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Obama's 'Clunker' Economics Bodes Ill for Healthcare

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By: David A. Patten

The snafu-plagued "cash for clunkers" program, which Congress is about to refuel with another $2 billion in stimulus bill cash, offers a microcosm of the broader economic disruptions ahead as the Obama administration continues its centralized approach to managing the economy, leading economists warn.

Web site crashes, red tape, processing backlogs, and cost estimates that proved grossly off the mark were just a few of the speed bumps that sent cash for clunkers careening off course in its first few days of operation.

"They completely missed in terms of estimating the demand," J.D. Foster of the Heritage Foundation told Newsmax. "Yet this same group wants to implement cap and trade, and change the healthcare system that represents one-sixth of the national economy. These are extraordinarily complex things. They couldn't get this simple program right. What chance do they have — and the answer is none — of getting these incredibly complicated programs right?"

The auto industry, labor unions, the media, and the president have lauded the program — its formal name is Car Allowance Rebate System, with CARS as its acronym and cash for clunkers as its street name — as a smashing success. During a brief economic address Friday, President Obama said it succeeded "well beyond our expectations and all expectations."

Free-market economic experts, however, question both the program's objectives and its execution.

"Why cash for clunkers?" said Jeffrey Miron, a senior economics lecturer at Harvard University and a senior fellow at the Cato institute. "Why not cash for old washing machines? Why not cash for old boats? Why not cash for old lawn mowers, or zillions of other things? This is clearly favoring one politically connected industry, at the expense of everyone else."

Republicans were quick to link the program's problems — in just a few days it blew through $1 billion that was supposed to last until November — to the administration's larger policy initiatives.

"Americans are telling us that healthcare is too important to rush," Senate Minority Leader Mitch McConnell, R-Ky., said. "They're saying it's too important to base our decision on this issue solely on the estimates that we're getting from the same people who brought us the stimulus and cash for clunkers."

Economists and policy experts interviewed by Newsmax agree that the cash-for-clunkers program illuminates serious shortcomings in the top-down approach to running the economy that has been widely dubbed "Obamanomics." It seems trying to manage the economy from 1600 Pennsylvania Ave. is proving itself to be, well, a bit of a clunker.

The $787 billion stimulus bill has — by the administration's own admission — failed so far to jump-start the economy. The nation appears headed to smash the 10 percent unemployment barrier this year. And the administration's foreclosure prevention plan has helped only about 235,000 homeowners, out of the 4 million the administration has promised to rescue by 2011.

Will cash for clunkers ultimately prove more successful? Proponents credit the program with giving the auto industry a much-needed shot in the arm. Skeptics, however, question whether it's really delivering the environmental benefits it promises.

Regardless of the program's specific pros and cons, however, several economists told Newsmax that the program offers a clear preview of what lies ahead on a much larger scale, if President Obama succeeds in implementing his broader legislative agenda.

Among their concerns:

Market Unpredictability – Market forces have proved to be far too complex for government officials to gauge. The rush to participate blindsided officials.

"It shows how hard it is to predict any of this," said Doug Bandow, senior Cato Institute fellow, adding: "Complex human beings often make decisions you don't count on."

Faulty central planning – Germany, a country with one-third the population of the United States, kicked off a similar program this year — funded at $7 billion. There were indications for months that U.S. car buyers were delaying their purchases until the cash-for-clunkers incentive took effect. Yet officials failed to anticipate the demand.

Massive cost overruns – Assuming that the additional $2 billion is approved, the cost of the program to taxpayers will have tripled in about two weeks' time. Although proponents may say that's a good investment, it highlights the government's inability to accurately assess the long-term cost of its own programs.

This phenomenon has been seen time and again with Medicare, Medicaid, and Social Security, and is one reason why cost estimates on healthcare reform and cap-and-trade are widely disputed. A Quinnipiac poll released Wednesday showed that fully 72 percent of voters don't expect President Obama to keep his promise of implementing healthcare reform without increasing the size of the federal deficit.

