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Study: 'Cash for Clunkers' Reduced Spending

By Tom Gantert
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The Obama administration has hailed the "cash-for-clunkers" stimulus program for its part in the automobile industry recovery.

But a recent study is putting the program that ended in 2009 back in the news and highlighting its alleged failures.

Economists from Texas A&M University evaluated the stimulus program and found it cost the automobile industry billions of dollars. The study –"Cash for Corollas: When Stimulus Reduces Spending" -- highlighted how the environmental objectives of the program interfered with the stimulus objectives.

Short Boost, Then Decline

The study found the increase in sales for the two-month program was completely offset by lower sales during the next seven to nine months. Furthermore, the fuel-efficiency restrictions on the types of vehicles that qualified for trade-in under the program reduced industry revenue by $3 billion over the 9-to-11 month period.

People who participated in the cash-for-clunkers program tended to purchase less-expensive vehicles such as the Toyota Corolla, according to the report. Each household that purchased a new vehicle under cash-for-clunkers spent an average $4,600 less on it than they otherwise would have.

Officially known as the Car Allowance Rebate System, the program was started in July of 2009. It provided $3,500 to $4,500 bonuses to buyers who traded in vehicles with fuel efficiency of less than 18 miles a gallon for a new car or truck that got better mileage. Overall, the program gave out $3 billion in subsidies toward the purchase of 677,000 new vehicles nationwide.

The White House claimed in September of 2013 that cash-for-clunkers sparked nearly 700,000 in auto sales that generated an estimated $25 billion in economic activity.

In 2009, Cato Institute Senior Fellow Peter Van Doren pointed out, among other problems with the program, that the estimated 1.6 million barrels of gas it purportedly saves each year is only about two hours' worth of total daily consumption by U.S. drivers.

Five years later, Van Doren hasn't changed his opinion.

'No Net Effect on Purchases'

"The evaluation of the cash-for-clunkers program by economists has been uniformly negative," Van Doren said in an email. "The program simply shifted the purchase of new cars over time so that there was no net effect on the number of cars purchased over the year after the program was introduced. In addition the net benefits of the program were negative in terms of costs versus the gasoline savings. And now this latest paper demonstrates that even though the number of cars sold was not affected, the net revenues to automakers were actually reduced because the purchased cars were cheaper than the cars that would have been purchased in the absence of the program."

Terry Burns, executive vice president of the Michigan Automobile Dealers Association, said cash-for-clunkers came during a tough time for the auto dealerships.

"Customers were having a hard time finding car loans," Burns said. "We saw it as an opportunity in 2009 to have car sales continue than rather just stop. It was very difficult time that we may have forgotten about. It did help move some vehicles that may have been stacking up on the dealer's lot. We were able to remove a lot of unsafe cars off the road. That's what I heard the most from the dealers."

"It did create some buzz. It was a positive, we were able to sell vehicles, keep the economy going and get a lot of old vehicles off the road," Burns said.

An Economic Clunker

But Michael LaFaive, a fiscal policy analyst with the Michigan-based Mackinac Center for Public Policy, said the program's economic value was the clunkiest aspect of the program.

"Robbing many Peters to pay car buyer Paul just redirected economic transactions, and it did so in a wildly counterproductive manner," LaFaive said. "The law of unintended consequences is at work always and everywhere.

"Even if the lawmakers were truly well-intentioned, they should be smart enough to understand that their spending decisions will induce all sorts of decision making that directly undermines the results they are trying to achieve. If politicians don't understand this law, one must ask if they even belong in a position to make others for which the rest of us must pay. How ironic that the same government that directly bailed out the industry undermined it with a different program designed to boost the industry's bottom line."