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BUDGET BOONDOGGLE AWARD THE VICTIMS OF CASH FOR CLUNKERS' 'SUCCESS'

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With the end of the failed “recovery summer” – and the President proposing yet another \$50-billion “stimulus” – it is worth reviewing one administration economic program touted as a “success.” But even the celebrated “Cash for Clunkers” has been an expensive and bumpy ride for many American consumers, just as critics warned. With a sticker price of \$3 billion, “Cash for Clunkers” has earned the latest Budget Boondoggle Award.



The program – formally the Car Allowance Rebate System – paid consumers \$4,500 each for trading an old auto for a new one with better gas mileage. The trade-ins were then destroyed. The government quickly fell behind on reimbursing auto dealerships. “We’re now slightly victims of success,” the President declared, “. . . there was so much more demand than anybody expected, that dealers were overwhelmed with applications.”¹

It was indeed successful, notes columnist Jeff Jacoby of *The Boston Globe*, “if you define success as getting people to take ‘free’ money to make a purchase most of them are going to make anyway, while simultaneously wiping out productive assets that could provide value to many other consumers for years to come.”² In the process, a lot of Americans became victims of the administration’s attempt at market control. Among them:

- *Used Car Buyers.* Reducing the supply of used cars predictably drove up prices. “Car buyers on average paid \$1,800 more for a used vehicle in July than they paid a year ago at this time, reports Edmunds.com . . . a 10.3-percent increase.” Price hikes for specific used vehicles may be much worse: a used Chevy Suburban, for instance, cost \$27,193 in July, 34 percent more than a year earlier.³

¹ The President’s weekly radio address, 20 August 2009.

² Jeff Jacoby: “‘Clunkers,’ a classic government folly,” *The Boston Globe*, 1 September 2010: http://www.boston.com/bostonglobe/editorial_opinion/oped/articles/2010/09/01/clunkers_a_classic_government_folly/. Mr. Jacoby’s column, and the Cash for Clunkers program, are also discussed in George F. Will’s “Americans have good reason not to believe in Obamanomics,” *The Washington Post*, 12 September 2010: <http://www.washingtonpost.com/wp-dyn/content/article/2010/09/10/AR2010091006374.html>.

³ The Edmunds.com report can be found at: <http://blogs.edmunds.com/strategies/2010/08/with-used-car-prices-up-10-percent-over-2009-buyers-need-shopping-discipline.html>

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- *Low-Income Households.* Those who can afford new, “environmentally correct” cars got a big boost. Others, however, are being priced out of the market. According to the Urban Institute, the typical family in the lowest fifth of the income range owns a car valued at \$4,500.⁴ Replacing it with something as modest as a used subcompact would cost more than twice that – and prices are unlikely to decline with the supply of cars made artificially low.
 - *The Environment.* According to estimates by the Associated Press, replacing the “gas guzzlers” with higher mileage cars would reduce carbon dioxide emissions by about 700,000 tons a year – equivalent to a paltry 57 minutes worth of total American CO₂ emissions. As the AP put it: “‘Cash for Clunkers’ could have the same effect on global warming pollution as shutting down the entire country – every automobile, every factory, every power plant – for an hour per year. . . . Climate experts aren’t impressed.”⁵
 - *American Taxpayers.* “Cash for Clunkers” provided only a temporary boost in auto sales – and mostly because buyers merely accelerated purchases they were going to make anyway. “Of the 700,000 cars purchased during the clunker frenzy, the estimated net increase in sales was only 125,000,” columnist Jacoby writes. “Each incremental sale thus ended up costing taxpayers a profligate \$24,000.”⁶
 - *The Economy.* With another 54,000 jobs lost in August, and the unemployment rate rising to 9.6 percent, it is clear “Cash for Clunkers” failed to stimulate the economy. In fact, researchers from the University of California and the University of Chicago found that although the program induced purchases in July and August of 2009, the effect “is almost completely reversed by as early as March 2010.” They also found “no evidence of an effect on employment . . . in cities with higher exposure to the program.”⁷

A major lesson of the President’s “stimulus” is that manipulating markets does not lead to lasting economic growth. Even “Cash for Clunkers” failed. With no significant net increase in car sales, no job creation, and a 16th straight month of unemployment above 9 percent, this “stimulus” program is a worthy recipient of the Budget Boondoggle Award.

⁴ Adam Carasso and Signe-Mary McKernan: *The Balance Sheets of Low-Income Households: What We Know About Their Assets and Liabilities*, Urban Institute, November 2007: http://www.urban.org/UploadedPDF/411594_low-income_balance_sheets.pdf

⁵ The Associated Press: “‘Cash for Clunkers’ Effect on Pollution? A blip,” 4 August 2009: http://www.msnbc.msn.com/id/32290028/ns/us_news-environment

⁶ Jacoby, op. cit.

⁷ Atif R. Mian and Amir Sufi: *The Effects of Fiscal Stimulus: Evidence From the 2009 ‘Cash for Clunkers’ Program*, 1 September 2010.

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