of the change—things like energy security benefits, public health benefits, refueling savings—would continue to climb. The costs of these new fuel efficient technologies could even be driven down over time, as economies of scale grow.

Today, an operator of a semi truck could pay for the necessary technology upgrades in under a year. Doing so would mean a net savings up to \$74,000 over the truck's useful life. That can add up fast for companies with even modest-sized fleets.

Why don't businesses take advantage of these potential savings? They don't want to inform competitors that the technology they've tried works—the fear is that competitors would adopt the same technology without incurring the costs to establish its success. Because of this potential for free riders, firms have less incentive to move to these fuel-efficient technologies despite the potential savings.

In these cases, government action is needed to correct the market failure. Today's [report](#) finds that the federal government's proposed regulation does that and should be implemented.

[The Institute for Policy Integrity](#) at New York University School of Law is a non-partisan think-tank using economics and law to protect the environment, public health, and consumers.

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For interviews with Michael Livermore call 212-998-6085 or email ednai@nyu.edu.

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