



Liberal Brookings Institution Admits: Cash for Clunkers a Failure

The left-leaning Brookings Institution [admitted in an October 31 report](#) that the Obama administration's Car Allowance Rebate System, or "Cash for Clunkers" program, was an almost complete waste of billions of taxpayer dollars. The report, entitled "The Car Allowance Rebate System: Evaluation and Lessons for the Future," concluded that the 2009 subsidy for new car buyers had no measurable long-term impact on economic growth and cost \$1.4 million for every "job-year" that was created under the program.



When even the schoolmarm of American liberal think tanks admits government "stimulus" spending programs are a failure, that's a singular event. The Brookings study flatly contradicted the Obama [White House claims](#) immediately after the program began. The administration had argued that it had economic benefits to the auto industry over nearly three years.

"The program led to a minimal increase in employment of roughly 2,050 additional job-years from June 2009 through May 2010," study authors Ted Gayer and Emily Parker [concluded](#) of the Car Allowance Rebate System (CARS) pushed by President Obama and Detroit automobile company executives, commonly called Cash for Clunkers. Gayer and Parker noted that "The CARS program created 0.7 jobs for each million dollars of program cost, resulting in a cost of \$1.4 million per job created." Note that Brookings concluded the program spent \$1.4 million for each "job-year," not per job. For every year someone worked in the auto industry because of the program, the federal government shelled out \$1.4 million taxpayer dollars in subsidies. In essence, the American taxpayers would have been better off if the U.S. government had simply issued \$1 million checks randomly to 2,050 unemployed persons.

Gayer and Parker [concluded](#) that the program created "380,000 additional vehicle sales during the time of the program" among the 700,000 Americans who scrapped functioning automobiles in order to take advantage of the government subsidy. But the authors noted that "the net result was a negligible increase in GDP, shifting roughly \$2 billion into the third quarter of 2009 from the subsequent two quarters." In essence the \$3,500-\$4,500 per car in government subsidies during the Cash for Clunkers program gave consumers an incentive to buy new cars a few months before they otherwise would have bought a new car. But it had no measurable medium-term or long-term positive impact on economic growth.

In a July 31, 2009 [statement](#) asking Congress for more money to keep Cash for Clunkers open, President Obama claimed the program "has given consumers a much needed break, provided the American auto industry an important boost, and is achieving environmental benefits well beyond what was originally anticipated. The program has proven to be a successful part of our economic recovery and will help lessen our dangerous dependence on foreign oil, while reducing greenhouse gas emissions and improving the quality of the air we breathe. I urge the Senate to act with the American consumers



Written by [Thomas R. Eddlem](#) on November 1, 2013

in mind to pass this important legislation.”

But with an historical view, even leftists Gayer and Parker [concluded](#): “Our evaluation of the evidence suggests that the \$2.85 billion in vouchers provided by the program had a small and short-lived impact on gross domestic product, essentially shifting roughly a few billion dollars forward from the subsequent two quarters following the program. The implied cost per job created due to the program was much higher than what was estimated for alternative fiscal stimulus programs.”

Even the much-touted environmental benefits of putting more energy-efficient automobiles on the road a few months early was marred by the program’s implementation, which mandated the destruction of all 700,000 of the automobile engines scrapped in the program. But [many of the automobiles were not recycled](#), even though most of them would otherwise have been.

And while the Cash for Clunkers program had no measurable positive impact upon the American economy, it certainly hurt the economy and the living styles of Americans by destroying nearly 700,000 functioning automobiles. The result was [predicted by free market economists beforehand](#), though the program — along with other stimulus programs — was [trumpeted](#) by big government Keynesian school economists. It was also analyzed as part of the award-winning 2010 [documentary video](#) *Overdose: The Next Financial Crisis*.

In his parable of the “Broken Window Fallacy” in his pamphlet *That Which is Seen, and That Which is Not Seen*, 19th-century free market economist Frederick Bastiat noted that the destruction of valuable property never brings prosperity to a nation. He [explained](#) that some liberal economists of his day were suggesting that even a broken window helps to spur the economy because it gives the glazier a job in order to replace the broken window. Bastiat countered that the shop-owner with the broken window could just as easily have spent his money on new shoes, helping the cobbler instead of the glazier:

[People should take] into the account that which is not seen ... placing it alongside of that which is seen. The reader must take care to remember that there are not two persons only, but three concerned in the little scene which I have submitted to his attention. One of them ... represents the consumer, reduced, by an act of destruction, to one enjoyment instead of two. Another under the title of the glazier, shows us the producer, whose trade is encouraged by the accident. The third is the shoemaker (or some other tradesman), whose labor suffers proportionately by the same cause. It is this third person who is always kept in the shade, and who, personating that which is not seen, is a necessary element of the problem. It is he who shows us how absurd it is to think we see a profit in an act of destruction.

Thus, the destruction of 700,000 cars — as occurred during the Cash for Clunkers program — could not under any circumstance enrich a nation. Bastiat sarcastically [suggested](#) that the principle should be expanded to a massive scale in order to test the truth of the theory: “Who has calculated with so much precision how much trade would gain by the burning of Paris, from the number of houses it would be necessary to rebuild?”

But modern Keynesian economists, such as Nobel Prize-winning economist Paul Krugman of Princeton University, see Bastiat’s sarcasm as a desirable policy option. Krugman has claimed in his *New York Times* columns that greater Japanese [prosperity should have resulted from the nuclear disaster at Fukushima](#), and greater prosperity would be created by massive government military spending in a (fake) [war against space aliens](#).



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