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SOLVING THE WORLD'S PROBLEMS, ONE POST AT A TIME

BY STEVE CHAPMAN

August 10, 2009

More problems with 'cash for clunkers'

My column yesterday outlined some of the shortcomings in the cash-for-clunkers program. But 750 words is not enough to mention them all. So let's consider a few more:

1) It makes us poorer. If we want people to build energy-efficient houses, we don't pay them to tear down the old ones. But in this program, the government requires the actual destruction of the old vehicles. University of Chicago economist Allen Sanderson says it makes about as much sense as paying people to break old light bulbs and replace them with newer, greener ones. The program deprives us of assets that have some value--as if the stock market slide and the housing bust haven't done enough of that.

2) It raises the prices of used cars, which works to the detriment of poor and middle-class people who can't afford to spend \$15,000 or \$20,000 for a new one. Any time you reduce the supply of something, you put upward pressure on prices, and this program will remove some 750,000 used vehicles from the market. USA Today reports that used car prices have already risen about 5 percent in the last year--despite the recession. And used car dealers say they are having trouble finding inventory.

3) It doesn't save that much oil. Economist Peter Van Doren of the Cato Institute calculates that the maximum we can hope to save is about 1.6 million barrels per day--which "sounds great until you realize it's only about two hours' worth of our daily consumption."

It would be hard to design a program with more flaws than this one. But I never bet against Congress' ability to screw up.

Posted at 04:12:28 PM in Economics, Energy, Environment

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Most people who drive real clunkers do so because they can't afford anything better. While the program may bring in a few cars that weren't worth much more than scrap (and whose destruction wouldn't be much of a loss), for the most part the people who can afford to buy a new car are going to have a decent car already. Crunching a car that would have been worth \$3,000 will deprive someone who drives a car worth \$2,000 of a chance to upgrade his vehicle for \$1,000. That will in turn deprive someone who drives a car worth \$1,200 of a chance to upgrade his car for \$800. That will in turn deprive someone with a \$800 car of a chance to upgrade his car for \$400, and deprive someone without a car of a chance to buy one for \$800.

Some people might suggest that such deprivation is an unfortunate side-effect of C4C. Given that the program is engineered to primarily take in cars from people who can afford new ones, however, I would hardly call it "accidental".

The real purpose of C4C isn't to destroy clunkers, but rather the cars that would otherwise replace them.

Posted by: supercat | August 10, 2009 at 06:33 PM

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