Clarifying the "Win": An Economic Review of the CARS Bill

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Abstract

This paper is a short, non-technical assessment of the 2009 "Consumer Assistance to Recycle and Save" (CARS) Act, a voucher program to incentivize US consumers to scrap old, highly pollutant autos in order to buy new American hybrid cars at a reduced price. Looking at the legislation from an economic perspective, this review explores the negative externalities that could arise from the bill's protectionist provisions.

I. Introduction

In response to the "economic crisis" that hit America's Wall Street in the fall of 2008, Washington politicos have looked to quick fix solutions to mitigate damage done to the economy by the poor financial decisions of investment banks. To policymakers, desperate times call for desperate measures, so it seems. The $789 billion stimulus plan, for example, has been the most prominent, sweeping measure the US Government has taken to sustain domestic commerce during these hard times.[2] Complementing this economic stimulus package, the Treasury Department has also been doling out exorbitant rents to industries in dire straits (i.e., "bailouts") for the last six months. As such, these government payouts to struggling business sectors underscore legislators resolve to help the American economy recover from a series of capital losses that have sent shockwaves throughout the nation's financial system and the world.

The troubled American auto industry has been one of the foremost recipients of these government emergency funds. The "Big Three," i.e., Ford Motors, General Motors, and Chrysler, have repeatedly lobbied both the House of Representatives and the Senate for more money in the name of bankruptcy protection. Last fall, these firms received $25 billion in loans from Capital Hill to overhaul their

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[2] This has been the largest expenditure approved by the Federal Government to date. For this figure, see the following: "Congress Reaches Deal on Stimulus Plan," *NYTimes.com*, February 12, 2009, <http://www.nytimes.com/auth/login?URI=/2009/02/12/us/politics/12stimulus.html>.

operations to manufacture more fuel-efficient cars.[3] And General Motors and Chrysler in early 2009 received an aggregate $17.4 billion in “bailout” loans.[4] What’s more, President Obama –like his predecessor President George W. Bush– advocated for the rescue of the American automobile industry in the first months of his administration. In February 2009, Obama announced that the government would purchase $600 million-worth of American fuel-efficient autos to replace its own fleet. “It will not only save the government significant money over time,” asserts Obama about this big purchase, “it will not only create manufacturing jobs for folks who are making these cars, it will set a standard for private industry to match.”[5] Given the nature of the Legislative and Executive branch’s involvement, the US Government is essentially functioning as the auto industry’s “lender of last resort.”

Through their intervention, lawmakers hope these emergency funds will “jumpstart” this sector. However, the sheer volume of these government payouts to auto-manufacturers raises the issue of what effects this deficit spending will have on the economy. The benevolence with which statesmen have met Detroit automaker’s rent-seeking has created quite the tumult with taxpayers who believe the auto bailout will be ineffective. These citizens complain that big government spending will rob them (through taxation) of much needed disposable income in this recession. Others predict that these payouts will ultimately prove unsuccessful in “beefing up” the American auto industry, with the ultimate consequence being greater inflation.[6]

In the wake of the government’s desire to prop up the Big Three’s domestic auto sales, which in January 2009 reached a 26-year low, it comes at little surprise that on March 17, 2009, the Consumer Assistance to Recycle and Save (CARS) Bill was introduced by Rep. Betty Sutton (D-Ohio), Rep. Bruce

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[3] Chris Isidore, “Auto bailout tab could top $130 million,” February 18, 2009, <http://money.cnn.com/2009/02/18/news/companies/auto_bailout/index.htm>.

4 “Bush unveils $17.4bn car bail-out,” *BBC News*, December 19, 2008, < http://news.bbc.co.uk/1/hi/business/7791999.stm>.

[5] “‘Cash for Clunkers’ pulled from stimulus,” *CNN Money.com*, February 6, 2009, < http://money.cnn.com/2009/02/06/news/economy/stimulus_clunkers.reut/ >.

[6] The following article captures some of these opinions: Associated Press, “Reaction to Bush’s decision on auto bailout,” December 19, 2008, *Mlive.com*, <http://www.mlive.com/business/index.ssf/2008/12/reaction_to_bushs_decision_on.html>.

