



Episode 627: Why We Can't Have Nice Cars: Government's War on Producers and Consumers

Guest: Eric Peters

WOODS: Let's see. Basically I have you on every once in a while, and we go over what you've been doing, and it's all new stories, it's all fresh stuff that I don't know about, and also you keep on top of stories that are in the headlines for a few days and then they tend to fall out of the headlines. You're always following them. So let's start with the situation facing VW. Let's remind people what that's all about, and then how this affects diesel vehicles.

PETERS: Well, Volkswagen was accused by and admitted to – and I put it in air quotes – "cheating" on the federal government's emissions tests with regard to its diesel engines, and the fallout from that has been a major federal investigation and potential fines of up to \$46 billion – not million, but billion dollars. And the latest development is that a number of states, five officially, have launched civil litigation on their own that could amount to another gigantic fine directed against Volkswagen, that potentially even for a major corporation, a major automaker such as Volkswagen, this could be devastating, not only to its current bottom line, but also to the future, because it's going to have less money for R&D; this is going to result in people having a very poor image of Volkswagen.

And the tragedy is it's much ado about nothing. These cars are not dirty, despite the incessant portrayal by the mainstream media of that. We are talking about fractions of a percent difference on an arbitrary government test. These cars meet the Euro spec requirements, which are just different than ours, but they're quite strict, and they have no problem selling the diesels over there. It just has to do with federal ukase, to borrow a word from tsarist Russia that I like.

WOODS: I like that word too. So all right, now you have a piece here – and I want to remind people they should be checking you out at EPAutos.com, which is frequently updated and it's always interesting, and plus, I love your punchy writing style. I enjoy reading you.

PETERS: Oh, thank you.

WOODS: You have a piece somewhat related to this, "Uncles Great and Small," and here you're talking primarily about the state governments and what they are up to.

PETERS: Yeah, well, right now – and a lot of people aren't aware of this – Volkswagen is not able to sell any 2016 model year TDI diesel-powered vehicles until they come to some sort of an understanding with the federal mafia and state mafia. So you've got all these cars that are tied up on the docks and sitting in dealer inventories and not being sold. You can imagine what that's doing to Volkswagen. And more importantly, what is it doing to the American car buyer? Volkswagen was the only major automaker selling a line of affordable diesels. You could get diesel versions of the Golf and of the Beetle and of the Jetta and the Passat, and Jetta TDI cost about \$21-, \$22,000. It's the only car company that had these vehicles available. All of the other diesel vehicles on the market are high-end expensive cars: Mercedes, BMWs, and so on. And it's just a tragedy. These cars are capable of getting 50 miles per gallon and doing it without the elaborate, expensive hybrid technology. And all over again, just a manufactured crisis.

WOODS: So what's the reason behind it? I mean, just because VW does something – doesn't seem like anything follow from that.

PETERS: Well, it is interesting. One wonders about the motivation behind it, and it's interesting to speculate about that. Now of course VW is the only major car company that sells diesels in this country, so that did give them a competitive advantage, vis-à-vis, for example, General Motors and Ford, Fiat Chrysler, and so on. So who knows whether there was some skullduggery going on there behind the scenes. But more than likely it was just the usual vengefulness of the federal government, which will move heaven and earth to crucify a company over something like this. But interestingly, and I kind of put this out there as a counterpoint, when one of its own mandates, the airbag mandate, for example, results in people being killed, as has happened recently with the Takata airbags, which spew shrapnel in people's faces, then it's okay or it's downplayed. It's no big deal, because this is official government policy. But when Volkswagen does it, suddenly the hounds have to be unleashed.

WOODS: What's the situation with diesels in other countries, then?

PETERS: Well, you know, in Europe I think the figure is it's at least 50%. It's about half of the passenger car vehicles and other vehicles that are sold over there are available with diesel engines. To give you an example, a couple weeks ago I had the new Ford Escape, which is a small crossover SUV. They sell that in Europe as a Kuga – K-U-G-A, not like "cougar." And it's available with a diesel engine. Almost every vehicle that you can get is available with a diesel engine.

That goes for Japanese manufacturers too. I have an inside source at Mazda – this is some inside baseball that you might be interested in. They had announced about two years ago that they were going to bring their Sky diesel engine to the United States and make it available in models like the Mazda 3 and possibly also their little CX-5, which is a small crossover. But because of all of the stuff that's been going on, the bad PR, the hounding by the federal government, Mazda has decided to just take that off the market. They're not going to bring it here, but they do sell it in Europe, and of course they do sell it in Asia and other markets across the world.

