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Cash for Clunkers, RIP: A waste of money and assets

posted at 4:10 pm on August 24, 2009 by Ed Morrissey

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Cash for Clunkers ends today after spending \$3 billion, most of which still has yet to get to car dealers. Not only did C4C show a bumbling administration at just the moment when it asked Americans to trust it with our health care, it vastly overspent for the environmental and stimulus benefits it produced. [ABC News](#) looks at the former:

“Cash for Clunkers” has generated a surge in car and truck sales, as well as a comparable increase in complaints about the program. But whether or not the program — which is due to end at the end of the day today — meets environmental goals of reducing gasoline consumption and greenhouse gas emissions has received less attention.

“As an environmental program, Cash for Clunkers is basically overpaying for the environmental benefits,” said Christopher Knittle, an economics professor at the University of California at Davis who analyzed the Cash for Clunkers impact on the environment. ...

Knittle, the economist at Davis who has studied gas prices and their effects on driving behavior, found that while the program might benefit the economy, it is an inefficient way to take older cars off the road, to lower carbon emissions and to reduce gasoline consumption.

“The fuel economy increase from the trade-in to new car seems large, but it doesn’t have that big of impact on environment,” he said.

Knittle calculated the program will save approximately 270 gallons of gasoline per car, per year. If a total of 750,000 vehicles are sold, as appears likely, approximately 12,000 barrels of oil a day will be saved in a country that consumes 9 million a day.

Was it worth \$3 billion to save 12,000 barrels of oil a day? It amounts to a 0.13% reduction in gasoline consumption. The impact on carbon emissions is likely much less than that.

Cato says it may be the [dumbest government program ever](#):

- A few billion dollars worth of wealth was destroyed. About 750,000 cars, many of which could have provided consumer value for many years, were thrown in the trash. Suppose each clunker was worth \$3,000 at a guess, that would mean that the government destroyed \$2.25 billion of value.
- Low-income families, who tend to buy used cars, were harmed because the clunkers program will push up used car prices.

But the real reason it’s the dumbest program ever:

- The auto industry received a short-term “sugar high” at the expense of lower future sales when the program is over. The program apparently boosted sales by about 750,000 cars this year, but that probably means that sales over the next few years will be about 750,000 lower. The program probably further damaged the longer-term prospects of auto dealers and automakers by diverting their attention from market fundamentals in the scramble for federal cash.

How many people bought cars that would have bought them soon anyway as they tired of their gas guzzlers? The better question will be how many didn't. Whether Obama realizes it or not, people have economic and style incentive to trade up on a regular basis. In this case, Obama may have distorted the curve to entice people to do so *now*, but that just means that those consumers will *not* be in the market for a vehicle in the near-to-midterm future. It didn't *create* sales; it just speeded them up.

And when did Obama decide to launch this program? Right at the end of the model year, when car dealers usually discount their existing inventory rather deeply. Customers already had incentive to buy in August. They won't have any incentive now to buy in September and October, when the new models hit the showrooms and pricing hits its peak. On top of that, the destroyed vehicles mean that 750,000 families that might have been able to access less-expensive vehicles to improve their financial flexibility may not be able to afford anything at all.

Three billion dollars may not be the biggest boondoggle ever to come out of Washington, but it's easily the dumbest — and one of the most incompetently handled.

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We pushed demand for 700,000 cars from Q4 to Q3.

Yay.

[Vashta.Nerada](#) on August 24, 2009 at [4:13 PM](#)

When you spread the debt around, I think everyone benefits. - Obama

[lorien1973](#) on August 24, 2009 at [4:15 PM](#)

Never let a good crises go to waste!! What happens when the dealers don't get paid? Do you really expect them to get their money? How many will go out of business? Oh that's right just the ones that didn't support OBAMA.

odannyboy on August 24, 2009 at [4:15 PM](#)

“Speeded” up should be “sped up”.

[DakRoland](#) on August 24, 2009 at [4:16 PM](#)

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