Federal sales incentive for new cars could help struggling auto industry

by The Detroit News

Detroit automakers and the entire auto industry are suffering a severe decline in sales. The annual vehicle sales rate is below 10 million. The number of cars purchased last year was the worst in nearly two decades. A well-crafted federal incentive could help the Detroit automakers survive.

March numbers for the Detroit Three automakers â€” General Motors Corp., Ford Motor Co. and Chrysler LLC â€” were down by around 40 percent from the same month in the prior year. This was better than some analysts expected, but it was still dismal. All three Detroit manufacturers also lost market share.

Little wonder. The national economy is bad and the news about GM and Chrysler for months has focused on their cash-flow problems and whether they can continue to exist at all.

What the auto industry needs is an increase in sales volume. Congress earlier considered a tax credit for auto sales, but left it out of federal stimulus legislation, contenting itself with a sales tax credit.

Now, several bills are floating around Congress that would provide new car buyers with cash incentives. Some of these come under the heading of "cash for clunkers," in which owners of older, low mileage, pollution-prone vehicles would get cash for buying new, high-mileage cars.

In Germany, a program to provide buyers about $3,300 if they turned in a vehicle at least 9 years old for a new car produced a 40 percent sales boost in March. A Senate bill offers cash incentives from $2,500 to $4,000 for buyers of new cars that surpass mileage standards by 25 percent. The cars that are traded in would have to have fuel economy of less than 18 miles per gallon. A similar House bill offers $3,000 to $5,000 for the purchase of high-mileage vehicles assembled in the United States.

U.S. Rep. Pete Hoekstra, R-Mich., argues that if Congress wants to increase sales volume, the requirements of a rebate program can't be too stringent. Drivers of very old low-mileage "clunkers" might not be able to afford a new car or even a higher mileage used car. He suggests a $3,000 incentive without too many strings â€” perhaps, he suggests, vehicles that cost more than $45,000 should be excluded.

Hoekstra has it about right. An incentive program shouldn't be too tricky. The goal should be to increase sales volume.

But legislation that amounts to a subsidy of domestic vehicle sales only could run afoul of trade treaties.

If there is an environmental benefit from the purchase of new cars, so much the better.

The president has already acknowledged the importance of creating new sales volume with an order for the purchase 17,600 American-made fuel-efficient cars for the U.S. government.

A temporary sales incentive follows the same logic. It won't solve all the problems of the Detroit automakers, but it could help when help is most needed.

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