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Clunkers' deadline boosts sales, but critics doubt effect will last

By DAVID LIGHTMAN

WASHINGTON -- As the government's \$3 billion "cash for clunkers" program spurred an apparent last-minute car-buying frenzy across the nation Monday, it remained unclear whether the popular rebate effort gave the ailing auto industry an important boost - or only a temporary reprieve.

Experts were sharply divided.

"The program worked beyond anyone's expectations. Look at how quickly the money was used up," said John Wolkonowicz, senior auto industry analyst at IHS Global Insight, an economic research firm in Lexington, Mass.

However, James Gattuso, a senior research fellow at the conservative Heritage Foundation in Washington, had a very different view.

"It was a bad idea," he said. "If you're looking for a long-term solution to the crisis in the auto industry, this wasn't it."

Car dealers across the country gave the program good reviews, but with a touch of concern.

"There is no doubt it has been successful," said Vicki Giles Fabre, the executive vice president of the Washington State Auto Dealers Association in Seattle.

In June and July, she said, new auto and light truck registrations were down 39 percent in the state, compared to a national drop of 32 percent.

"We were struggling," she said.

As of a week ago, however, dealers in the state had an average of \$220,000 in exposure to the program, or were essentially owed that much by the federal government, Fabre said.

Larry Carl, the executive vice president of the Automobile Dealers Association of Greater Kansas City, Mo., also found both consumers and dealers benefitting.

However, he said that many dealers who fronted up to \$4,500 in subsidies on trade-ins were worried that they might not get all of their reimbursement requests in by Monday's 8 p.m. deadline. Many spent the day calling the offices of their senators and congressmen asking for an extension until the end of the week. Dealers have until noon Tuesday to file paperwork needed to get repaid for the rebates.

"The approval process has been somewhat problematic," Carl said. "It's winding down, and you have 16,000 dealers across the country trying to submit their applications before the deadline."

Fabre noted that the computer system used to submit vouchers for reimbursement has been so overloaded that some haven't been able to get online to submit the paperwork, even though the car sales were finalized by Monday's deadline.

Some dealers were worried that they may never get paid by the government, especially if the program exceeds its funding.

"Dealers have assumed a large amount of risk to participate in this program," Fabre said.

This much is clear: Since the program began about a month ago, it's logged more than 625,000 requests for rebates worth about \$2.58 billion; a total of about 750,000 transactions are expected. Consumers qualified for rebates of up to \$4,500 if they traded in gas guzzlers for more fuel-efficient new cars.

Many lawmakers were concerned that people wouldn't buy cars that were efficient enough, but the federal Transportation Department estimates that gas mileage of new vehicles is up about 60 percent from the trade-ins.

The program's supporters probably outnumber its detractors. Muhammad Islam, an associate professor of economics at St. Louis University, thought cash for clunkers filled an important economic need.

"Overall it was a good idea, because that sector needed a boost," he said.

And IHS Global Insight found that while about two-thirds of sales were "pulled" from the future - that is, they attracted consumers who'd planned to buy a car during the next 18 months - the effect on future sales should be slight.

Carmakers aren't likely to simply revert to old ways of selling cars, Wolkonowicz said, because the industry is likely to provide new incentives for buyers.

His group estimated that about a third of the cash for clunkers buyers were people who normally would have bought used cars.

"A lot of frugal people do not buy new cars," Wolkonowicz said. "But when they see the incentives offered here, they were willing to look at a new car."

A host of others, however, thought the program was ill-conceived and offered only an artificial boost to the car industry.

Chris Edwards, the director of tax policy at Washington's Cato Institute, a libertarian research group, said the program "further damaged the longer-term prospects of auto dealers and automakers by diverting their attention from market fundamentals in the scramble for federal cash."

And, he said, it probably will drive up used car prices since lower-priced used cars were "thrown in the trash," a development that could particularly hurt lower-income families.

One of the skeptics' chief arguments is that Washington rushed into the program without knowing its potential cost or even how it would work.

Rep. Ileana Ros-Lehtinen, R-Fla., suggested the program poisoned the well for further government programs - including Democratic proposals to overhaul the nation's health care system.

"This cash for clunkers has really scared a lot of people," she said. "They're thinking, 'Wow, first they were going to run out of money so they had to stop, and then we put some more money in and now they say today is the last day.' They're thinking government can't do much, and now we're going to give them one more thing.

While the plan was a good one, she said, "it reminds people of the incompetence of government, that we didn't have enough processors to do all the paperwork and they worry that something like that is going to happen to health insurance."

(McClatchy Newspapers correspondents Les Blumenthal, David Goldstein and Lesley Clark contributed to this report.)