IN REVIEW

Atlas's Case Against the COVID Lockdowns

REVIEW BY DAVID R. HENDERSON

Was the SARS-CoV-2 coronavirus so dangerous to so many people that extreme government lockdowns were justified? Did the fatality rate from COVID differ substantially according to people's age and presence of co-morbidities, and did governors and other policymakers systematically take account of those differences? Did it make sense to close schools to in-person attendance for anywhere from a few months to over a year? Was mask-wearing indoors, even by people who had no COVID symptoms, an important contributor to slowing the spread of the coronavirus? And what really went on at those meetings of the Trump White House's Coronavirus Task Force? Specifically, were the members carefully reading the numerous studies that were being published in the United States and around the world and adjusting their advice accordingly? Did it make sense for governors and other policymakers to focus only on COVID and ignore the major costs — including the costs to health — from lockdowns?

Dr. Scott Atlas, a senior fellow at the Hoover Institution, addresses all of those questions and more in his book *A Plague Upon Our House.* (Disclosure: I am also a Hoover fellow and know Atlas professionally.) But he does so much more than that. He lays out how dysfunctional both the task force and the White House were in dealing with the coronavirus. Based on my own experience at interagency meetings in Ronald Reagan's administration, I find Atlas's many reports of people on the task force "going with the flow" completely plausible. It's true that we have to take his word for what went on, but based on my experiences with him at Hoover, I do.

Beyond making his case with many facts, Atlas is a passionate man, and his book reads as if it were written in anger and frustration. Some readers might find that off-putting. I like it because he almost never lets his passion override his respect for facts and reasoned argument. Indeed, his passion is largely based on his view that lockdowns led to many deaths, destroyed millions of livelihoods, and caused needless suffering — a case he makes well.

A researcher's questions / Atlas tells his story largely chronologically, starting in February 2020 and ending in December 2020. In February 2020, while working on a different book, he started paying attention to the pandemic. He thought that the early-reported 3.4% fatality rate from COVID — which, if true, would have been very scary — didn't make sense. He noted that the 3.4% was based on a badly biased sample. The people being tested for COVID in the first month or so were largely people who were sick enough that they sought medical care — making them medical "cases." Based on what infectious disease specialists knew about past viruses, it was virtually certain that many other people had the coronavirus but did not have extreme symptoms. The *case* fatality rate, in short, was the wrong measure; what mattered was, and is, the *infection* fatality rate. And if the number of people infected were a huge multiple of the number of reported cases, the 3.4% would turn out to be a huge overestimate of fatality risk.

Seeing this in February and March, Atlas did what good scientists do: read to learn more. He came across a March 2020 article on the respected medical website *Stat* by his Stanford University colleague, Dr. John Ioannidis, whom Atlas hadn't known before. In "A Fiasco in the Making? As the Coronavirus Pandemic Takes Hold, We Are Making Decisions Without Reliable Data," Ioannidis made the point that Atlas had reached on his own.

Early on, Atlas noticed something that many critics of lockdowns had noted in March and April: the almost-complete focus on ending or slowing the spread of the coronavirus, with virtually no attention to the collateral damage that lockdowns and government-promoted fear would cause. As he researched further, he learned that half of cancer patients had deferred their chemotherapy, "80 percent of brain surgery cases were skipped," and about half of acute stroke and heart attack patients "missed their only chances for treatment, some dying and many now facing permanent disability." A fight against a virus that was a large threat to public health was being carried on as if the virus were the *only* threat to public health.

Atlas, surrounded by economists at the Hoover Institution, was also aware of the economics literature that finds a strong connection between wealth and health. Shutting down huge sectors of the economy made many people poorer. That alone would cause some reduction in health and increase in deaths.

