RSC Republican Study Committee

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Legislative Bulletin……………………………………..………June 9, 2009

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Key Conservative Concerns

Take-Away Points

-- ***Cost:*** The bill authorizes an additional $4 billion of spending to help "restructure" the auto industry. This is in addition to the $85 billion already spent by American taxpayers to assist the auto industry.

-- ***Unintended Consequence:*** H.R. 2751 could make Americans less likely to donate older automobiles to charities that provide low-income and disabled individuals with affordable automobiles.

-- ***Questionable "Stimulus":*** With the high fuel efficiency requirements to qualify for the full credit, the bill may actually help *foreign* auto manufactures, whose fleets typically have smaller, more fuel efficient cars than GM or Chrysler have produced.

For more details on these and other concerns, see below.

H.R. 2751—The Consumer Assistance to Recycle and Save Act
(Sutton, D-OH)

Order of Business: The bill is scheduled to be considered on Tuesday, June 9, 2009 under a motion to suspend the rules and pass the bill.

Summary: Also referred to as "Cash for Clunkers," H.R. 2751 establishes a new one-year program at the National Highway Traffic Safety Administration under the Department of Transportation (DOT), that will give individuals with older, less fuel efficient cars a credit worth up to $4,500 towards the purchase of a new car that meets certain fuel efficiency goals. In order to qualify, so-called clunkers must get 18 miles per gallon or less, be manufactured after 1984, be in drivable condition, and be continuously insured to the same owner for at least one year immediately prior to trade-in. The bill authorizes $4 billion over one year for the new program.

In order to qualify for the voucher, the value of a new car cannot exceed $45,000. The legislation divides new cars and trucks into four categories:

- ***Cars:*** If a consumer purchases a new car that gets at least 4 miles per gallon more, they qualify for a $3,500 voucher to reduce the price of the new car. To receive a voucher for $4,500, the new car must have a mileage rating at least 10 mpg higher. No new car purchased can get less than 22 miles per gallon (mpg)
- ***Light-duty trucks and SUV's:*** For owners of light-duty trucks or Sports Utility Vehicles (SUV), to receive a voucher of $3,500 a consumer must purchase a new vehicle rated at least 2 mpg higher and to receive a voucher of $4,500, the new vehicle must get at least 5 mpg more. The minimum fuel economy for a light-duty truck or SUV must be at least 18 mpg.
- ***Large light-duty trucks:*** For owners of large light-duty trucks (pick-up trucks and vans weighing between 6,000 and 8,500 pounds), to receive a voucher of $3,500, a consumer must purchase a new truck that gets at least 1 mpg higher. To receive a voucher of $4,500, the new vehicle must get at least 2 mpg more. The minimum fuel economy for a large light-duty truck is at least 15 mpg.
- ***Work trucks:*** Owners of "work trucks" (8,500 and 10,000 pounds) can receive a $3,500 voucher for trade-ins of models built before 2002 in the same or lower weight class. Since the EPA does not issue mileage measures for these trucks, supporters of the bill reason that "newer models are cleaner than older models, the age requirement ensures that the trade will improve environmental quality."

Under the legislation, when the "clunkers" are traded in, they would have to be "crushed or shredded," taking the vehicles off the road forever. With the exception of a drive train or an intact engine block, the entity responsible for disposing of the car is eligible to sell off vehicle parts. In order to be the "custodian of the vehicles", dealers must pay the federal government up to $60 per car when a "clunker" is brought in for an exchange. There is a limit of one voucher per single or joint owner of a vehicle and H.R. 2751 prohibits from charging additional fees in association with the voucher program.

In order to administer the program, H.R. 2751 requires the DOT to promulgate many of the regulations of the new program and provide information for consumers and dealers within 30 days of enactment. The bill also requires the DOT to *maintain a database* of vehicle identification numbers (VIN) for both new vehicles purchased and "clunkers" that were brought in to be destroyed.

Unlike other forms of auto-tax credits, consumers would not see the voucher under H.R. 2751. Instead dealers would deduct the price of the voucher and the government would reimburse dealers for the credit directly. H.R. 2751 allows the voucher to be used in concert with other tax credits or dealer special offers.

Conservative Concerns:

- ***Constitutionally Dubious:*** The Constitution, in Article I, Section 8, Clause 3, grants Congress the power to *regulate* interstate commerce, not *participate* in it.

- ***Another Costly Auto Bailout:*** The bill authorizes $4 billion of new spending, subject to appropriation. This is on top of the $85 billion American taxpayers have provided to help "restructure" the auto industry. Just today, the auto-parts suppliers plan to ask President Obama's auto task force for an additional $8 to $10 billion in federal aid. In addition, a similar program instituted in Germany ended up costing three times more than originally anticipated.

- ***Little Environmental Benefit:*** H.R. 2751 will most likely not have the anticipated environmental benefits because additional fuel efficiency often leads to more driving and new cars will have little impact on a reduction of overall carbon dioxide emissions, according the Competitive Enterprise Institute.

- ***Weakens Charitable Giving:*** Some conservatives may be concerned that an unintended consequence of the bill is that it will make Americans less likely to donate older automobiles to charities that provide low-income and disabled individuals with affordable automobiles.

- ***May Disproportionally Help Foreign Auto Companies:*** With the high fuel efficiency requirements to qualify for the full credit, the bill may actually help foreign auto manufactures, whose fleets typically have smaller, more fuel efficient cars than GM or Chrysler have produced.

- ***Higher Priced Used Cars:*** The legislation requires dealers to remove "clunkers" from the market through salvage, reducing the amount of pre-owned supply. Families that still cannot afford a new automobile, even with the voucher, will face rising prices in the used car market during the current recession when affordability is an even greater issue**.**

- ***Bureaucratic Leeway:*** Under the bill, the DOT is required to promulgate many of the regulations to implement the program within 30 days. Some conservatives may have concerns that this grants too much authority to the executive branch to enact a new $4 billion dollar program.

Committee Action: On June 8, 2009, the bill was introduced and referred to the Committee on Ways and Means and the Committee on Energy and Commerce, which took no official action.

Administration Position: No Statement of Administration Policy is available.

Cost to Taxpayers: While no CBO cost estimate is available for H.R. 2751, the bill authorizes $4 billion. According to the committee, this "will provide for the purchase of approximately one million new vehicles." H.R. 2751 also requires a $60 custodial fee from dealers for each car to go to the highway trust fund to make up for lost gas-tax revenue as a result of driving a more fuel efficient vehicle. Additionally, the committee believes that the money needed to appropriate will come from the "stimulus."

Does the Bill Expand the Size and Scope of the Federal Government?: Yes, the bill creates a new program for car purchases.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: Though the bill contains no earmarks, and there's no accompanying committee report, the earmarks rule (House Rule XXI, Clause 9(a)) does not apply, by definition, to legislation considered under suspension of the rules.

Constitutional Authority: A committee report citing constitutional authority is unavailable for H.R. 2751. Many conservatives may question the constitutional authority of this bill.

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