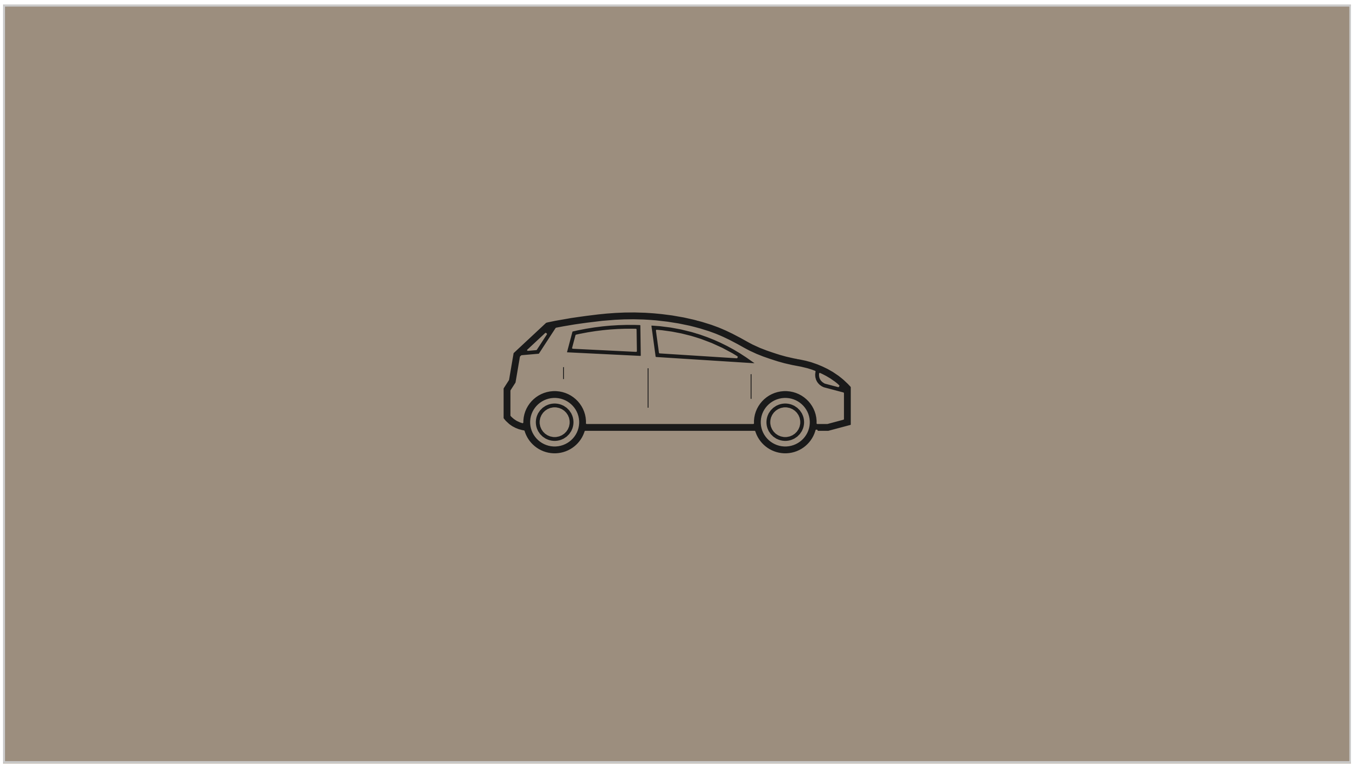
Industry

Did CAFE Standards Kill the Small Car?

Fuel economy rules were meant to shrink the fleet. Written by footprint, they gave every maker a reason to build bigger instead.



Emmanuel Awosika ▪ 18 June 2026 ▪ 6 min read

The rule was written to make American cars smaller. It is now routinely blamed for making them enormous. Both things are true, and the distance between them is one of the better illustrations of how a well-aimed regulation goes wrong – not by failing to bite, but by biting in a direction nobody checked.

The short answer is that fuel economy standards did not kill the affordable small car. They did something narrower and more damaging: they removed the one commercial reason a manufacturer still had to build one.

What the rule actually says

Corporate Average Fuel Economy was created in 1975, in the aftermath of the oil embargo that had just shown the United States what dependence on imported crude felt like. The design was deliberately indirect. Rather than ban thirsty vehicles, it obliged each manufacturer to hit an average across everything it sold, leaving the company to decide how.