Examining the early data, he found that the group at least risk from COVID was children. Their probability of dying from

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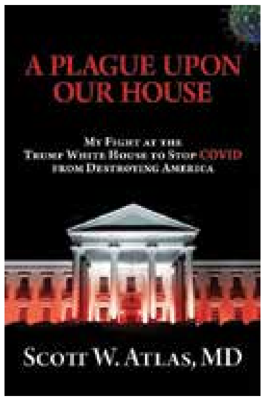
it was lower than their probability of dying from the flu in a normal flu season. This is now well known, but also was known as early as April 2020. Hence, it made no sense to close the schools. Later in the book, Atlas points out that opening schools would not have put teachers at risk. Although we didn't know it at the time, by the summer of 2020, the data showed that children rarely transmitted the virus to their parents. Given that they were typically around their parents in closed rooms more than they were around teachers, this meant that teachers were at little risk.



A Plague Upon Our House: My Fight at the Trump White House to Stop COVID from Destroying America

By Scott W. Atlas, M.D.

352 pp.; Bombardier Books, 2021

The politicians call / Atlas started writing and going on TV to talk about why lockdowns were such a bad idea. His increased visibility led to two important phone calls. The first was from Florida Gov. Ron DeSantis, who, like most U.S. governors, had imposed lockdowns. DeSantis, though, started reading the literature and concluded that his initial reaction was a mistake. He asked Atlas a series of questions of the form, "Here's my understanding; is it correct?" And to virtually every question, writes Atlas, the answer was yes. Probably not coincidentally, DeSantis was the first big-state governor to end the lockdowns.

The other big phone call was from the White House, specifically from John McEntee of the White House's Personnel Office. McEntee, Atlas later learned, was "one of President Trump's closest confidantes." After asking Atlas a few questions — one of them, disappointingly in my view, was whether he had publicly aired any views "hostile to the president" — McEntee invited him to fly to Washington to meet with Trump. Atlas agreed (and used his frequent-flyer miles to upgrade to first class). The meeting ended with an offer for Atlas to advise Trump on COVID-19. Atlas made clear that he would not ever go along with anything that didn't make sense. Later in the book he states, "I would never have remained silent when the president brought up drinking disinfectant at a press conference." He adds, "Then again, I was not a career bureaucrat."

At first, Atlas tried to advise from California. He paid close attention to what Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases and a member of the COVID task force, was saying publicly. Atlas quickly noticed the disconnect between what Fauci and Dr. Deborah Birx, another task force member, were saying and the impression he had from his first meeting with Trump. He writes, "I also sensed, even in this initial conversation, that he [Trump] was frustrated — not just at how the country was still shut down, but that he had allowed it to happen, against his own intuition." Atlas states his initial view of Fauci: he "kept focusing on what might happen, stressing what we didn't know with absolute certainty, rather than underscoring what we did know about the virus based on months of evidence, including the most fundamental biology." And, notes Atlas, the media didn't help, instead "sensationalizing every new piece of information."

Advising from California didn't work well and so, at the end of July 2020, Atlas moved to Washington. Early in his time, he met Birx, whom Trump adviser and son-in-law Jared Kushner suggested would feel threatened by Atlas's presence. Atlas checked her background and found that for much of her 35-year career in government, she had been involved with HIV/AIDS, not an obvious basis for her role as White House coronavirus response coordinator. Tellingly, Kushner said to Atlas more than once, "Dr. Birx is 100 percent MAGA!" MAGA, of course, stands for "Make America Great Again," the slogan used by Trump during his 2016 campaign for president and used regularly over his four years in office. That didn't seem like a strong qualification for Birx's job.

The task force / One thing that wouldn't surprise anyone who knows Atlas is that he got into a substantive discussion with Birx the first time he attended a task force meeting. He asked her which study she thought was most important in establishing that masks were effective. She replied that it was a paper on the apparent lack of transmission of the virus in a single Missouri hair salon that required masks. He pointed out some severe methodological problems with the study but, according to Atlas, she showed "no awareness at the meeting about some important flaws in the study she most relied on."

Though Birx was coordinator of the White House coronavirus response, she did not head the task force; Vice President Mike Pence did. According to Atlas, Pence always opened meetings by giving Birx the floor and she always started by going through tables and charts of the latest data on the pandemic. Atlas noticed right away that, in presenting her charts of each state's percentage of positive tests, she made an implicit and erroneous assumption that each state used the same criteria for determining who was tested. That resulted in the testing data giving a distorted view of how each state was faring.

