

News Release

FOR IMMEDIATE RELEASE
05:30 PM CDT August, 4 2009

Clunker Math: \$1.0 Billion = 0.036% Improved Fuel Consumption + 0.001% Increase in National Income.

Cash-for-clunkers is a \$1.0 billion federal program designed to both improve the environment and stimulate our economy.

Ostensibly, the program's primary objective is to be achieved by creating financial incentive for consumers to replace gas guzzling clunkers with fuel efficient automobiles. Better fuel efficiency yields a drop in gasoline consumption, taking carbon emissions down with it. Improved air quality will follow lower emissions. Since consumers will spend less on gallons of gasoline, they will have more dollars to fund purchases of other goods and services, thus, meeting the program's secondary objective of helping our country out of its worst recession in a generation. How effective is cash-for-clunkers in achieving its goals? Let's find out.

To calculate the gasoline savings from ridding our highways of big guzzlers and replacing them with state-of-the-art, fuel-efficient vehicles we assume the per clunker increase in fuel

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efficiency is 5 MPG. Roughly, this means the typical clunker achieved 15 MPG and the average new car gets 20 MPG. We should point out our MPG savings guess is most likely aggressive since "clunker" is a bit of a misnomer. The trade-in doesn't really have to be a clunker as one might imagine. All that's required is the new car be four-or-so MPG more fuel efficient than the trade-in. Interestingly, there isn't any information from Washington explaining how or even if the trade-in MPG standard is being monitored. One would think this would be a well broadcast figure given the program's ambition to improve our environment by lowering emissions.

We also assume the typical clunker is driven 12,000 miles per year. Again, it is worth pointing that our annual mileage estimate is likely high. Most experts believe clunkers traded in are often third family cars. Meaning they are driven much less than a typical car.

So what did we get from the first \$1.0 billion invested in cash-for-clunkers? Approximately 250,000 cars were traded in and that's good. This implies, given our assumptions, the program will save 200 gallons of gasoline per clunker, per year, or in total, 137,000 gallons of gas per day! In addition, with gasoline around \$2.50/gallon, each clunker consumer has on an annualized basis an additional \$500 in their pocket for new purchases. In total, the gasoline savings adds up to \$125 million dollars per year. Big money? Keep reading.

Total gasoline consumption is reduced by 137,000 gallons per day. That's a bunch, right? Well not really. Not when you consider U.S. drivers consume 378 million gallons of gasoline per day. The clunker program reduces gas consumption by a mere 0.036%. For better perspective, if you spend \$15 on lunch a like savings would cut one half of one cent off your bill. Therefore, we conclude the program's environmental benefits are at best, negligible.

But what about the \$500 in cash each clunker consumer now has in their pocket? \$125 million in total? Not bad until you consider the size of our economy, \$14 trillion in annual GDP. So the \$125 million in gasoline savings works out to around a 0.001% boost to our nation's annual income, not even a rounding error. What's more, the savings aren't a boost to income at all. Nothing has been created; only redistributed. In fact, less will be spent on gasoline, which actually reduces GDP. The best hope is an equal amount is spent on other items to maintain GDP at its pre-program level. However, today's reality is the benefit will likely be used to rebuild savings destroyed by last year's financial and real estate market collapses. Therefore, cash-for-clunkers will not stimulate the overall economy.

It would be easy to label to cash-for-clunkers nothing more than wealth redistribution and as such, a total waste. But let us not be hasty, or to loosely paraphrase Raum Emanuel, let's not squander a crisis in fiscal irresponsibility. We'll try and learn something instead. For example, we now understand beyond

the shadow of a doubt our government has not met a spending program it doesn't like, which is important to know. In case you need more evidence, consider the U.S. House passed a bill last week for an additional **\$1.8 BILLION** to continue this crazy cash-for-clunker program with no debate. Repeat: An additional \$1.8 billion! The Senate appears heading in the same direction this week, only at a slower pace.

We also better understand the current standard for measuring a program's success in Washington today is more ethereal than factual. In spite of there not being a shred of evidence that suggests cash-for-clunkers has met either its primary or secondary objectives of improving the environment or stimulating our economy, Barbara Boxer, a California Senator, labeled the program an "apparent success?" Wow. Wasn't it just last Friday the program had to be temporarily halted because the government lost track of the cars traded in? The U.S. government, with all of its resources could not count to 250,000?

We could go on with problems programs like these create for our country. We didn't even touch how the cash-for-clunkers counts on big-polluter clunkers to be destroyed after traded-in. That's right, melted down to scrap to prevent the autos from contributing to future pollution. This is a big ambition and implies there will be no fraud in the exchange program. All cars traded-in must first exist and be fuel inefficient clunkers. Further, all car dealers must be counted on to turn these zero-cost, pure-profit-to-them-if-resold, trade-ins over to the junk

yard for scrap. Finally, junk yard operators must happily accept the additional supply. Even though no Washington bureaucrat has any idea how much spare capacity exists in junk yards today or comprehends the impact flooding the market with scrap steel will have on yard operator profitability, not to mention the blow it will deliver to raw steel production.

In addition, we've not mentioned how irresponsible the spending is in light of the \$2.0 trillion annual deficit. Fiscal stimulus has an important place in managing our economy. It is best directed to create jobs and improve productivity. Spending should be focused on improving our nation's defense, its infrastructure and our education system. People want good jobs. They are not looking for give-a-ways but as cash-for-clunkers demonstrates, will jump all over them if offered.

Please call with questions.

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