Braley (D-Iowa), and Rep. Candice Miller (R-Michigan).[7] "Cash for Clunkers," the bill's nickname, proposes a voucher program for individuals to scrap their old, highly pollutant automobiles for vouchers toward the purchase of fuel-efficient models at a reduced price. Interestingly, this proposed legislation has received great acclaim for its "proven" practicability in foreign nations and the solutions it represents to domestic concerns about energy independence and climate change.

But is the CARS Bill as effective as DC politicians allege? Given its protectionist underpinning, I would aver that not only would such a statute hurt free trade but also that it could further aggravate the nation's current market failures. Therefore, in the course of this paper, I speculate upon the negative externalities the CARS Bill could create for the nation's economy and international trade relationships. In the forthcoming pages, I first provide a summary of the bill, which discusses its perceived benefits and protectionist aspects. Following this, I consider the negative externalities that this proposed act, if passed into law, could entail.

II. The CARS Bill: Legislative Summary, Perceived Benefits, and Protectionist Undercarriage

In the CARS Bill, Section III outlines the operation of this voucher program.[8] Specifically, this section enumerates how the government will incentivize consumers to swap highly pollutant old cars for new hybrid models. In the bill's current draft, the federal mandate allows auto consumers who own eligible vehicles that are nine years or older to recycle them and receive a government voucher credit towards the purchase of select, fuel-efficient automobiles. The determinants of a hybrid car's voucher value are based on the specs of the new car: namely, its model, fuel economy, and its place of manufacture. With respect to the voucher amount for recycled cars, the new car's fuel-economy stands as the most important factor. Essentially, the more miles per gallon a hybrid car delivers, the greater the

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[7] Isidore, "Auto Sales Worst in 26 Years," *CNN Money.com*, February 3, 2009, < http://money.cnn.com/2009/02/03/news/companies/auto_sales>.

[8] U.S. House of Representatives, *Consumer Assistance to Recycle and Save Act of 2009*, 111th Congress, 1st sess., 2009, (H.R. 1150) March 17, 2009. Text from: Congressional Documents. Available from: < http://www.opencongress.org/bill/111-h1550/show>. The following information cited in this paragraph can be found at this website in Section III of this bill.

voucher given for it. For instance, a small difference between hybrid models' fuel economy (even three miles per gallon) could translate to a jump in voucher value by as much as $1,000. But ultimately, the largest voucher amount attainable under the program would be $7,500. The program does try to accommodate consumers with various levels of purchasing power. Individuals who wish to participate in this program but still lack sufficient income to buy a new fuel-efficient vehicle, the CARS Bill provides an alternative: instead of being forced to use that voucher towards a fuel-efficient car, program participants have the option of using the voucher as a "Transit Fare Credit" in the amount of $3,000 to offset the cost of public transportation. Fittingly, Congress has invested oversight of this program, in effect from 2009 to 2011, to the Secretary of the Department of Transportation and staff. As a result of this recycling program, sponsoring legislators expect that on the supply-side, auto manufacturers, suppliers, dealers, and dismantlers ("scrappers") would all benefit from the business created from new car sales and the payouts of government money, which would be made electronically to expedite the selling process.

Since the introduction of this bill to the House, Detroit automakers have not been silent. In an attempt to garner public support for the CARS Bill, some auto suppliers have chosen to voice their approbation through mass media. For instance, Ford Motors Company's Executive Chairman and Chairman of the Board, Bill Ford Jr., gave his reasons for why this legislation was a must for the American auto industry. In his op-ed piece, "Cash in Old Cars for New Ones. Economy, Consumers, Automakers Would All Benefit" featured in *USA Today* on March 31, 2009, Ford makes his appeal for the necessity of this legislation. Opining on the recent failings of American auto-manufacturing firms like his, he highlights the need to attract American consumers back to dealership showrooms. "This unprecedented trend is sustainable for neither the industry nor the economy," says Ford, "We urgently need to draw reluctant consumers back into the marketplace."[9] He also cites an estimate calculated by

[9] Bill Ford, Jr., "Cash in old cars for new ones," *USA Today.com*, March 31, 2009, <http://blogs.usatoday.com/oped/2009/03/cash-in-old-cars-for-new-ones.html>.

