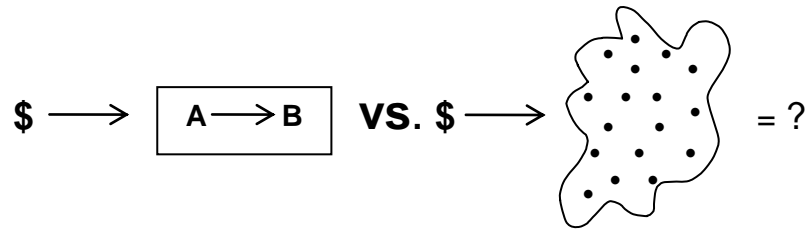


# Why Cash for Clunkers Works Better Than Company Bail Outs or Infrastructure Spending: Reach, Roles and Relationships Count in Our Results Theories



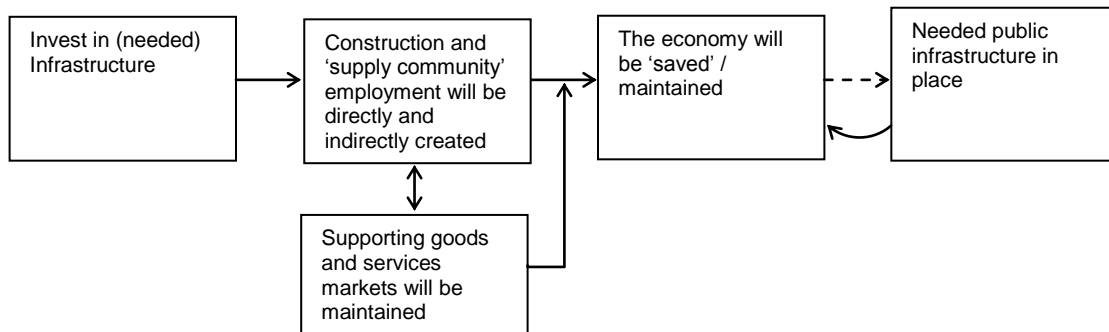
By S. Montague, August 2009

Do you remember the debates in the Fall of 2008? I don't mean the strictly 'political' debates – I mean the debates among economists and other policy analysts. Having accepted the need for large government stimulus packages – the debates centered on where to put the money.

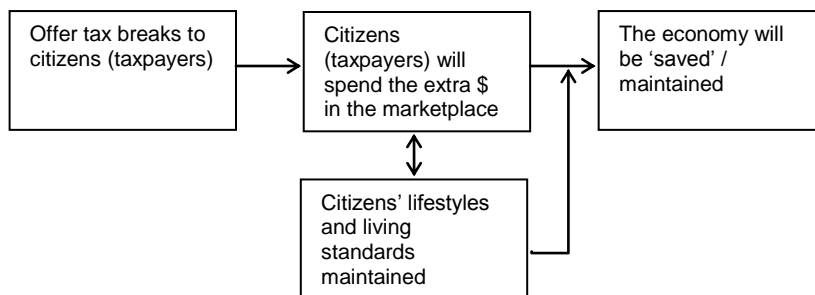
The first 'stimulus' – initiated by the sunseting Bush regime – was really what could be termed a 'bailout' – money to directly inject liquidity into major financial institutions who were 'closest' to the problem (i.e. "had been a major cause of" the problem). While this may have staved off world financial market collapse – it arguably cannot be considered a stimulus package.

Two types of stimulus packages which were often debated in North America were major public works (infrastructure) and tax 'break' programs. Logically the theories worked as follows:

## 1) Public Infrastructure



## 2) Tax 'Break'



While not all the economists agreed, option 1) tended to be favoured over option 2) – essentially because the idea was that public infrastructure investments left a legacy to help further growth (think ‘Marshall Plan’ for war ravaged Europe or Asia) while tax breaks could serve to more strongly exacerbate deficits (one time infrastructure spending creating a ‘temporary’ deficit compared to tax breaks which could cause more permanent structural deficits – especially since they are politically hard to stop). Economists also noted issues with distributive effects (tax cuts tend to favor those who pay more taxes – the wealthy) and problems of absorption (people might tend to save the money – since times are uncertain – therefore the stimulus would not work its way into markets as ‘fully’ as other incentives. This latter concern appears to have ‘come true’, as American savings rates have jumped to the highest levels in decades.).

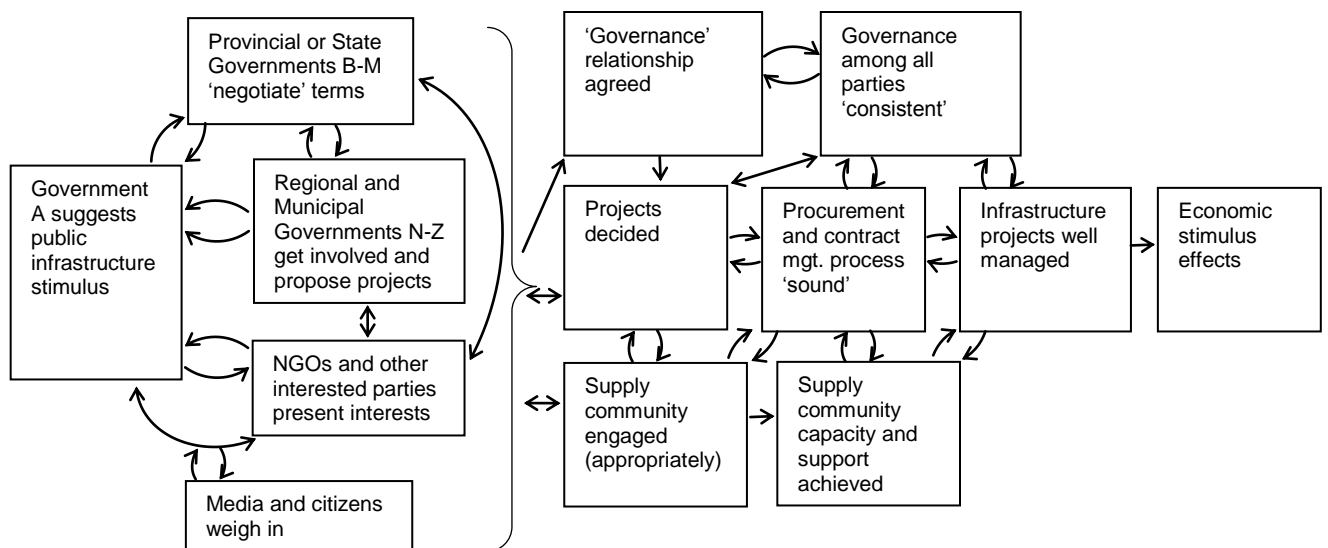
By in large, governments went mostly for infrastructure investments – with some ‘sweetening’ of social programs (e.g. in Canada the employment insurance requirements were adjusted).