WOODS: All right, thanks for that, because I was curious; I don't know anything about this. And also because it seems to me that, you know, sometimes we look at European policy on something, and it's more draconian than the American one, but there certainly are cases sometimes, even in medicine or in experimental drugs and so on, it's more lenient in Europe than it is in the U.S., and it sounds like that's the case here as well.

PETERS: That is the case. It's more rational certainly. You can buy a number of diesel-powered vehicles in Western European countries, so we're not talking about former Soviet Bloc countries here; we're talking about Germany and so on and France. You can buy vehicles that get 60, 70 miles per gallon in Europe, and they're not available here, both having to do with emissions and the other thing that messes up the market here: the federal government's crash-worthiness standards, which make the vehicles so doggone heavy that they're just not particularly fuel efficient.

WOODS: Ah, okay. But yet on the other hand, the government wants cars to be fuel efficient, so it mandates that too and then you get super light cars.

PETERS: So it says, but we don't have super light cars. If you look at the curb weight of vehicles in the sub-compact class, if you look at something like even the ridiculous little Smart Fortwo car, you look at vehicles like that, Honda Civics and so on, these things weigh anywhere from 500 to 1,000 pounds more than their analogs from the '70s and the '80s.

WOODS: Wow, I didn't know that.

PETERS: Yep.

WOODS: I've been duped on this.

PETERS: Yeah, and so the result of that is notwithstanding the modern technologies that are available today – the direct gas injection, variable valve timing, the CBT automatic transmissions, dual clutch transmissions – all of these advances on the technical front have kind of been negated by the increase in the curb weights, such that today the very best gas cars get about 40-something miles per gallon, low 40s. And you might remember that cars back in the late '70s and early '80s, you could go out and buy a Chrysler K car or a Renault Le Car or any number of several little cars in that category, and they were fully capable of getting better mileage than that without all the technology, because they were light.

WOODS: Ah ha, okay, gee.

PETERS: Yep.

WOODS: I really felt like – because you do hear this once in a while, don't you, that the federal government is imposing these standards, and that's making the cars less

save and there are more accidents, people getting killed more. That was my line that I was repeating. Wow, okay.

PETERS: Well, that's an aspect of it as well. You know, these roof crush standards, that's one of the newer requirements, that car ought to be able to – that its weight must be supported by the roof in the event that it rolls over. And in order to do that, they've installed these girder like, the A pillars, the upright girders at the base of each windshield on the left and the right, and then the C pillars in the back and the D pillars that support the car are now massive. If you look at how thick they are, how wide they are relative to what was typical 20 or 30 years ago, it's startling. So the result is that if you do roll your car, yeah, the roof probably won't crush, but now you're probably more likely to roll the car, because you can't see what's going on around you anymore.

WOODS: Oh, geez. Oh my gosh. You know, last week I had Christina Hoff Sommers on; I gave her two book projects before she was even done talking to me. Part of me feels like I would not wish this on my worst enemy; that's especially given how difficult publishing is now in terms of competition and everything, but it just seems like you've got another book in you here, Eric.

PETERS: (laughing) I've got several; I've just got to find the time. I need a clone.

WOODS: Yeah, yeah, exactly. And you know, I think of blogs, by the way, that I visit from time to time, where I'm not a regular reader, but I like what the blog is doing, and I know that anything I'm looking for is there in the archive in the blog, but I don't want to sit there in front of my computer reading five years' worth of archives. I'd gladly take an eBook that was basically just a compilation of blog posts with no further commentary. It would be a lot easier on me, and I'd be much more likely to read it. Anyway, I'm not going to – I keep doing this to people. It's up to you and your own conscience what you want to do with regard to books.

PETERS: (laughing) Okay.

WOODS: Let's talk instead about another one of your items up at EPAutos.com, and you're talking about a bubble that you see forming.

PETERS: Yeah.

WOODS: Tell me exactly what the sector is where we're seeing this bubble.

PETERS: Well, this bubble is developing in the used car market, interestingly enough, where the percent of loans on used cars that are in default now is at the highest level in 20 years. It's at about 5.16%, according to Experian. And that's very alarming, and the reasons for it are very interesting. You remember the Cash for Clunkers program of a few years back. What it did was to perform a kind of genocide on affordable used cars. It used to be that people could go out and pay cash for a perfectly serviceable car that was mechanically solid and reliable, but most of those have been crushed

now, courtesy of the government. So in order for people of modest means to be able to afford a used car, they end up having to go into hock and take out a loan on these things, and now they're beginning to default on it. And meanwhile, the duration of loans on new cars is now at six years, going to seven and even eight years, because the cost of new cars has become exorbitant relative to people's income, their ability to pay for it. And it just looks like the whole house of cards could collapse at any time, with massive repercussions throughout the economy.