Barclay Capital that predicts the CARS Bill to boost domestic auto sales by 2.5 million units, if but 2% of eligible vehicles were brought in to be traded for fuel-efficient cars.[10] After quoting Barclay Capital's optimistic estimate, he then asserts that the federal government's joint deficit spending and taxation policies are necessary for the security of American jobs as well as the macro-recovery of the nation. In closing, Ford assures his readership that "[i]mproved auto sales will be one of the key indicators that America is on the road to economic recovery…This fleet modernization idea [i.e., CARS Bill] would be a *win-win* for the consumer, the economy, the environment."

Ford's op-ed piece apparently resonated with the politicians backing the bill, as congressional speeches from CARS sponsors suggest that Detroit automakers are working together with lawmakers to give this legislation legitimacy –or at the very least, reading the same papers. On the same day that "Cash in Old Cars for New Ones" was released in *USA Today*, Rep. Miller adduced Ford's statement as support for "Clunkers for Cash." The Michigan representative read his entire statement at the podium for inclusion in the Congressional Record, using his endorsement of the CARS Bill as leverage to garner the votes of her fellow legislators. Catching the Executive Chairman's enthusiasm for the CARS Bill, Rep. Miller ended her address to the House by claiming the proposed act was "a *win-win* all the way around."[11]

But is the CARS Bill a "win-win" situation for all? According to its sponsors, the stated purpose of the bill is: "To accelerate motor fuel savings nationwide and provide incentives to registered owners of high polluting automobiles to replace such automobiles with new fuel efficient and less polluting automobiles or public transportation."[12] However, a closer reading of this proposed statute's provisions reveal a protectionist underside. The explicit motivation behind this legislation is to wean the nation off foreign oil and minimize America's "carbon footprint." However, the fact that the proposed bill mandates that government vouchers can be used only for domestically produced hybrid cars marks it as "Buy

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[10] *Ibid*.
[11] Rep. Candice Miller, "Cars Bill a Prescription for Improved Auto Sales," *C-SPAN Congressional Chronicle*, March 17, < http://www.c-spanarchives.org/congress/?q=node/77531&id=8949380>.
[12] U.S. House of Representatives, *Consumer Assistance to Recycle and Save Act of 2009*, 111th Congress, 1st sess., 2009, (H.R. 1150) March 31, 2009. Text from: Congressional Documents. Available from: < http://www.opencongress.org/bill/111-h1550/show>.

American" legislation in the eyes of CARS critics. This alleged protectionism also appears in Section III in which the provisions enumerate the voucher value awarded to cars with certain classifications. For example, one of these provisions reads:

> A voucher issued under the Program may be applied to offset a portion of the purchase price of one new fuel efficient automobile…which portion shall be in the amount of $4,000 for a passenger automobile assembled in the United States with a minimum highway label fuel economy value of 27 miles per gallon.[13]

Moreover, the proposed act does allow cars produced in Canada and Mexico to take part in the voucher program; nevertheless, the legislation still favors US autos. The disparities between the vouchers granted to foreign and domestic cars of like fuel economy betray this favoritism. For instance, a $4,000 voucher would be available for a car "assembled" in America that measures up to the bill's fuel economy standard. And for those US cars that get 30 miles per gallon (mpg), a $5,000 voucher can be obtained. By contrast, a car assembled in Canada and Mexico that gives 27 mpg receives no voucher; however, a Canadian or Mexican auto reaching 30 mpg does receive a voucher, but only for $4,000. Although America's continental neighbors are clearly getting the proverbial "short end of the stick" under these provisions, in comparison to other foreign automakers, they are relatively better-off because other foreign car suppliers do not receive any portion of "the stick" at all. To be clear, foreign cars (excepting Canada and Mexico) get no place in the program whatsoever, which would exclude other environmentally-sound, fuel-efficient cars such as: Toyota Prius, Toyota Yaris, Honda Fit, Mazda3, and Mazda5.[14]