Atlas had two major disappointments early on that soured him on the task force. The first was how unwilling the major players were to dig into data and discuss the evolving literature on the coronavirus. He often brought copies of studies to the meetings, but his impression was that few people read them. He noted that Fauci, Birx, and Dr. Robert Redfield, head of the Centers for Disease Control, agreed with each other on everything and never challenged each other. For that reason, he began to think of them as the "Troika."

The second disappointment, which was related to the first, was about two specific policy issues: testing and schools.

On testing, Atlas pointed out that one of the two types of tests available for the virus, polymerase chain reaction, produced a lot of false positives on current infection because it detects "fragments of dead virus" that can hang around for weeks after the infection has resolved. Atlas writes that he was the only one at the meetings who raised this fact. Nevertheless, he managed to persuade the group — including all the doctors — to sign onto a CDC guidance statement recommending less testing for the general public and more testing for people in high-risk situations such as nursing homes. Yet, when the document was circulated at a later meeting, virtually all of that material was gone. Atlas pointed that out and had a temporary victory: the new guidance was issued with the material restored. But when the guidance was released, the press and Democratic politicians, both of which had been very positive on the CDC, attacked it. New York Gov. Andrew Cuomo called it "political propaganda." After two weeks of taking heat, the CDC caved and issued new guidance that reverted to that of a few weeks earlier.

Later, in a discussion of guidance for opening colleges, Atlas pointed out how low a risk college students faced on campus and argued for not testing people who didn't have serious symptoms. After he challenged Birx's view that they should increase testing of people, including college students, "Birx, Fauci, and Redfield were silent." No one else commented either. Pence concluded the meeting with the statement, "So we will make sure we increase the testing." Pence, as you might have figured by now, does not get good grades in the book.

Atlas's other major policy disappointment was on schools. What was well known by the summer of 2020 was the harmful effects that school closings and remote learning were having on children, especially those in poorer families. Yet, notes Atlas, no one at the task force meetings, other than him, ever talked about the huge downsides of school closings. As noted above, the data showed clearly how safe young people were in school and, by the summer of 2020, how children rarely passed the virus on to adults. Therefore, argued Atlas at one of the meetings, schools should be opened without testing and masks. He writes that no one at the meeting, including Birx and Fauci, mentioned contrary data. Instead, Birx answered, "There is a bell curve of epidemiologists, and you are on the fringe." Pence then asked Redfield, whose CDC was responsible for issuing guidance, what he thought about the risks of opening schools. Redfield replied, "Let's just say, the jury is still out."

Conclusion / I have two main criticisms of the book, one relatively small and one more important. The small criticism is that Atlas, after driving home throughout the book the principle that correlation does not mean causation, forgets that principle on one particular issue. He notes that he acted, with some other members of the task force such as Seema Verma, then administrator of the Centers for Medicare and Medicaid Services, to increase protections for the vulnerable, especially those in nursing homes. He writes, "The data speaks for itself — as was proven months later." He then claims that their measures helped reduce nursing home COVID mortality by half. Is he right about this causation? Probably. But correlation is not causation; the data almost never speak for themselves.

On the issue of data, my more important criticism is that this 300-plus-page book has zero footnotes and very few references. Atlas sometimes refers to studies that, with a few key words, you might find by googling. But in many cases I was left wondering which studies he was referring to.

Overall, though, this is a very good book by a passionate man. If you were not scared of what unaccountable bureaucrats can do when given a platform to make recommendations for the nation, you will be scared after reading his book. Hopefully, we will never again give governors the power to close whole sectors of the economy. And if we take away that power, one person who will deserve a lot of the credit is Scott Atlas. *R*

