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Clunker Program Has Hurt The Poor: Raised Prices Of Gas, Parts, Cars

Tuesday, September 01, 2009; Posted: 08:34 PM

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Aug 31, 2009 (Basil and Spice - McClatchy-Tribune Information Services via COMTEX) -- [UCL](#) | [Quote](#) | [Chart](#) | [News](#) | [PowerRating](#) -- Last week the "Kash for Klunkers" program (I will just call it KFK from here out) came to an end. The end of this program should be no cause for sorrow. This was a bad idea from the George Bush (the elder) campaign against Bill Clinton in 1992. In the past, there have been several local or regional KFK programs around the country, some in Los Angeles sponsored by Unocal Corporation 1994 as offsets to allow Unocal to expand its emissions (see Robert Hahn, An Economic Analysis of Scrappage, Rand Journal, 1995). Note that for Unocal's expansion to have been allowed, the offsets had to have reduced targeted emissions by more than Unocal's emission increases. While some local targeted buyouts may be cost effective, general buyouts, as the recent Congressional \$3 Billion KFK program seem more like mere subsidies for the auto industry a "more pork-flavored bailout. And as we have heard on the news lately, more of the bailout from the KFK program has gone to Japanese rather than U.S. automakers.



As Harvard's Jeffrey Miron points out in a CNN.com paper (reposted at Cato), the program does little to reduce fossil fuel consumption, and may even result in increasing gasoline use, as the more fun-to-drive new cars see more miles driven than older vehicles. In fact, David Bernstein, in his recent working paper reports that the Energy Information Administration finds that a 14 year old car will travel around 8,600 miles per year compared to 14,300 for a new car. Miron's "fun to drive" explanation along with better gas mileage (cheaper to drive, so more miles driven). Bernstein estimates that with the greater number of miles driven by the new cars relative to the old cars, that gasoline consumption will increase by 85.8 gallons per car for the first year after the KFK exchange of vehicles.

The fact is, many of these older vehicles would have been traded in for newer cars anyway, and these older cars would soon be off the road. And very soon, these older cars that have been destroyed with

KFK, will be replaced by other poorly maintained, old, high polluting vehicles. What KFK has done is to raise the price of used cars by taking these cars off the market, and it is expected to raise the price of auto parts, as these cars will not be supplying parts. And this will hurt the poor more than anyone else,

The KFK policy, which Bernstein shows is more likely to raise gasoline consumption, can only be justified as some part of sort of stimulus program, and for the auto industry, it seems to have done just that. It has also been a boon to those trading in their old gas guzzlers. However, it does nothing for those producers in other industries that have seen downturns, such as those in recreational boat industry. Nor has it helped consumers who did not have a gas guzzler to junk.

The program reminds me of one of FDR's programs. My Dad, who was almost 10 at the beginning of the Great Depression and in his 20s before it was over, told me of an FDR program that was a precursor to KFK. He told me of bulldozers digging large holes and cattle being driven into those holes, shot and buried. This took beef off of the market and drove beef prices up, just as new and used auto prices have been pushed up by the KFK program. And just like the KFK policy, wealth was destroyed and resources were made scarcer than they had been. Imagine, while people were going hungry across the country, cattle were being destroyed and wasted. KFK does the same for transportation for the poor.

Bastiat destroyed the logic of BMO's KFK policy and FDR's "Let them go hungry" in his opening essay of his book Economic Sophisms, titled "Abundance and Scarcity." Bastiat showed that the greater lot of society is never made better off by reducing their ability to consume. While this may be a beneficial path for certain special interests, the rest of society suffers as a result.

KFK is gone. Let us vow to never repeat the mistakes of the past. But we are bound to repeat them.

R. Morris Coats is a Professor of Economics at Nicholls State University in Thibodaux, Louisiana. He was educated at Louisiana State University and at Virginia Tech. He taught at Lynchburg College and at Marshall University before coming to Nicholls State where he teaches classes on environmental economics, health economics, public economics and managerial economics. He has authored or co-authored numerous articles in peer-reviewed journals, such as the Southern Economic Journal, Journal of Public Economics, Public Choice, Public Finance Quarterly, Legislative Studies Quarterly, National Tax Journal, the Journal of Marketing for Higher Education, and Applied Research in Economic Development. He has co-authored several papers on sustainable economic growth and common-property resources. In addition, he has performed various impact and forecasting studies for the South Louisiana Economic Council and various tax studies for local and state governments. He has also published papers on cigarette smuggling, bribery of politicians and wasteful spending on homeland security. He takes special pride in now having at least one economic advisor for both the presumptive Republican nominee and the presumptive Democratic nominee for President of the United States for 2008 cite his research.

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