WOODS: What do you think also about – I guess this is also a new car issue. It seems like the term of auto loans has just gone completely crazy. 60-month loans now and even 72 months?

PETERS: Yeah, the new normal is becoming seven years, and they're going to eight in some case and even 10 years. And the reason for that has to do with the cost. Last year the transaction price – that's the industry terms for what people are paying for a car – the average transaction price of a new car was \$31,000 and change. That's a lot of money, and if you try and factor that out over, say, five years, the monthly payment is so high that most people just can't deal with it. So what do they do? They push it out to six years and then to seven years. And the cars keep getting more expensive in part because the government keeps passing one mandate after the next on the cars.

The latest one – it's just been announced; I wrote about it a little while ago – is this automated breaking technology that they're going to put into all cars within a handful of years. Somebody's got to pay for this stuff, and it's everybody who buys a new car, and these people's incomes are not keeping up with the cost of the mandates and the cost of all the other things. The only way to make it work is to keep pushing these loans farther and farther out. But unlike a house, a car is a depreciating asset, and once it gets to about five, six, seven years old, it really starts to plummet in value. So this nexus is being reached where you're going to be owing more money than the thing's worth, and more and more people are going to find themselves caught up in this. It's just financially not sustainable.

WOODS: I was going to ask you, do you remember the Cash for Clunkers policy, but obviously you do.

PETERS: Yeah.

WOODS: That would have been clearly rhetorical. And the direct result of that, of course, was to hurt the used car market, at least for buyers anyway, because now there's a smaller supply of cars that people can buy, and everybody has to pay more and they have to borrow more.

PETERS: Exactly, that's the thing. It put an artificial pressure on the entire business. It eliminated the affordable, paid for cash on the barrelhead car, and it pushed people into having to take out loans to buy these cars. And since a lot of people simply don't have the credit, they don't have the income to support a loan, just as happened in the

real estate business. There are now these fly-by-night financing companies out there that will write a loan for almost anybody. So they write them a loan on the car, and of course a couple months go by and the guy can't make the loan, and the loan gets defaulted on, the car get repoed. This is beginning to bubble up, and the more it happens, the worse it's going to get.

WOODS: I really want you to talk about this recent piece, March 24th, "A Slingshot Around Uncle," because —

PETERS: Oh yeah.

WOODS: Yeah, I like the line — I'm taking, this is maybe a couple paragraphs in. You say, "Just don't buy a car. Buy a 'motorcycle' that just happens to be a car... or close enough to be serviceable as one." Is this one of these cases where government has created all these regulations and restrictions, so a clever entrepreneur comes up with something that technically abides by them but lets you kind of get away with something? Or is this something that people were going to develop anyway?

PETERS: No, it's an end-run. It's specifically a way —

WOODS: So it is, okay.

PETERS: It's specifically a way — they won't say this openly, but that's what it is. These little three-wheelers, the article that I wrote was about one in particular called the Polaris Slingshot, but there are several manufacturers that are dabbling in this. Another's Elio Motors. And they build vehicles that meet the technical legal definition of a "motorcycle," and in that way they do not have to have things like airbags and backup cameras. They don't have to pass all the federal crashworthiness standards. So they can be very light, they can be very fuel efficient, and they can be very affordable. This particular vehicle that I wrote about, the Slingshot, gets 40 miles per gallon, does 0 to 60 in under five seconds, and only costs about \$19,000.

WOODS: Have you actually ridden in one?

PETERS: I have had the good luck to ride in one, yes. (laughing) And it's a hoot.

WOODS: Have you driven one?

PETERS: Yes.

WOODS: I mean, I'm looking at the picture of this thing.

PETERS: It's made by Polaris, which makes watercraft and similar types of vehicles like that, and they are available at any motorcycle store that handles Polaris stuff.

WOODS: There's nothing subtle about this thing, by the way.

PETERS: No.

WOODS: You can't show up to a funeral in this.

PETERS: No, it's pure machine. You know, it harkens back to the time, which I can remember — I'm old enough to remember when cars were about passion and emotion and fun and sex appeal, and that's what it was all about, not, forgive me, safety. I remember a time when the only people who were neurotically concerned about safety were people who drove Volvos, and it was great —

WOODS: (laughing)

PETERS: I mean, that's fine that there were Volvos for people who wanted that. Great.

