Cash for Clunkers was not a success, report finds

Cornell University

The 2009 Cash for Clunkers federal vehicle trade-in program was a clunker, concludes a new study. The program, it says, would have been more effective with higher fuel economy requirements for new vehicles and different vehicle-age thresholds for various types of trade-in vehicles.

"Our analysis offers rather bleak evidence on the overall performance of the program," said Shanjun Li, a new assistant professor at Cornell's Charles H. Dyson School of Applied Economics and Management, who conducted an analysis of the program and published a Resources for the Future (RFF) report in October, with two researchers from RFF, a Washington, D.C.-based think tank.

"The program provided little economic stimulus," Li concluded, adding that the analysis also suggests that the program did not deliver big on the environmental front.

Li and his co-authors, RFF research fellows Joshua Linn and Elisheba Spiller, found that the program cost the government more than $91 for each ton of carbon dioxide avoided and almost 90 cents for each gallon of reduced gasoline consumption.

"It's very hard to achieve two ambitious goals at the same time using this single program," Li said. "Trying to kill two birds with one stone could get you no bird at all. Balancing political considerations and realistic economic goals is not a trivial task."

As part of the study, the researchers developed a model to evaluate the impact of consumers, as a result of the program, switching from purchasing low fuel-efficiency to high fuel-efficiency vehicles and changing the timing of their vehicle purchases to take advantage of the program's rebate.

The government offered a $3,500 rebate for a 4 miles per gallon (mpg) improvement or $4,500 for a 10 mpg improvement in cars. During the July-August 2009 rebate period, the sales of eligible vehicles increased, with higher fuel efficiency vehicles selling more. However, car sales were lower before and after the program.

"Consumers who would have bought in October instead bought in July and August. When October came consumers didn't buy, pulling down the average mpg of new vehicles sold," Li said. "Looking at a longer horizon, our estimates do not suggest a net gain in sales during the period from June to December."

Toyota, Honda and Nissan accounted for more than half of the program sales and benefited from the program most because they have the most fuel-efficient models,

Li said. Chrysler had the smallest sales increase.

The study concluded that more research is needed to better understand and improve the types of programs that are popular during economic downturns. Li is now exploring models that would help develop better federal programs and provide improved guidance on what could be achieved under different program designs in the future.

For example, he suggested that future programs have higher fuel economy requirements for new vehicles and set vehicle-age thresholds based on attributes of used vehicles.

In addition, he said, target audiences also must be considered.

"You don't want to give money to people who would buy fuel-efficient vehicles anyway," Li added. "To achieve stronger stimulus you want to give money to those who wouldn't."

Li is also studying how increases in the federal gasoline tax could affect U.S. gasoline consumption.

Julie Berry is a freelance science writer.

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