Cash for Clunkers

Accelerated vehicle recovery as a green stimulus strategy to retain automotive industry jobs, reduce oil dependence, and save consumer dollars at the pump

SmartTransportation.org and the Center for American Progress Action Fund

The economic context: the need for a stimulus

There is a growing consensus in Washington D.C. and on Main Streets across the country that the economy needs a jump start. Unemployment stood at 6.5 percent in October 2008, the highest level in 14 years, as employers cut 240,000 non-farm jobs, bringing the total number of jobs lost this year to 1.2 million.[1] Losses continued to spread throughout the economy, leaving education and health services, and natural resources and mining, as the only two private sectors unscathed.

Meanwhile, new housing construction continued to slow in September, with privately owned housing starts at a seasonally adjusted annual rate 6.3 percent below the revised August estimates, and 31.1 percent below the September 2007 rate.[2] Housing prices also continued their record declines across the country, with the Standard & Poor's/Case-Shiller Index 20-City Composite now down 19.5 percent from the national peak in June/July 2006.[3] Adding to these economic woes are the home foreclosure crisis, the financial mess and credit tightening, and stagnant wages for workers. The aggregate impact of this economic malaise makes the case for a stimulus and recovery package urgent and incontrovertible.

The automotive industry: job loss and high prices at the pump

As the economy spirals downward, we are losing jobs in the automotive sector at alarming rates. The number of new cars sold annually in the United States has declined by more than 2 million units since 2005. This has translated into plant closings and the loss of hundreds of thousands of jobs in just a few years.

Sixty percent of the 21 million barrels of oil we consume daily in the United States is used by the nation's 250,000,000 cars and light trucks. Our continued reliance on oil to drive the transportation sector is deepening our economic crisis, hurting consumers at the pump, and sending more than $500 billion in U.S. capital out of the country to oil-rich regimes.

Although oil prices have dropped substantially upon fears of a global recession, this is only a temporary phenomenon, as international demand will unavoidably rebound as economies around the globe recover. Tightening supplies will continue to drive prices higher once the current economic maelstrom is past.

Cars which are 13 years or older account for only 25 percent of the miles driven, but they produce 75 percent of all pollution from automobiles. And when gas prices rise, Americans driving less-efficient vehicles are the most acutely affected, straining household budgets, reducing consumer spending on other goods and services, and exacerbating the economic slowdown.

In this context, it is clear that improving the overall efficiency of our light-duty fleet, and particularly the older vehicles owned by lower-income Americans, would deliver three key benefits:

1. Creating or retaining significant numbers of U.S. auto sector jobs
2. Reducing our oil dependence
3. Saving consumer dollars at the pump

Yet with credit markets extremely tight and a general consumer spending downturn, it is unlikely that a rapid turnover of our vehicle fleet—and resulting efficiency gains—will occur without a more intentional market catalyst.

Low- and moderate-income Americans own more of the older and less efficient vehicle stock in the country, which gets worse gas mileage and emits more pollution than newer cars.

A Cash for Clunkers program to stimulate job growth and lower gas bills

Fortunately, there is a cost-effective solution that could be implemented quickly, as part of a "green" stimulus package now under consideration by Congress.

This Cash for Clunkers program would target Americans who own older, inefficient vehicles, often those of more limited means who would benefit most from upgrading to a more economical model. The program would offer a premium rate for these vehicles, which would be subsequently scrapped, with the owner agreeing to acquire a more efficient vehicle or use the voucher for mass transit.

Cash for Clunkers is a means of getting funds into the hands of those who are most economically distressed, while simultaneously tackling the dual challenges of our oil addiction and the distressed auto industry.

Cash for Clunkers could be up and running quickly and immediately, and it would generate stimulative benefits for the economy without requiring a major new government bureaucracy.

The program could be managed by automobile dealers who would welcome the new foot traffic as they take in used vehicles and disburse the premiums. The vehicles would be sold to salvage yards, with the proceeds of reclaimed steel and used auto parts being returned to the U.S. Treasury. The U.S. Environmental Protection Agency, which already administers rebate programs focused on domestic appliances, is well positioned to oversee such a program.