This provision works in a way similar to what Douglas Irwin calls a strategic trade policy "in which the government undertakes a precise, strategic intervention on behalf of domestic firms in a way that increases national welfare."[15] Although the government is not using any tax or subsidy against

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[13] *Ibid*, Sec. III, b, a, i.
[14] David Kiley, "Congressional Scappage Bills Invite Protectionism Criticism," *BusinesWeek.com*, March 18, 2009, <http://www.businessweek.com/autos/autobeat/archives/2009/03/congressional_s.html>. I must acknowledge that Kiley's article highlighted this disparate treatment for US autos and Mexico-Canada autos in the CARS Bill.
[15] Douglas Irwin, *Free Trade Under Fire* (Princeton, 2005), p. 92.

foreign auto producers to protect domestic auto suppliers, nonetheless, this voucher program gives an edge to domestic firms marketing new hybrid cars against the same line of vehicles from foreign firms. To be sure, government vouchers will make US hybrid cars more affordable than those produced abroad to those American consumers looking to buy new fuel-efficient vehicles, given high gas prices. Therefore, American fuel-efficient cars (especially in a recession) will undoubtedly be in high demand as a result of these incentivizing vouchers. Through mandating that vouchers from trade-ins can only be used toward the purchase of domestically assembled hybrid models, Congress would be granting American firms like the Big Three a comparative advantage over some foreign models, as the former's fuel-efficient cars become relatively cheaper with the consumer voucher.

That these "Buy American" provisions were intentionally *slipped* into the CARS Bill to protect American autos and jobs, is a position that gains credibility when one considers the constituencies of the bill's congressional sponsors. All three sponsors –Rep. Sutton, Rep. Braley, and Rep. Miller– represent states that have a large auto industry. Rep. Sutton represents Ohio, a state that is the second only to Michigan as the largest producer of autos in the nation. Ohio has generated 1.7 million light vehicles and $20 billion in activity annually.[16] Furthermore, Rep. Braley serves the people of Iowa, another historically large auto manufacturing state. This Midwestern state's 400 auto dealerships employ 12,000 people and collectively sold $6.3 billion in new vehicles for 2007.[17] And of course, Rep. Miller represents Michigan, the home to the nation's motor capital itself and home of Big Three headquarters. Given the large amount of business activity for the car industry in these three states, it is clear that CARS sponsors are looking to not just the general welfare of the nation. These politicians are looking to protect the job security of the constituents who support them during voting season.[18]

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[16] Cytron, "Driving Business: Ohio's Auto Industry," *Catalyst*, March 12, 2007, < http://www.allbusiness.com/north-america/united-states-ohio-metro-areas/3900648-1.html>. According to this article, these figures are accurate for 2007 and heretofore.

[17] Jeff Eckhoff, "Iowa vehicle sales drop, but state's numbers are better than the nation," *DesMoinesRegister.com*, March 15, 2009, <http://www.desmoinesregister.com/article/20090315/BUSINESS/903150318/1029>.

[18] For more on this phenomenon, see "How did the 2003 Prescription Drug Re-importation Bill Pass the House," Duke University Economics Department, January 7, 2005, 14-15. In this paper, Adams, Gokcekus, Grabowski, and

This inference that the legislation's sponsors are crafting policy to improve the employment situation of their constituents becomes more plausible in light of mass layoffs among members of the Big Three. In May 2009, Chrysler and General Motors decided to terminate a significant number of their franchise dealerships. Chrysler initiated these layoffs, opting to close 789 out of its 3,200 dealerships.[19] But General Motors surpassed that amount, closing 1,100 of its franchise dealerships (18% of its 5,969 stores) that were "underperforming."[20] Unfortunately, the elimination of these composite 1,889 franchises to date appears to be only the beginning. In efforts to restructure their firms to qualify for bankruptcy, both car companies have announced further plans to continue closing dealerships throughout 2009.[21] According to the National Automobile Dealers Association, these "cuts" could eliminate 187,000 jobs nationwide.[22] Thus, with so many jobs hanging in the balance, it is likely that the politicians sponsoring "Cash for Clunkers" do so to cater to their concerned supporters in the car industry.

