

Bangers and cash

Has the "cash-for-clunkers" scheme delivered anything useful?



AFP

In any love affair the offering of gifts helps to sustain the ardour. But such are the favours showered by the American government on carmakers over recent months, it seems as if politicians have been atoning for a dalliance with another industry (banks, perhaps). Now the giving is at an end. On the heels of multi-billion-dollar bail-outs for General Motors and Chrysler and brief government-assisted bankruptcies, America's car-scrappage scheme ends on Monday August 24th.

"Cash-for-clunkers" was intended to give a boost to the car industry and the environment by offering incentives to get buyers to exchange their old gas guzzlers for something more frugal. It promised Americans up to \$4,500 to trade in a vehicle that returns 18 miles per gallon (8km per litre) or less for a new one that goes at least 22 miles to the gallon.

The presence of crowds in many car showrooms over the weekend testified to the scheme's apparent success. So did the fact that buyers happily took up all of the \$1 billion that Congress set aside for the programme in the week after its introduction in July. At the start of August Congress cheerfully approved another \$2 billion to ensure that even more old bangers were laid up in favour of shiny new models. The result was a bump in car sales of 2.4% in July compared with June, an impressive figure after a year of dismal ones.

Such was the popularity of the scheme, or perhaps the bureaucratic failure of a programme that was rapidly introduced, that some dealers stopped doing clunker deals early. This was partly because stocks of suitable vehicles were exhausted. But other factors might also have slowed things: some dealers complained of tardy payment from the government; rumours spread that a backlog of claims might mean the money would run out for later customers.

As of last week, some 457,000 clunker purchases worth some \$1.9 billion had been registered. Many more may be in the pipeline, although the rate of purchase probably declined in recent days. At the beginning of this month some 45% of cars were bought under the scheme: by last week that had slipped to about 20%. A bigger worry is that the slowdown is a foretaste of a slump in demand when the scheme ends.

Rebate schemes like this tend to encourage buyers to advance purchases that they would have made anyway, thus cannibalising future sales. The termination of a car-scrappage scheme in France in the 1990s led to sales plunging by 20%. Nor is it certain that the scheme provides a more general boost to the economy, as buyers may have been put off other purchases in order to afford a new vehicle. That said, there is a case to be made that, given the depth of the crisis

a few months ago, the boost to total demand prompted by the scrappage scheme did at least help to avert a Keynesian "liquidity trap", leading to a depression.

The green benefits are also hotly contested. The scheme should help to make America's car fleet slightly less fuel inefficient, but there are significant environmental costs in scrapping perfectly good cars and building new ones.

At least the scheme may have persuaded Americans to consider the whole cost of owning a vehicle, beyond the sticker price. Early figures showed that over 80% of the vehicles traded in were trucks and SUVs and that 59% of the vehicles bought were cars. That may be a sign of more trouble for American carmakers which are particularly reliant on sales of SUVs and trucks and which have been bailed out at huge cost to taxpayers. The top ten clunkers traded in are all products of Detroit's big three and the greater gains have come for foreign car companies (mainly American-built vehicles at non-unionised factories).

Only Ford, which did not seek a government bail-out, partly because it was making and selling cars more in tune with America's new tastes, features in the top five of models bought under the programme. GM and Chrysler, hoping to reinvent themselves as greener car firms, may find that cash-for-clunkers, by turning more American heads towards Asia's carmakers, is a present they regret receiving.

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