



Why a car-scrapping bonus is not a good idea

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The government's coffers are not bottomless. That is why any money spent on cushioning the impact of the corona crisis should be used as efficiently as possible to achieve the maximum positive impact or compensate for the damage caused by the lockdown. Unlike other sectors, such as hotels or restaurants, car producers in Germany were and are not directly affected by the lockdown. Car dealers have re-opened. Moreover, a car-scrapping bonus scheme will cause customers to bring forward purchases, with sales declining in the following year. In addition, high-wage earners in particular will benefit from the financial windfall. Car sales in Germany play only a limited role for German carmakers' overall profitability. And finally, subsidies for e-cars already provide an incentive to include environmental considerations in car-buying decisions.

The auto industry is the largest German industrial sector in terms of sales and an important customer of many other sectors. It pays above-average wages and accounts for more than 50% of the total internal and external R&D investments in Germany. This means that it is an important driver of technological progress. It is therefore quite understandable that policymakers become nervous whenever the auto industry appears to be facing difficult times. This has become evident once again in the current corona crisis. Calls for a "green car-scrapping bonus scheme" have become louder. The prime ministers of the "car" states Baden-Württemberg, Bavaria and Lower Saxony plan to meet and discuss the issue today. The car-scrapping bonus scheme implemented in 2009 may work as a blueprint; back then, the scheme helped to prop up domestic demand for cars – and thus support the economy – during the economic and financial crisis.



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From our vantage point, a car-scrapping bonus scheme is not a good idea in the corona crisis for a number of reasons:

- While the current flood of support programmes may suggest otherwise, the government's coffers are not bottomless. Any money spent on cushioning the impact of the corona crisis should be used as efficiently as possible to achieve the maximum positive impact or compensate for the damage caused by the lockdown. Car production in Germany was and is not directly affected by the lockdown. While the sector had good reasons (such as a drop in demand, ensuring staff protection or reorganising of production sites) to interrupt production and introduce short-time work, any factory shutdowns were the result of management decisions and not ordered by the government. Meanwhile, car dealers have re-opened so that customers can once again buy cars. According to surveys, most customers intend to postpone buying a car, but have not given up their plans completely. At the same time, some policymakers are still sceptical about re-starting other sectors of the economy, such as hotels and restaurants, which are to remain closed for safety reasons. These sectors will suffer considerably from the government-ordered lockdown, as lost revenues will not be recovered later on. Many firms do not have large reserves and are unable to increase their staff's short-time wages or pay wages without regular revenues. Government support for these sectors seems much better justified than for sectors which were never closed down in the first place.
- A car-scrapping bonus scheme would make customers bring forward their car purchases. 2019 was a good year for the German auto market, with a total of 3.6 million new car registrations. This was the largest number since 2009, the year of the (first) car-scrapping bonus scheme. If such an incentive artificially increases demand in 2020, the setback in 2021 will be even bigger.
- A car-scrapping bonus scheme will lead to windfall benefits for many customers who plan to buy a new car anyway. For reasons of social policy, a car-scrapping bonus may appear problematic, as buyers of new cars tend to be higher wage earners.
- Car sales in Germany play only a limited role for the German auto industry's overall profitability. In 2019, German carmakers produced more than 16 million cars world-wide, but sold only 2.5 million of this total number in Germany.
- Policymakers plan to discuss the ecological features of a potential car-scrapping bonus scheme. However, there is already an incentive to buy "green" cars. The German government subsidises purchases of electric and plug-in hybrid cars and even increased these subsidies in 2020. The total incentives provided by the government and the carmakers for the



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purchase of e-cars may add up to EUR 6,000 for cars with a list price of up to EUR 40,000.

Last week, Ralph Brinkhaus, the leader of the CDU/CSU parliamentary group, pointed out that policymakers should maintain a sense of proportion when deciding on support packages. This admonition should be kept in mind when thinking about a green car-scrapping bonus scheme.

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