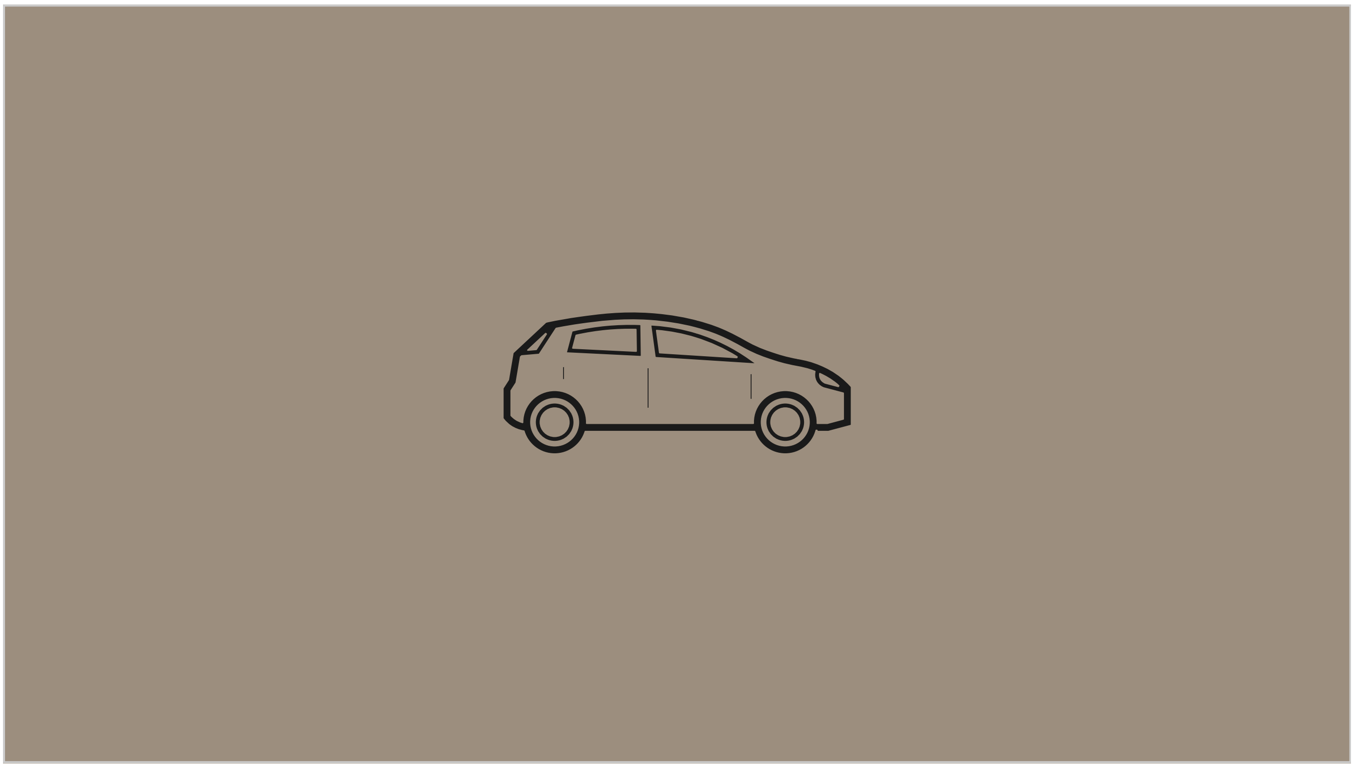
Industry

How the Small Car Died in America

Why the affordable small car vanished from America, when every part of the market had a reason to abandon it at once.



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The affordable small car did not vanish from America because drivers stopped wanting cheap transportation. It vanished because nearly every part of the system that produces and sells cars found a reason to abandon it at the same time. No single villain drove the change. A margin here, a rule there, a financing habit somewhere else, and over two decades the entry-level car quietly disappeared from showrooms.