Two details in that design end up mattering more than the targets themselves. The first is that there were always two fleets, not one: passenger cars and light trucks, with light trucks held to weaker standards.[1] That distinction was drawn for working vehicles, and it long predates the crossover that a family now buys for the school run – a vehicle that is, for regulatory purposes, frequently a truck.

The second is the word average. For three decades a maker's obligation was a single number covering its whole car fleet, which meant every small efficient car it sold bought headroom for something large and thirsty. Small cars were not merely tolerated. They were compliance currency.

Then the target learned to follow the car

That changed when the standards were rewritten around footprint – the rectangle formed by a vehicle's wheels, its wheelbase multiplied by its track width. Instead of one target for the fleet, each vehicle now carries its own, scaled to its own size, and a larger footprint is assigned a less demanding one.[2]

Read that from the product planner's desk and the consequence is immediate. Shrinking a vehicle makes its target harder to meet. Growing it makes the target easier. A maker that once earned regulatory room by selling small cars now finds that a small car arrives with a demanding number attached and no longer offsets anything else in the lineup.

The cross-subsidy was the small car's last argument, and the rewrite deleted it. Nothing in the new rule forbids building small; it simply stopped paying anyone to. And it is worth being precise about the perversity here: the rule did not make large vehicles cheap to certify because anyone wanted large vehicles. It scaled targets by size to avoid punishing manufacturers who happened to build big things, and in removing that unfairness it removed the reward for building small ones.

What the rule stopped holding back

The pressure it stopped resisting had been there all along. Automakers earn thin margins on small vehicles and much fatter ones on trucks and SUVs.[3] A compact sedan and a large crossover cost roughly similar amounts to design, tool and assemble, but the crossover sells for thousands more.[4] Given fixed factory capacity and finite engineering attention, every rational planner steers both toward the vehicle that returns more per unit.

That gradient did not appear in 2011, and it would have thinned the segment on its own. What the flat fleet average had done was price the gradient against something: a maker tolerated a thin-margin small car partly because it purchased the right to sell the profitable one. Once the footprint rule made every vehicle answer for itself, the two signals that a planner reads – margin and compliance – pointed the same way for the first time.

So each model cycle nudged the lineup upward. A small car would be redesigned once and 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.[5]

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 terms crept from four years to six and then seven[6], a larger balance stopped feeling larger, because the number that mattered on the showroom floor stayed roughly the same.

This is what let the supply side move without meeting resistance. A market where buyers felt the full price of a more expensive car would have pushed back on the retreat from the bottom of the range. A market that feels only the payment did not, and dealers, who preferred the higher-priced units anyway, had no reason to argue.

Where the small buyers went

Demand for affordable transportation did not disappear. It moved into the used market, where small cars from earlier years still change hands.[7] But a used market cannot make new cars, and as the supply of once-cheap models ages out, the bottom thins there too.

The people most affected have 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 at a simple price.

So did the standards kill it?

Not alone, and the honest test is what happened elsewhere. Europe's small-car segments have been retreating too, under rules that scale targets by mass rather than footprint[8] – a different formula with a similar shape, producing a similar result. When the same outcome appears under a different rule, the rule is not the whole story.

But it is not exonerated either. Of the forces in this piece, the margin gap and the financing habit are ordinary market behaviour, and the used market is a consequence rather than a cause. The footprint rule is the only one that was a decision, made in public, that could have been made differently. It is also the only one that used to point the other way.

Nothing about the small car is impossible to build; the obstacles are commercial and regulatory rather than technical, which means they can change. A rule written differently could make small cars worth something to a compliance department again. Until one is, America will go on knowing how to build a cheap car and declining, decision by decision, to sell one. ■

Footnotes

1. The split is old enough to have been drawn when a light truck usually meant a pickup or a van used for work. As crossovers grew into the default family vehicle, a large share of what Americans actually drive came to be certified against the looser of the two sets of targets. ↩

2. Corporate Average Fuel Economy. Footprint-based targets were phased in for light trucks in the late 2000s and for passenger cars in the early 2010s. Because a larger footprint is assigned a looser target, a maker can sometimes meet the standard more cheaply by building a bigger vehicle than a smaller one. ↩

3. 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. ↩

4. 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. ↩

5. 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. ↩

6. 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. ↩

7. 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. ↩

8. European carbon dioxide targets are set against a vehicle's mass rather than its footprint. The variable differs; the incentive does not, since in both cases a bigger vehicle is handed an easier number to hit. ↩