Albeit the professed purpose of the CARS Bill is to help America "go green" and gain freedom from overpriced foreign oil, the concealed purpose of the bill appears to be to rescue a failing American auto industry.[23] In proposing a voucher program that in effect subsidizes consumer demand for Big Three hybrid cars, these legislators endeavor to not only aid domestic car manufacturers, but to also protect industry-related jobs near and dear to their constituencies –jobs that would evaporate if the Big Three continue to do poorly in sales.

Tower estimate how the probability of congressional voting in favor of protection depends on campaign contribututions from those groups likely to gain from the protection, suggesting that politicians tend to vote in favor of their major financiers.

[19] Nick Bunkley, "G.M. Tells 1,100 Dealers It Plans to Drop Them," *NYTimes.com*, May 15, 2009, < http://www.nytimes.com/2009/05/16/business/16auto.html>.

[20] Tim Higgins, "GM pulling plug on 1,100 'underperforming' dealers," *USAToday.com*, May 15, 2009, < http://www.usatoday.com/money/autos/2009-05-15-gm-dealer-cuts_N.htm>.

[21] Bunkley, "G.M. Tells 1,100 Dealers It Plans to Drop Them," *NYTimes.com*, May 15, 2009, < http://www.nytimes.com/2009/05/16/business/16auto.html>.

[22] Bill Vlasic and Nick Bunkley, "Chrysler Plans to Shut 1 in 4 of Its U.S. Dealers," *NYTimes.com*, May 14, 2009, <http://www.nytimes.com/2009/05/15/business/15dealers.html>.

[23] This unstated purpose could be seen as more desirable in the estimation of the American taxpayer because it is not as contentious as would be an additional billion-dollar "bailout" payment to the nation's automotive industry.

III. Negative Externalities from CARS Bill

As expected, the CARS Bill has incurred significant criticism from foreign automakers et al. for its inherent protectionism. In response to these attacks, Rep. Sutton (author of the bill) said that there was nothing wrong with "helping home first," and that such complaints against it were "distractions" from the CARS Bill's real goal.[24] However, on this point I would beg to differ: government protectionism –though capable of producing some economic benefits– typically is ineffective due to a lack of policy precision. Consequently, this imprecision has historically led to business complications for the protected industry, which in turn, negatively affects domestic suppliers and consumers. Ergo, if this general presupposition regarding legislative barriers to trade can also speak to the protectionism inherent in the CARS Bill, then if passed into law, this act (in its current form) could work against the macroeconomic recovery goals set forth by US government officials.

For one, the protectionist legislation could actually result in a WTO protectionism case brought against the American auto industry, which if lost, would also require forms of compensation to the foreign nations that file the complaint.[25] As such, in recent news the President has insisted that Capitol Hill's "Cash for Clunkers" must be inclusive to foreign competitors.[26] On the necessity of this, one journalist relays the White House's message, writing: "Any plan must include cars built overseas as well as domestic ones, they [the President et al.] said, to honor international trade agreements."[27] The President understands that a protectionism case with WTO would be an unnecessary distraction from the focus that automakers should have on creating more "green" cars and becoming profitable again to save American jobs. However, this proposed legislation threatens to do just that; and it is not improbable that the CARS

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[24] Kiley, "Congressional Scappage Bills Invite Protectionism Criticism," *BusinesWeek.com*, March 18, 2009, <http://www.businessweek.com/autos/autobeat/archives/2009/03/congressional_s.html>.
[25] "Understanding the WTO: Settling Disputes," *World Trade Organization*, < http://www.wto.org/english/ thewto_e/ whatis_e/tif_e/disp1_e.htm>.
[26] Charles Wallace, "'Cash for Clunkers' Won't Help US Auto Industry," *CBS MoneyWatch.com*, April 16, 2009, < http://moneywatch.bnet.com/economic-news/blog/macro-view/cash-for-clunkers-wont-help-the-us-auto-industry/255/ >. Wallace also shares my view on the WTO protectionism case that CARS could foment.
[27] Naftali Bendavid, "White House Presses Plan on Car Swaps." *WSJ.com*, April 15, 2009, <http://online.wsj.com/article/SB123915400112999727.html>.

