



## Cash for Clunkers Is a Failure

In a development policymakers cite as a huge win for intervention in the marketplace, last week the federal government nearly suspended the Car Allowance Rebate System (also known as cash for clunkers), owing to a lack of funds, after consumers burned through the budgeted amount in only four days.

The suspension did not take place as CARS — which was originally funded to the tune of \$1 billion — will receive another infusion of \$2 billion to keep the program alive.



The political spin machines in Washington and congressional offices everywhere are touting *cash for clunkers* as the salvation of our economy. Such a statement is an outright lie. It should be grossly apparent that the program's popularity and subsequent budgeting problems show not the strength of intervention, but rather its most significant flaw: socialist market policy does not have the ability to sustain itself. It cannibalizes itself and feeds off the vibrant — and freer — components of the economy.

The money used to fund CARS was acquired from the private sector through direct taxation or indirect taxation (otherwise known as inflation). Under the former scenario, money that could have been utilized by consumers and businesses in more productive ways was taken from them, tempering the further advancement of market sectors that have been healthy. Through government sleight-of-hand, those once-active dollars are now being used to prop up a slumping automotive industry, a market that consumers have willingly abandoned during, and even before, the recession. Conversely, that money — which could have been used to develop new technologies in pharmaceuticals or consumer electronics — cannot be invested in the future growth of healthy companies because it was “invested” instead by the government in an effort to correct an industry gone bad. Similar public actions that favor the weak over the strong and the irresponsible over the responsible account for the continued demise of USA-based manufacturers of consumer and industrial goods that are competing in a global marketplace: their hard-earned rewards have become the ill-begotten prize of the collective America.

The chances are good, though, that CARS was not funded through tax dollars, and it is evident future CARS funding cannot and will not come from taxes. Like the \$60 billion the government has already used to buy and/or bailout General Motors, new cash for clunkers will be made available by borrowing from the Federal Reserve, increasing the supply of fiat dollars and negatively affecting their overall value which, in the end, decreases the purchasing power of both producers and consumers.

Ironically, it is poor governmental decisions like this one that have prevent consumers from buying more cars. Even though the average worker of today may have a higher wage than one 10 years ago, his or her buying power has decreased to the point that a new car has become a luxury, something put off until the last possible moment or never. Rather than exiting this inflationary mess, the government adopted a means by which to exacerbate the problem through repetition of the same socialist tendencies.



Written by [Robert Confer](#) on August 4, 2009

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Continuing with the irony, not only will CARS hurt the economy as a whole, but it will also weaken the very industry it was supposed to protect.

*Cash for clunkers* will, first and foremost, create a temporary bubble very similar to that of the housing bubble, the bursting of which helped spawn this recession. Housing purchases spiked and then tumbled because bad public policy forced banks to make available reams of easy money to consumers of suspect credit and income who only a few years into their mortgages discovered they could no longer afford them. The same will likely happen with vehicles: the \$4,500 rebate will give many people undue confidence in their buying and borrowing abilities which, coupled with business-starved dealers looking to make an easy sale, will induce them into purchasing vehicles they cannot afford. A year from now — or maybe sooner based on the current job market — they will renege on their responsibility to the lender, putting us all on the hook for their indiscretions, weakening the credit market even more and prolonging the recession. This is a very real future, one virtually guaranteed to occur and one that we wouldn't have to worry about were the government to stay out of the marketplace and not artificially excite it by unconstitutionally subsidizing the masses.

Also, as important as the sale of new cars are assumed to be by Congress, policymakers fail to see that the used-car market is just as important. Not everyone can afford a new vehicle. The teenager or young adult who is getting his first car will buy a used one. So will the blue-collar father who works that extra job to put food on the table for his wife and children. So will the cost-conscious entrepreneur starting-up her new business. But in the very near future, they won't be able to make that purchase because CARS demands that the clunkers turned-in are destroyed, eliminating them from resale. That will impact the market in two ways. It will limit the availability of used automobiles (the government's definition of a clunker is anything but a clunker), and those used vehicles that remain will have higher price tags because of the lower supply. This atypical market activity is a direct result of federal intervention and its outcome — *that many middle-class Americans won't be able to purchase or afford the cars they want* — will probably induce yet more intervention to correct the problem further down the road.

These glaring weaknesses and risky prospects of the *cash for clunkers* program have been ignored by the news outlets at large, which have put the program in a favorable spotlight at its inception and during the current refunding process. Unfortunately, because of such press, a good many Americans — of both left and right persuasion — have welcomed CARS with open arms. Let us hope that cooler heads prevail in the coming weeks and coming years and throw up some roadblocks to the expansion of this and similar assaults on the free-market system.



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