

Why Not | Ian Ayres and Barry Nalebuff



Stop, Thief!

CAR THEFT DECLINED IN THE 1990S BUT IN THE LAST FEW years has resumed its growth. Last year 1.2 million cars were stolen; that's \$6.4 billion of theft. We could end a lot of this waste. For starters, police estimate that around 20% of cars stolen have their keys inside. Folks dash in to the Dunkin' Donuts, leave the car running and are surprised when the car isn't there when they return. The car owner isn't the only victim. All of us end up paying higher insurance rates. Police have to devote resources to finding these cars. Worse still, the stolen cars are often used to commit other crimes or are driven recklessly.

A surprisingly effective tool is the federally funded Combat Auto Theft or "CAT" sticker. This innocuous sticker authorizes police to stop the car if they see it being driven between 1 a.m. and 5 a.m. You'd think that car thieves would wise up and take off the sticker—but most aren't Einsteins. More than just getting the car back, the sticker helps police catch the thief in action.

Removing the key and stickering the window impose small inconveniences on the owner but yield large benefits to society. We need to change social customs. Folks who make life easier for thieves are imposing costs on the rest of us. The damage is just like that from secondhand smoke. Modesto, Calif., which holds the dubious distinction of having the nation's highest per capita auto theft rate, is considering ticketing people who leave their keys in the car.

In the U.K. an annual shame list of the car models most prone to being stolen motivated automakers (at least those at the top) to improve security. In the U.S. State Farm Insurance and others promote the National Insurance Crime Bureau list, which doesn't have the same incentive effect. The Toyota Camry and Honda Accord come out on top, primarily because there are lots of them to steal. The fact that a ton of 1989 Camrys (with outdated security) were stolen doesn't inform customers about the theft risk for a new Camry.

The Highway Loss Data Institute publishes a much more relevant list: The Cadillac Escalade is the car with the highest chance of being stolen—over 1%. Insurance companies can help customers choose cars based on the theft risk for new models. Publicizing this more useful list would provide incentives for carmakers to avoid heading that list.

Now let's apply the principle that society has a stake in making your car secure to the use of a valuable antitheft tool called LoJack. If your car is stolen, you have

the police activate the hidden tracking device by sending it a signal that works like a pager. The LoJack then starts broadcasting a homing signal. There is a 90% chance your car will be found, usually within two hours. We recently rode with the New Haven Police as they tracked down a stolen BMW. Locating the car was like playing a videogame, only more exciting because the game was real.

LoJack prohibits its installers from putting a sticker on the car advertising that LoJack is inside. One reason is to prevent the thief from tearing the car apart to find the device. A more important reason is that by keeping the device hidden, LoJack ends up having a much bigger effect on the deterrence and catching of car thieves.

LoJack is expensive (\$700), and the car owner may rightly conclude that it doesn't make sense if he's paying the tab himself. But auto owners collectively would definitely be better off if more Lo-

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Jacks were in use. We don't buy this argument. Once a LoJack has been installed, it is never removed. The track record of LoJack in 22 states is more than impressive. A typical stolen car has a 37% chance of never being recovered. With LoJack, that chance falls by three-quarters, to 10%.

But that's only the tail. LoJack catches car thieves and locates chop shops. If even 3% of cars have LoJack, an active thief is almost sure to take a LoJack car eventually. Nabbing the active thief has a direct effect, but the biggest effect is that potential professional thieves are deterred from going into the business. A study by Ian Ayres and Steven Levitt showed that each dollar spent on LoJack resulted in \$10 of reduced car theft. Alas, this doesn't make the device a winner for insurers with less than 10% of the market, because most of the benefit will accrue to their rivals. Even so, Liberty Mutual gives a large insurance discount to LoJack users, even where it isn't required by law.

The contrast between LoJack and the Club steering-wheel lock couldn't be more stark. The Club doesn't catch car thieves and doesn't even deter them—it just sends them to the next car down. The Club is a beggar-thy-neighbor strategy. People who would never think of putting a sign in their car window saying, "My neighbor leaves her keys in the ignition" feel fine putting on a steering-wheel bar that has basically the same effect. **F**



Ian Ayres and Barry Nalebuff are professors at Yale Law School and Yale School of Management and coauthors of *Why Not?* They will continue exploring car theft in a *Why Not?* series with WGBH for national public television.