Bill will elicit a protectionism case with the WTO from foreign auto suppliers –which would involve time and resources that are so vital to the recovery of this industry.

Furthermore, the CARS Bill could negatively affect the labor market on account of its shortsightedness. If this legislation proved to be very effective, then to the consumer, the lower prices that domestically sold hybrid vehicles receive over foreign ones could hurt the jobs of those Americans who work in the US manufacturing plants of foreign car companies. In an extreme situation, (but not too incredulous given the state of our economy) this increased demand could conceivably damage the sales of foreign lines of hybrid vehicles that are partially assembled overseas and finished in US factories for sale in the states. Though the law does not treat the eligibility of vehicles of this type for the CARS voucher program, chances are that lawmakers will be inclined to exclude these types of vehicles from participating in it, as the unstated goal of the law is to “Buy American.” This will definitely shrink the sales of these foreign hybrid models. And consequently, these foreign producers –in order to stay competitive with the privileged Big Three– could cut important jobs of American workers that help in the manufacture and supply of these foreign vehicles in the US. So, either the nation will lose employment opportunities for American workers at Big Three factories or those Americans who work in stateside plants for foreign companies. American citizens in the auto industry, whether their employer is based in the US or in another country, still stand to lose in the face of this protectionist legislation. The CARS Bill boasts of saving jobs, but whose?

Also, what about used car salesmen? These individuals make a profit by buying and re-selling “clunkers,” or inferior goods. Most likely, used car salesmen will not sale hybrid vehicles, because they are new and expensive. And so, in giving preference to dealerships that sell new, “green” cars through this voucher program, the government is indirectly “crowding out” the used car industry –a sector that relies heavily on taking clunkers “off the hands” of individuals who no longer want them and then turn a profit through re-sell. However, if consumer demand through the CARS Bill is greatly incentivized in order to buy new, fuel-efficient cars, then this will undoubtedly hurt the profits of used car salesmen, as it could precipitate a lack of autos to be brought in to their dealership. And at worst, this scenario could signal a significant setback to the used car industry, delivering another blow to America's GNP.[28]

In regards to the consumer, the individual who does not possess the wealth to afford a new car would be at a great disadvantage because this legislation would encourage the depletion of the supply and selection of these inferior goods. Some Americans may wish to not buy a new hybrid car because the prices may still be too high with the voucher, given the economy's poor condition; therefore, a used, non-hybrid model could be the most affordable option for them.[29] For it is *a priori* that in times of economic struggle, people tend to purchase inferior goods, like "clunkers." Macroeconomic theory's income and substitution effects work together to explain this phenomenon: as Americans lose money and the price of gas goes up, consumers looking for autos will feel poorer and desire to substitute away from these new expensive models, despite the voucher incentive, toward cheaper ones. But, if there are no inferior goods, or "clunkers," then consumers will remain inert, perhaps choosing to save or invest their money. This is exactly what the government does not want –it is hoping that the voucher incentives will be enough to stir people to purchase new, fuel-efficient cars. Yet, it is quite possible that the voucher program will not be enough to incentivize consumers to "Buy American." And if this is the case, then Ford, GM, and Chrysler hybrid models will still fail, which could ultimately cause factories to close and a "great falling away" of a slew of related auto-manufacturing jobs across the states. Thus, the CARS Bill has the potential to severely backfire. The government can only hope that this legislation will meet expectations.

Going further, this proposed act could prove deleterious to the US auto industry's international trade relations. As with any protectionist legislation, the CARS Bill, if enacted, could definitely create

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[28] One could make the argument that the potential wealth created through the sale of a used car was not completely lost due to the CARS voucher program, but simply transferred into either the scrapping of that unsold model or a transportation subsidy. However, I doubt that the same amount of GNP (generated from the sale of a used car) would be conserved if one measured the wealth generated by the bill's proposed inefficient auto recycling program.