WOODS: They have that, right, yeah.

PETERS: I don't have an issue with that. The problem that I have is that these people who are neurotically obsessed with safety — I mean, even the most infinitesimal risk — they're forcing it down everybody else's throat too and making us pay for it and buy it, and that's what I object to. I want something like the Slingshot. I want something like a Lotus Elise. I want a simple, fun car.

WOODS: Yeah, sure. I'm totally with you. I mean, I'm not as excited about that stuff as you are, but to me it just seems like an outrage that people just can't have fun anymore.

PETERS: It's a complete outrage. I mean, think about it. Hunter Thompson, one of my favorite writers, blew his brains out, because he felt like there was just no fun anymore. Those were his exact words in his suicide note.

WOODS: Oh my. Okay, I actually didn't know that.

PETERS: Yeah, and that's a little bit of an extreme example, but it's true that society's just become this dreary, fear-laden, safety *über alles*, safety and security. It's like a neurotic Joan Claybrook has somehow infested all of our psyches and turned us into these cringing, fearful little people who think there are threats everywhere.

WOODS: Yeah, I know it, and you know, maybe there's no connection, but it does put me in mind of a couple of episodes ago when I had Christina Hoff Sommers on, and we were talking about this crazy safe space thing, where people can't even hear — we're not talking about making them drive in a vehicle that they might not think is as safe as they'd like it to be; we're talking about they have to maybe hear somebody's idea —

PETERS: Yeah.

WOODS: — and it's a little different from their idea, and they can't deal with it.

PETERS: Sure, well, you probably heard that Jerry Seinfeld says that he will no longer tour college campuses because of exactly that phenomenon.

WOODS: Yeah, they're hopeless. These people are hopeless. And you get the sense that these are the same people who just want to take everybody's fun away on everything.

PETERS: Yeah, I don't understand it. I don't get how this happened, and it happened pretty quickly. It happened over the space of about 25 years.

WOODS: Now how about this? When we talk about – there are a lot of products that, when you look at people who are aficionados of that product, they have a libertarian streak to them. Now, you must know a lot of people who talk about cars, write about cars.

PETERS: Sure.

WOODS: Are they all people who cower before federal regulations, or are they kind of like you, if they had to pick?

PETERS: Oh, I'm anomalous. I'm kind of like, somehow I've become kind of like what Brock Yates was back in the '80s. You might remember Brock Yates and the guys who wrote for *Car and Driver* and *Road and Track* and who were actually interested in cars and driving fast and having a good time and hated the government, hated the nanny state, hated busybodies, all this henpecky stuff that's going on. Today most of the automotive journalists are clapping heartily at everything that the government does, and I'm not sure whether they genuinely believe in it or they're doing it because they think it's necessary for their careers. I don't know, but I definitely stick out like a sore thumb.

WOODS: Huh, well, we're glad you're doing it. Tell me – just pick a – let's make this like the potpourri portion of the show. Pick just anything at random, because I think probably you and I haven't spoken, I would say it's got to be two months, easily, right?

PETERS: It's been a little while, yeah.

WOODS: Yeah, so tell me something else that's been going on in the world of cars. I don't know anything that's going on in the world of cars till I talk to you, so this is my opportunity to fill up my tank, so to speak.

PETERS: (laughing) Well, let's see. Right now because of the plummeting of gas prices, there's kind of an interesting phenomenon going on with the hybrids. It's very, very hard to make a case for the hybrid car when gas is \$1.50 or even \$1.80 per gallon, and you wonder what's going to happen, not only to the sales of hybrids new but to the resale value of the ones already on the market. Who's going to spend – I think the Prius' base price is \$24,000. Why in the world would you buy one of these things when you can go out and spend \$15- or 16,000 on an economy car that, you know, gets 40

miles per gallon, and you just saved \$8,000 or \$7,000. I'll be frank. That buys a lot of gas.

WOODS: You know, that actually reminds me of a question I've been wanting to ask you, and I probably have asked you before and I think I know your answer —

PETERS: Yeah.

WOODS: — but it has to do with the whole controversy about whether you should buy a new car. Forget about hybrid or anything else; should you buy a new car, should you buy used? And these days the conventional wisdom, which is probably correct in this case, is that because cars are built so much better than they were 30 years ago when you would be terrified of buying a used car because maybe tomorrow the thing just simply conks out and that's it, but these cars will last a very long time, and you're paying an enormous premium to buy a new car. Should you buy one? Now, my kind of attitude is I know I'm paying a premium for a new car, but I still, I just like the idea that nobody has soiled this thing. I just like that.

