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**THE WALL STREET JOURNAL.**

WSJ.com

OPINION EUROPE | AUGUST 19, 2009, 3:42 P.M. ET

## The Broken Windshield Fallacy

*Destroying clunkers is economically wasteful and morally repugnant.*

By [SWAMINATHAN S. ANKLESARIA AIYAR](#)

When governments follow criminally stupid policies, criminals can end up improving overall welfare. This may well be the case with Germany's reprehensible cash-for-clunkers program.

Germany's police union, the Bund Deutscher Kriminalbeamter, estimates that about 50,000 cars destined for the scrap yard under Berlin's trade-in scheme have been illegally resold to Africa and Eastern Europe. The government had paid around €125 million for these vehicles to be destroyed so that people would buy new, more fuel-efficient cars. German environmental group Deutsche Umwelthilfe predicts a doubling of illicit exports by the end of the year. It's probably only a matter of time before American clunkers will likewise find their illegal way to the streets of Mexico and beyond. And humanity would be better off if they did.

Imagine if the Salvation Army were ordered to destroy all the used clothing and furniture it receives instead of distributing it to the poor. No doubt this would be considered an outrage. But it is no less economically foolish and morally repugnant to deny poor people in the developing world access to these old cars.

The analogy is of course not exact. Unlike the Salvation Army, the German exporters as well as the African importers are smuggling these cars for personal gain, not out of charity. Yet the welfare benefits for Africa's poor are real, regardless of the motive. And for the record, the German and U.S. governments have forbidden giving away traded-in clunkers along with their export.

The scheme's advocates usually cite economic and environmental reasons—neither very convincing—for why the old cars have to be destroyed. The economic argument says that scrapping cars creates artificial scarcity, thus boosting demand for new auto sales in a recession. Leave aside that scrapping clunkers also raises the prices of used cars, thus penalizing poorer consumers. More importantly, there is evidence that the scheme triggered far fewer additional car sales than assumed. Consulting firm Macroeconomic Advisers estimates that in the U.S. "roughly half of the 250,000 in new sales would have occurred in the months following the conclusion of the program, and the other half would have occurred during the program period anyway." So all the scheme did was to transfer, rather than create, wealth by unnecessarily bribing people to make long-planned acquisitions.

But even where the subsidies may have caused genuine new sales, more money spent on cars simply means less money is available for other items. The German Retail Federation, for example, complains that the cash-for-clunkers program is "sucking out spending" as retail sales fell 1.3% in May and 1.8% in June. For the overall economy, therefore, the net result is probably zero. The idea that destroying items of value will boost the economy might be called in this context, the broken windshield fallacy.

But let's assume the scheme did create additional consumption. There are still far better and fairer ways of boosting demand. Even Keynes, the godfather of government stimulus programs, recommended paying people

to dig and fill up ditches—a senseless but at least non-destructive activity. Exporting clunkers produces exactly the same outcome as destroying them—it reduces the supply-demand gap. At the same time, it also creates jobs in the export-import and transport industries in the rich and poor countries while giving people in the developing world access to cheap cars.

This is where the environmental argument for destroying the clunkers comes in. The old cars must disappear, we are told, because they contribute to global warming. Let's look first at the rather dubious claim that trading in your old car for a more fuel-efficient new one reduces carbon emissions. If half of the new sales would have occurred anyway and the other half merely brought forward purchases rather than created new ones, then the real mileage effect appears quite limited. What's more, the energy required to manufacture a car accounts for as much as 45% of its lifetime energy consumption. So replacing old cars with new ones requires a big up-front energy investment. And crushing old cars and converting them to steel consumes more energy than exporting them.

It is true that selling clunkers to the Third World will increase emissions in those countries by increasing the number of cars on the road. But denying those poor people access to affordable cars means lowering their living standards. Lower living standards will of course always reduce energy consumption, but surely that cannot be a desirable policy objective.

Moreover, many of our clunkers are bound to be more efficient and more environmentally friendly than cars currently on the roads of many of the world's poorest countries. Selling the clunkers to them, therefore, could defray the cost of the clunkers programs while also upgrading the stock of cars in Africa and elsewhere. Just as the Salvation Army takes clothes that are one person's junk and sells it to others who are happy to get a good deal on used clothes, the clunkers programs could be moving the cars to where they are most valued, instead of destroying them for scrap.

The availability of cheap used cars will of course only make a marginal difference for people in the developing world. Yet there are no good reasons to deny these people even a marginal improvement of their living standards. Seen in this light, criminals exporting clunkers to Africa are doing more to increase economic welfare than moralistic German politicians and environmentalists spending taxpayers' money to deny Africans a cheap ride.

**Mr. Aiyar is a research fellow at the Cato Institute's Center for Global Liberty and Prosperity.**

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