[29] Jim Harger, " 'Cash for clunkers' idea gains steam, but some Grand Rapids used-car dealers are not enthusiastic," *The Grand Rapids Press*, April 6, 2009, <http://www.mlive.com/news/grandrapids/index.ssf/2009/04/emily_zoladz_the_grand_1.html>. This article supports such a presupposition. It reports that Michigan used-car dealers and their representatives also fret that a scrapping program will reduce the supply of cheaper cars for low-income Americans and waste vehicles with plenty of life remaining.

problems for the Big Three's operations overseas. Irwin's research concurs with this philosophy, as he observes that "Buy American" provisions can hurt the nation's firms from winning contracts abroad, which are crucial to providing the revenue necessary to payout domestic wage bills.[30] However, Rep. Sutton asserts that we should take care of "home first," which implies Congress stiff-arming Japanese and European automakers with the law in order to afford the American auto industry an advantage. Trading on her analogy, I would counter this rationale by arguing that we cannot treat our foreign "guests" poorly at home, and then expect great "hospitality" when we visit them abroad. What we sow in protectionist policies domestically, we can anticipate reaping in retaliatory protectionism from other nations. To reconcile this dilemma, I maintain that Irwin's "golden rule" should be invoked: American auto producers should treat their foreign competitors the same way they want to be treated abroad.[31] American auto producers –and the politicians who back them– would be well advised to desist from their protectionist rent-seeking; instead, these firms should push for greater inclusivity in the favors they win from the government and extending some of them to foreign nations.

But as things stand with the CARS Bill, American automakers like the Big Three could be setting themselves up for import quotas and tariffs abroad. As stated afore, vexed foreign car manufacturers could also retaliate, turning to their governments in like manner to seek the enactment of a protectionist, counter voucher program against the US auto industry. This is undesirable for an America in a recession. So, though it may save some American jobs in the short-run, the protectionist provisions of this bill –if they make it into the final markup– can cause long-term damage to our credibility with foreign governments. As Irwin cautions, "Other countries are watching closely to see if the [economic] crisis becomes a general excuse for the United States to block imports and favor domestic firms."[32] As such, Japanese and European auto manufacturers the CARS Bill is slighting could eventually trigger a backlash

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[30] Douglas A. Irwin, "If We Buy American, No One Else Will." *NYTimes.com*, February 4, 2009. Accessed from: <http://www.LexisNexis.com/universal>.
[31] *Ibid*.
[32] *Ibid*.

that could hurt US exports; which in turn, could evaporate the very domestic jobs the CARS legislation seeks to protect.

V. Conclusion

The CARS Bill promises to procure boons for the automotive industry. Given the success that Japan and Germany have enjoyed through enacting similar “scrappage” programs, the prospect of a statute that intends to address critical issues of the hour –energy independence, climate change, and most importantly, the economy– appears highly advantageous to our federal lawmakers. This is understandable. In times like these, legislators seek to employ policy tools to render a struggling economy strong, to provide security for the blue collar factory worker, to restore the confidence of the American consumer. Nevertheless, the siren-song of protectionism’s quick fixes, if heeded, could do considerable damage to the economy. History informs us that America’s protectionist maneuvers during times of economic struggle have the potential to exacerbate the recessionary effects that we as nation face at present.[33] Granted this principle could be extrapolated to “Cash for Clunkers,” politicians could be poised to worsen the already bleak situation that they are striving to improve.

In the time that this paper is written, it remains to be seen what will become of the CARS Bill. Therefore, this paper is limited to an intuitive prediction of the negative externalities such a bill could generate if signed into law. In my treatment of this subject, it is probable that there exist other drawbacks to this voucher program that my review neglects. These omissions notwithstanding, it is my hope that this paper makes it clear that the CARS Bill is not a surefire “win-win all the way around” for the country as its supporters see it.

[33] Most economic historians are in agreement that the 1930 Smoot-Hawley Tariff only hurt American industry in the long-term, worsening the Great Depression.

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