PETERS: Well, sure.

WOODS: I get some satisfaction from that, and also just knowing that it's absolutely fresh and so on. But how much you're willing to pay for those satisfactions is of course an individual decision. But do you counsel people on this?

PETERS: Well, I do, and my attitude is very similar to yours. Now, the new car smell, if you will — nobody has soiled it, nobody has been in it, you're the first person to pull the plastic off the seats, that's an intangible and you have to decide for yourself whether it's worth it to you to spend that amount of money to get that. From a purely objective and rational point of view, the fact is that a lightly used car — say, three, four years old — will be a tremendous savings to you financially. They typically depreciate anywhere from 30, 40% or more during that time, so think about that amount of money that you're saving. And meanwhile, the longevity of a typical car today is Methuselean. It's entirely reasonable to expect to get 150-, 175,000 miles or more out of a car before anything major begins to go wrong and cost you money. So you buy a car with 30- or 40,000 miles on it, and it's analogous to buying a car with 5,000 miles on it back in 1979.

WOODS: That's amazing.

PETERS: It is.

WOODS: That really is amazing. Now, does that have anything to do whatsoever with government requirements, or does it have to do with just the natural quality improvement that tends to occur on the market?

PETERS: Well, I'll have to give the devil his due. There is a federal law requiring that all of the emissions equipment that a new car comes with must maintain its

functionality for 10 years, 100,000 miles. Legal requirement. The automakers are required under warranty to fix any part of the vehicle's emissions system that fails before that. So purely out of the motivation to avoid having to spend a bunch of money, they have engineered their cars to be more durable for that reason. But I kind of think that it's a moot point, because the market would have demanded, just as in any other product, that they get better and better. People would not have put up with cars that began to burn oil and smoke and become unreliable at 70,000 miles. They would have expected the cars to get better and better and better, and they would have done that without the government. So it's really kind of a non sequitur, in my opinion.

WOODS: All right, give people your 30-second pitch for EPAutos.com.

PETERS: Well, if you're a gear head and you're a libertarian, if you like cars, if you like bikes, come on down and we have a lot of really good people there, not just me, going back and forth about all of these topics that you and I have been discussing, as well as a bunch of other topics, including political topics.

WOODS: And as you say, it's a ton of fun to read. It is a good community of people. It's a take that, as you noted earlier, is unique in this area. There aren't very many Eric Peters out there, which in a way is good for you, but bad for the world.

PETERS: It's shocking.

WOODS: Yeah, it is shocking.

PETERS: It surprises the heck out of me, because you know, when I was a kid and I read all the – we called them the buff books, you know, the enthusiast publications, the *Car and Drivers* and *Road and Tracks*, all those guys were like me. They loved the cars, they had passion for it, they wanted to go fast, they were interested in the sex appeal of it. And mostly that just seems to have gone by the wayside, and the guys out there who are writing about cars, they'll tell you how many airbags the car has, and they'll tell you whether it has collision avoidance technology, things like that. You know, just shoot me now, please. I want to have fun; I want to have a good time; I'm not interested in airbags.

WOODS: Yeah, see, again, you would think – like people who are into gun ownership, they tend to have certain views about other topics, and there are some people – I mean, there are some techy people you can see having some libertarian views, and I have a friend who's in marketing, and he says marketers tend to be libertarians. You would think car aficionados would be one of these, right? I mean, the car represents independence.

PETERS: Imagine if *Guns and Ammo*, for example, in reviewing the latest Glock or Kimber, focused almost entirely on how well the thing fit into a gun safe and had a trigger lock.

WOODS: (laughing) Yeah, I know; I know. Exactly. It would be like that ad for the salsa on TV, when they're sitting around and they can't believe the salsa they're eating was made in New York City.

PETERS: "New York City?!?" (laughing) Yep, I remember that; it was classic.

WOODS: (laughing) Yeah, so, get out of here.

PETERS: Yeah, it's just bizarre.

WOODS: All right, well, listen, we're going to get all the real, red-blooded car lovers over to EPAutos.com to read what you're doing, and equally as importantly to support what you're doing. I mean, you are the one guy. Let's get over there and support the one guy. Until next time, Eric. Pleasure talking to you, and thanks so much.

PETERS: Thanks, Tom. I always enjoy it.