An Uncertain Bridge

REVIEW BY DANIEL KOWALSKI

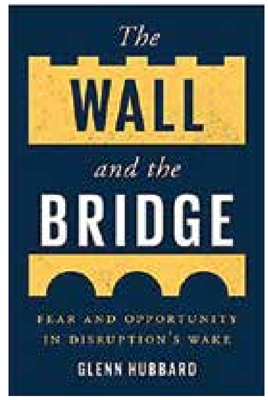
For decades, political leaders have focused on building "walls" rather than "bridges," obstructing market exchange rather than facilitating it. Columbia Business School dean emeritus Glenn Hubbard has observed firsthand that walls are politically hard to resist. As chairman of the President's Council of Economic Advisers from 2001 to 2003, he advised against imposing steel tariffs in 2001, but President George W. Bush rejected that advice. Hubbard also observed the effects of deindustrialization on workers and communities in Youngstown, OH as part of his economic research. Instead of helping workers adjust to disruptive economic forces, politicians tried to wall off those forces with public policies. In the long term, that neither helped the communities nor built support for free markets and capitalism.

Hubbard suggests the failure of policy to adequately respond to displacements caused by technological change and globalization has led to the rise of populism and diminished public belief that the market economy creates broad prosperity. He argues for bridges — public policies to help displaced workers — to replace the walls and renew support for capitalism.

Returning to the game / In Hubbard's telling, Adam Smith understood the importance of bridge-building. Smith thought of himself first as a moral philosopher and viewed the economy as a moral system of flourishing. Smith wanted to promote the happiness of everyone in the nation, not just the elites, Hubbard (and others) notes. Such mass flourishing results from "inclusion, mutual ties, and mutual support" — bridges — that help those on the margins participate in the market.

Dynamism leads to economic gains but results in disruption that unavoidably produces winners and losers. Mass flourishing requires that the losers return to the game — that they rejoin the economy in some new productive role. Their failure to do so may undermine the entire enterprise and violates an implicit moral precept that the winners compensate the losers. While some economists have thought about how to do this (Hubbard cites the late Cambridge economist Nicholas Kaldor's work in particular), the economics profession in the post–World War II period did not focus on this because extraordinary economic growth was assumed to be the rising tide that lifts all boats.

Hubbard's policy prescriptions provide mechanisms for the winners to compensate the losers. His are generally new policies; current government programs help smooth short-term business cycle disruptions but do not meet the long-term needs of those displaced by technological change and globalization. Without any apparent sense of the irony, Hubbard calls for massive government intervention to shore up public support for the market economy.



The Wall and the Bridge: Fear and Opportunity in Disruption's Wake

By Glenn Hubbard

248 pp.; Yale University Press, 2022

Big government spending / In Hubbard's perfect world, governments would insure individuals against the risk of adverse outcomes from technological change and globalization. Policymakers would establish mechanisms that anticipate structural changes in the economy, provide workers the means to improve their skills, and help displaced workers reconnect to the economy. These mechanisms would compensate the losers by allowing them to continue participating in an ever-changing market. The business sector can also help identify trends and needed skills, but in Hubbard's view they should principally "defend the process of competition."

Hubbard offers some recommendations:

- Increase community college funding by $20 billion annually to "provide skills to meet job demands of the changing economy" and raise the completion rate to 60%.
- Increase federal funding for basic research to "maintain global research preeminence."
- Provide employer tax credits for training workers above a base level. This is intended to compensate firms "for the risk of trained workers leaving for a job elsewhere."
- Establish individual "Personal Reemployment Accounts" to support training and income for dislocated workers.
- Provide wage insurance to offset part of the difference between wages at a higher-paying job that disappears and wages from a subsequent lower-paying job. This is intended to "encourage rapid reemployment and skill acquisition."
- Expand the Earned Income Tax Credit to keep people — particularly childless workers — engaged in low-wage work that lets them build skills and an employment record.
- Establish place-based block grants for areas with "stubbornly high rates of long-term nonemployment" to promote workforce participation.
- Institute universal catastrophic health insurance to provide access to health care and "raise labor demand for low- and mid-skilled workers."
- Increase federal funding for the Medicaid program to enable states to withstand budget pressures during periods of high unemployment.
- Create a broad national service program to foster a feeling that "we're all in this together."