With an average premium per car of $2,500, including handling fees for dealers, the program would require an annual outlay of approximately $5 billion dollars to scrap 2 million gas guzzlers each year. The total cost of the program would be offset substantially by the high salvage value of steel and auto parts, which is on the rise. The average price of gross shredded auto scrap was $565/ton in June 2008—a 300 percent increase in just five years. Older, less-efficient vehicles happen to be the heaviest and thus contain more salvageable metal. With an average weight of 4,000 lbs., at today's steel prices the typical clunker would reap a scrap value of roughly $1,000, thus reducing the cost of the program. This value is bound to continue to increase along with global demand for steel and precious metals such as platinum from catalytic converters.

At a scale of 2 million cars per year, the program has the potential to retain or increase jobs by upwards of 500,000.

The environmental benefits of a program to accelerate the turnover of the older automobile fleet are impressive. Cars that are over 13 years old are 10 to 30 times more polluting than newer models. Rapid fleet turnover would translate into dramatic reductions in both greenhouse gases and in the more acute air quality pollutants from older vehicles, such as ozone, particulates, and nitrogen oxides, all of which pose serious threats to public health in high-traffic urban areas.

Lastly, Cash for Clunkers would provide much-needed infusion of market demand to the troubled automobile industry, which has seen sales plummet amidst the faltering economy. The program has the potential to take millions of the oldest, most inefficient vehicles off the road and shift the entire market toward newer, more economical models, increasing demand and creating jobs. While many Cash for Clunkers participants would likely remain in the used car market, the program would broadly accelerate turnover of the existing vehicle fleet and drive increased sales for the industry as a whole.

Additionally, to free up frozen auto financing markets, the Clunker premium could be accompanied by some kind of credit enhancement so that program participants will be able to access loans for the remainder of the sale price of their next vehicle.

Car dealerships—700 of which went belly up this year, on top of the 430 which went out of business last year—would also benefit from increased customer foot traffic from managing the program. These auto dealer closings wiped out more than 50,000 dealership jobs.

The used auto parts industry would also benefit, as would the burgeoning scrap-metal and salvage industries.

Cash for Clunkers will generate or maintain hundreds of thousands of jobs across the entire automotive supply chain. **Top U.S. auto-industry companies, working in partnership with environmental advocates, have actively supported passage of this type of legislation in states across the country.**

Cash for Clunkers is informed by existing projects in Texas, California, and elsewhere, and thus has the benefit of incorporating the lessons learned from these state-level programs. The Texas program, for example, has issued more than 13,000 vouchers in its first months of operation and demand for the service far exceeds supply.

However, because Texas does not salvage the vehicles, the government foots the full bill of vouchers and administrative costs, and misses out on a significant revenue stream that could support the program. Cash for Clunkers would change that.

Cash for Clunkers is a program which can be up and running quickly, and it will provide an immediate stimulus to our struggling economy.

Conclusion

There are many ways in which government spending can stimulate the economy and create jobs as part of a recovery program. Public spending on Cash for Clunkers, however, as part of a larger green stimulus, would have ancillary benefits by reducing our dependence on oil, increasing innovation in the auto industry, and avoiding the devastating social, economic, and environmental effects of global warming over the long term.

Indeed, the transformation of our antiquated and carbon-intensive fuel and energy infrastructure around the platforms of efficiency and clean technology represents *the* great potential engine of American innovation, economic growth, and job creation in the immediate future and for coming decades. Cash for Clunkers represents a step towards that low-carbon future.

Cash for Clunkers would also improve public health and quality of life in metropolitan areas, and begin to tackle America's debilitating dependence on oil.

Moreover, by targeting those most affected by high oil prices yet most often absent from the larger energy and climate conversation, this program reaches new constituencies for a green economic renewal, and will focus national attention on the opportunity to invest in good jobs in a more energy-efficient economy.

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Endnotes

1 Bureau of Labor Statistics, "Employment Situation Summary," October 2008, available at http://www.bls.gov/news.release/empsit.nr0.htm

2 U.S. Census Bureau and U.S. Department of Housing and Urban Development Joint News Release, September 17, 2008, available at http://www.census.gov/const/newresconst.pdf (New construction data available Wednesday, September 17th at 8:30am EST).

3 Standard and Poor's, "Continued Record Home Decline Price Declines According to the S&P/Case-Shiller Home Price Indices," September 30, 2008, available at http://www2.standardandpoors.com/spf/pdf/index/CSHomePrice_Release_093042.pdf.