The result is a market where the cheapest new car costs far more than it once did[1], and where a buyer who wants simple, small, and inexpensive is often told that no such thing is made anymore. Understanding why means looking at each part of the chain in turn, because the story only makes sense as the sum of several ordinary decisions.

The margin problem

Automakers earn thin margins on small vehicles and much fatter ones on trucks and SUVs.[2] A compact sedan and a large crossover cost a manufacturer roughly similar amounts to design, tool, and assemble, but the crossover sells for thousands more.[3] Given a fixed amount of factory capacity and engineering attention, every rational planner steers both toward the vehicle that returns more per unit.

So each model cycle nudged the lineup upward. A small car would be redesigned once and then quietly dropped, its slot filled by a slightly larger, more expensive replacement. Repeated across a dozen nameplates and several years, the floor of the market rose until the cheapest option on the lot was no longer cheap.

How regulation tilted the field

Fuel economy rules were meant to make the fleet cleaner. In practice, the way they were written pushed it larger. American standards set targets based on a vehicle's footprint, the rectangle formed by its wheels[4], with easier targets assigned to larger vehicles. A company could often comply more cheaply by building something bigger than by building something small and efficient.

The incentive meant to clean up the fleet ended up encouraging its growth. A manufacturer weighing whether to invest in a frugal small car or a large crossover found that the crossover carried a gentler regulatory burden as well as a fatter margin. Both signals pointed the same way.

Financing hid the price

Buyers rarely negotiate over the sticker price anymore. They negotiate over the monthly payment, and the monthly payment can be lowered by stretching the loan. As loan terms crept from four years to six and then seven[5], a larger balance stopped feeling larger, because the number that mattered on the showroom floor stayed roughly the same.

That shift dissolved the discipline that once kept prices in check. When the felt cost of a more expensive car is only a few extra dollars a month, the incentive for anyone to defend the cheap option weakens. Dealers preferred the higher-priced units, and financing made them easy to sell.

Where the small buyers went

The demand for affordable transportation did not disappear. It moved into the used market, where small cars from earlier years still change hands.[6] But a used market cannot make new cars, and as the supply of once-cheap models ages out, the bottom of the market thins there too.

The people most affected are the ones with the least room to absorb it, first-time buyers and households on tight budgets who once had a clear new-car option and now have none. They are pushed toward older vehicles with higher running costs, which is a poor substitute for a simple new car sold at a simple price.

Whether it comes back

Nothing about the small car is impossible to build. The obstacles are commercial and regulatory rather than technical, which means they can change. A different footprint rule (https://en.wikipedia.org/wiki/Corporate_average_fuel_economy), a different financing norm, or a manufacturer willing to chase volume rather than margin could each bring the segment back.

For now the incentives still point the other way, and the affordable small car remains a thing America knows how to make but has decided, decision by decision, not to sell. ■

Footnotes

1. In the mid 2000s several new cars sold below 12,000 dollars. By the mid 2020s the least expensive new car in the United States started around 18,000 dollars, while the average new vehicle sold for close to 48,000. ↩

2. Imported light trucks also carry a 25 percent United States tariff, the so called chicken tax. It dates to a 1960s trade fight over European duties on American poultry and still shields the most profitable segment from foreign competition. ↩

3. Industry estimates put the profit on a large pickup or SUV in the thousands of dollars per unit, several times the margin on a compact car built to a similar budget. ↩

4. The footprint rule entered the federal fuel economy program in 2011. Because a larger footprint is handed a looser target, a maker can sometimes meet the standard more cheaply by building a bigger vehicle than a smaller one. ↩

5. The average new car loan in the United States now runs about 68 months, and 84 month loans are common. A longer term lowers the monthly payment but raises the total interest paid and keeps the buyer owing more than the car is worth for longer. ↩

6. A used car market can only resell vehicles built new years earlier. As the supply of once cheap models ages out and is scrapped, the shortage at the bottom of the new market slowly works its way into the used one. ↩