So what happened? Just under a year later – most of the so-called ‘shovel ready’ new infrastructure budget hasn’t been spent. It is very difficult to see how it has made or will make (assuming recent turnaround signals are correct) much difference to economies – other than increasing debts or deficits. (There is an argument for a ‘signaling’ effect to markets – as in “We signal that we are willing to spend our way out of this – i.e. Government backs this market place” which can be construed as appeasing markets to help regrow confidence...But now we are into deep psychological territory...and signals can be interpreted more than one way...as in “We signal that we are throwing fiscal caution to the wind – so you can’t trust that we will protect your assets”).

Given the – above and assuming that some stimulus was needed to boost the economy – the only program that seems to arguably have worked well in terms of flowing cash (almost too ‘well’) – is “Cash for Clunkers”. Cash for Clunkers is essentially a rebate program for persons to trade in their gas guzzling and inefficient older vehicles for more fuel efficient new vehicles (<http://www.cars.gov/>). It has taken off – possibly acting as a key push to reinvigorate the automobile sector. (Time will tell).

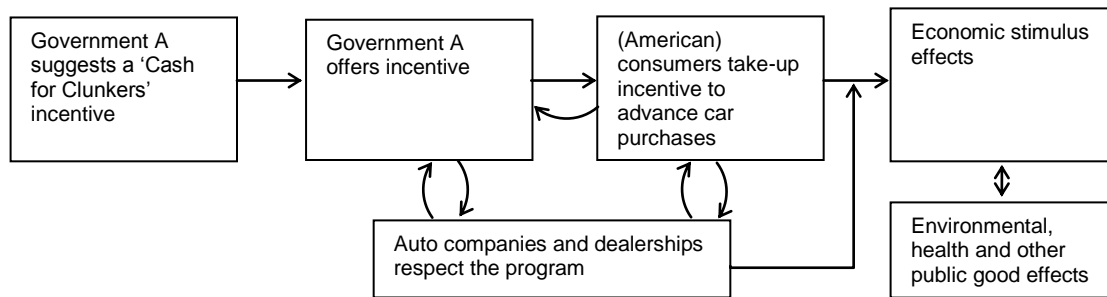
Why did / could this kind of program work while the best laid ‘grand design’ programs for infrastructure fail? The answer is probably not in the (mostly macro) economic theory of one stimulus type versus another – once in place. The answer is arguably – in the network or pathway of reach and relationships which different initiatives involve.

Let’s reconsider the Infrastructure results pathway, noting the reach and relationships logic.



From the above – you don't have to be a policy expert to understand that the reach, roles and relationships for typical infrastructure investments are myriad, complex and politically 'dynamic'. This means that – for one thing – they tend to take time. The number of major capital infrastructure projects that have come off on time and on budget (in North America at least) – can practically be counted on one hand. The fact is that the structure of the roles, relationships and authorities – even when streamlined – mitigate against speed in delivery.

By contrast, the key reach, relationships and results for 'Cash for Clunkers' are much more direct – something like the following:



Clearly – other levels of government, members of civil society, mass media and citizens can still affect the relationship between the government offerer and the user – but this relationship is still much more direct and 'authoritative' than a program to create public infrastructure. (i.e. Government 'A' – in this case the US Government – has an unambiguous authority to offer US citizens an incentive ['carrot' or 'bribe'] to trade in their vehicles for new ones. In most infrastructure investments there are several jurisdictions and dozens of competing interests in play.)

What is the lesson here? The main point is that public policy makers need to examine the reach, relationships and roles implied by particular schemes when deciding on a given course of action. This is especially true when the initiative is required within a tight time frame. Infrastructure investments may be a 'good' investment – but as quick stimuli they are structurally handicapped. Based on *the simpler the reach, roles and relationships – the quicker the cash flow* premise – we can expect that Canadian incentives for home renovations will likewise flow comparatively more money in 2009 than will infrastructure projects.

In reality *all* policies and programs are delivered through networks or communities of human systems. An examination of these systems – and the playing out of the reach, the relationships and the roles of those (individuals, institutions and communities) within them should be a critical consideration. Imagine the applications in health care reforms proposals, environmental or safety-security initiatives – as well as in economic policy. Could this type of analysis (i.e. analyzing the reach-relationships and roles as well as the results chain) help? The real need is for a kind of strategic policy (reach, relationships, roles and results) review discipline to address this gap.