Bureaucratic delays – It took officials almost a month to develop the 130-page rule book on how the program works. Officials also had to create a computer system and establish a 250-person phone bank to handle calls from consumers. Although the program officially began July 1, The Wall Street Journal reports that dealers weren't able to register claims until July 24.

Business turns political – Markets operate efficiently in part because they exclude politics from the process. Opponents of cash for clunkers charge the Obama administration is trying to help its UAW supporters; aims to prop up the value of auto companies it now partially owns. "They desperately want it to be perceived that the bailout of the auto industry was a good thing. So the more indirect ways they can throw money at the auto industry, then they can go back to the America people and say, 'See, wasn't what we did a good thing?'" Bandow said.

Inefficient operations — So many users logged onto the cash-for-clunkers Web site that it crashed. "It was sort of like trying to buy U2 tickets in the first five minutes they go on sale," Chris Lemley, president of the Boston-area SentryAuto Group, told The Wall Street Journal.

Time lags — Dealers soon had a backlog of orders, and then had to wait nervously to see whether they would be paid. The government's original requirement was that a clunker's engine had to be disabled before the dealer would be paid. This left dealers in the embarrassing position of disabling a vehicle and submitting an application for reimbursement — only to learn later the application had been turned down for lack of funds.

So the administration changed the rules so that dealers could wait until after the deal went through to destroy the engine. Lots were soon swamped with vehicles in limbo.

"This is a great program, but it's also the worst-run program I've ever seen," Alex Perdikis, executive vice president of Koons Automotive Companies in the Metro-D.C. area, told the Journal.

Mixed signals — When auto execs first informed the administration that they were flooded with customers, Transportation Secretary Ray LaHood announced that the program would be suspended. Later that day, the White House backtracked, saying CARS wasn't being suspended after all. Then the House passed the $2 billion supplemental funding. The Senate delayed action, however.

As of Tuesday evening, the official Cars.gov Web site continued to state: "CARS Back on the Road: The Car Allowance Rebate System (CARS) is still operating." But the $1 billion was probably long gone. Dealers were left to wonder when they would be reimbursed by the government.

Another problem with big programs is their unintended consequences, Harvard economist Miron told Newsmax.

"We're not getting money from some magic urn, or out of thin air, or as manna from heaven," he said. "In an attempt to help the auto industry, we have to be taking those resources from somewhere else. So to pay these cash-for-clunkers payments, we have to have higher taxes at some point, or reduce other types of expenditures.

"So [we're] helping the auto workers at the same time hurting all other workers, whose taxes are going to be higher to pay for this. And we're helping people who want to buy cars, as opposed to helping people who might want to buy a better place to live, or better clothing, or better medical care, or whatever. So there's not a free lunch," Miron said.

Of course, Obama's supporters would argue that an unfettered free-market economy is what led to September's financial meltdown in the first place. But Miron said those in charge in Washington appear more interested in redistributing resources than in making the economy more efficient. And he warned that cap and trade "is going to be incredibly messy and complicated."

Foster, a senior fellow at Heritage, said one of the best things the government can do for the marketplace is leave it alone. Yet he notes that Republicans as well as Democrats have supported the marketplace manipulation exemplified by cash for clunkers.

"It's the manic desire of some people in Washington to make the economy play by their rules that threatens the recovery, and the long-run prosperity of the country," he said.

He does credit Obama's inner circle of advisers with being consistent, though.

"There is a consistency in trying to gain control over aspects of the economy," he said. "There's also a consistency in the hubris behind the belief that they are smart enough to do it, and to do it well, and that it will be a lasting solution. These are very smart people in love with their own intelligence."

Economist Adam Lerrick, a visiting scholar at the American Enterprise Institute, offers a world-weary perspective on what lies ahead for the American voter as government, which already consumes more than 40 percent of the GNP, gobbles up an ever growing percentage of the nation's resources. He predicts economic stagnation, high taxes, a growing deficit, high inflation, and chronic high unemployment.

"That's when you hit a crisis and the public gets frightened, and votes into power a Ronald Reagan or a Margaret Thatcher," Lerrick told Newsmax. "This is not a new movie. We've seen this movie before. And the end is always the same."