

COMMENTARY

Irwin M. Stelzer



AP PHOTO/DAMIAN DOVARGANES

This man won't keep smiling once he realizes that "Cash for Clunkers" hurt more than it helped.

Seven lessons of Cash for Clunkers' failure

It's over, finished, done. And quiet returns to the auto showrooms of America. "Cash for Clunkers" has outlived its funding. But it has left us with a host of useful lessons.

First, government forecasters are really bad at their job. The program was originally funded with \$1 billion of taxpayer money to cover rebates of \$3,500 to \$4,500 on cars traded in for more fuel-efficient models, and the money was expected to last for about six months. It lasted for one week.

The \$2 billion added to keep the program alive lasted less than a month. No surprise, then, that the government just discovered that its forecast of the deficit in the coming decade is light by a mere \$2 trillion, or almost 30 percent.

Second, the government's talents, whatever they might be, do not include efficient administration of its programs. The 135 pages of rules setting out what dealers had to do to recapture the refund money they laid out were constantly changed, the Web site they were to use to apply to get their money back frequently crashed, and some had to drop out of the program because they had run out of cash.

The Department of Transportation assigned 2,000 workers to process dealer paperwork, but they seemed unable to get the money to dealers who, having laid it out in response to promises of prompt repayment, desperately needed the cash. So if you think the president's plan to "reform" health care will make it easier to cope with the paperwork surrounding hospital and doctor's bills, think again.

Third, Cash for Clunkers proved that if you give people \$4,500 to buy a durable good, they will be more likely to buy it while the refund is available than later. But it does not show that the increase in spending meets one of White

House economist Larry Summers' tests — sustainability.

The buyers of the almost 700,000 cars — 41 percent from Japanese makers and 39 percent from the (once) Big Three — for which dealers have filed \$2.88 billion in refund requests included many who merely accelerated their purchase. Estimates are that 60 percent of buyers would have bought cars this year without this incentive. So dealers are expecting a very quiet few months.

And from the stimulus effect of the program must be deducted the appliances, clothes and other stuff that consumers will not buy in the future, now that they have the burden of lease or loan payments for their new vehicles.

Fourth, if you want to reduce dependence of foreign oil, don't look to Cash for Clunkers for help. On the best of assumptions about the fuel saved by replacing inefficient clunkers with cars that get perhaps 10 miles per gallon more than the clunkers they replace, the reduction in gasoline consumption will cut our oil consumption by 0.2 percent per year, or less than a single day's gasoline use.

Unless, of course, the new car is more frequently driven because lower fuel consumption lowers the cost of driving, and increases the pleasure of taking to the road, in which case the saving will be less, or none.

Fifth, but fuel saving was only one goal of the program. The main stated goal was to cut carbon dioxide emissions and thereby postpone the day when the globe will be so warm that the ice cap melts, islands are inundated and we face a gory future. That, the program did, although only inconsequentially, given the pell-mell

construction of coal plants in China and India. But at a horrendously uneconomic cost.

Sixth, unionization matters. Cash for Clunkers added \$3 trillion to the billions of taxpayer money expended to save General Motors and Chrysler, i.e., members of the United Auto Workers. What a like sum might have done for furniture makers, the hotel industry or small businesses was never even considered.

Seventh, programs such as Cash for Clunkers have no regard for lower-income consumers. By mandating the destruction of trade-ins, Congress removed 700,000 cars from the used-car market, inevitably driving up prices of the cars that lower-income consumers tend to buy.

And by ordering that a trade-in's engine be destroyed by replacing its engine oil with a sodium silicate solution (which turns out to be in short supply!), Congress sharply reduced the salvageable used parts that are bought mostly by poorer consumers to keep their cars running.

There's more, but you get the idea. It takes a politician to declare Cash for Clunkers a success.



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PRIME NUMBERS

2 Rank of Washington Monument as tallest building in D.C.

1,200 pounds Weight of the clock that crashed through the floor of the Old Post Office in 1956

897 Number of steps to the top of the Washington Monument

40,000 tons

Weight of the monument

10,000

Number of visitors in the first six months after it was finished



SOURCES: 1. ENCHANTEDLEARNING.COM/HISTORY/US/MONUMENTS/WASHINGTONMONUMENT/ 2. TOUROFDC.ORG/TOURS/OLDPOSTOFFICE/ 3. THEDCTRAVELER.COM/MONUMENT-MONDAY-897-STEPS/ 4. VETOCORLEONE.COM/2009/05/20/13-FACTS-ABOUT-THE-WASHINGTON-MONUMENT-TO-MAKE-YOU-SOUND-SMARTER-AT-PARTIES/ 5. NPS.GOV/NR/TRAVEL/PRESIDENTS/WASHINGTON_MONUMENT.HTML

THE DAILY OUTRAGE

High frequency

WHO: Rep. Debbie Wasserman Schultz, D-Fla.

nearly doubled from \$3.5 billion to \$6 billion. And some critics say the radios are not even needed.

WHAT: General Dynamics' high-tech radio program got a second wind, thanks to a \$4.5 million earmark Wasserman Schultz inserted in the 2010 House appropriations bill. Costs for the troubled program, which is developing new radios for the Pentagon, have

WHY IT'S AN OUTRAGE:

Campaign contributions might help explain Wasserman Schultz's support. In the past two years, her political committees received \$19,000 from General Dynamics, which also maintains a small operation in the congresswoman's home district.

WHERE TO VENT: Contact Wasserman Schultz at 202-225-7931.