These policy interventions would cost about $120 billion per year, Hubbard estimates. Many of them have been proposed before as stand-alone additions to the social safety net and have been rejected by Congress. Hubbard now proposes them as a comprehensive package, as though that would cause Congress to look more favorably on them, ignoring that Congress has been unable to enact comprehensive welfare reforms since the Personal Responsibility and Work Opportunity Act of 1996.

Acknowledging the difficulty in coordinating this massive new benefits infrastructure, Hubbard recommends that the cross-cutting policy process fall to a U.S. Task Force on Economic Engagement. The task force would evaluate proposed bridges and walls and hopefully would "promote vigorous public and legislative debates."

Hubbard accepts that paying for these policies would "require a rethinking of social spending on older versus younger Americans." To finance these initiatives, he offers several ideas:

- Tax corporations on cash flow rather than profits, which would move tax incidence to firms with large profits above the competitive return on capital.
- Eliminate the step-up of capital gains at death, which allows heirs to pay lower taxes when they sell inherited assets.
- Reduce Social Security benefits for those with higher lifetime incomes.
- Increase Medicare premiums for the affluent.
- Reduce tax subsidies for health insurance.

Hubbard also proposes cutting Social Security benefits beyond what is required to prevent the program trust fund's depletion (which is expected in 2034) and increasing the Medicare tax beyond what is needed to ward off its insolvency (expected in 2026). The additional revenue would be used to help fund his new welfare protections.

Too little too late / All of Hubbard's bridges are worthy of consideration as responses to future shocks (and perhaps for recovery from the COVID-19 pandemic if enacted soon enough). That said, it is not clear that these policies will help workers who have already been displaced by technological change and globalization to reenter the labor market.

Compensation that prepares workers to compete are unlikely to motivate those devastated by past policy errors to support an economic system that allowed their jobs to go abroad and their communities to become hollowed out. Many displaced Americans feel betrayed, and Hubbard's proposals will be viewed as too little too late. Indeed, workers might consider these policies to be ways to reduce employer labor costs cynically packaged as assistance to workers.

Labor force participation of prime-age workers has declined in recent decades, for reasons that aren't entirely clear. To the extent that it is because people have concluded that "the game is rigged" — that government policy favors economic and social elites — Hubbard's proposals will have minimal effect on participation. Even worse, these bridges risk becoming yet more long-term forms of welfare if Congress extends their period of eligibility — which seems likely.

The Wall and the Bridge proposes many complicated policy reforms. Further debate is needed to determine if they are the right policies for what ails the country at this time.

Wisconsin Picks a Loser

REVIEW BY PHIL R. MURRAY

In July 2017, then–Wisconsin governor Scott Walker announced that Taiwan-based tech manufacturer Foxconn would build a $10 billion display panel plant in the Badger State, creating 13,000 jobs. The project would, of course, be boosted by state and local government inducements, including subsidies, tax breaks, infrastructure, and public seizure of private land for the facility. The project quickly became a symbol of then-president Donald Trump's "Make America Great Again" agenda, and Trump went so far as to scout possible sites for the plant from a helicopter alongside Foxconn founder and CEO Terry Gou. Trump, Walker, and Gou did the ceremonial shoveling of dirt at the groundbreaking in June 2018 in the Racine County town of Mount Pleasant in the state's southeast corner, with Trump proclaiming the plant would be "the Eighth Wonder of the World."

Yet, as the project proceeded, skepticism grew that it would resemble anything like what Walker, Trump, and Gou had touted. The skeptics have subsequently been proven right, as Foxconn has repeatedly scaled back its ambitions and changed the plant's output. Currently, the facility is manufacturing servers and 5G networking gear, and Foxconn now expects to invest just $672 million and employ fewer than 1,500 people at the site.

This tale is chronicled in the book *Foxconned* by corporate communications executive and independent writer Lawrence Tabak. The book does such a good job of weaving together economics, history, and politics that it is being published by the University of Chicago Press. It effectively illustrates what can go wrong when government officials try to orchestrate economic development.

Corporate welfare / Tabak describes how "Wisconsin [promised it] would provide up to $3 billion in incentives based on a 17 percent rebate of Foxconn's payroll and a 10 percent rebate of its capital investment," while Mount Pleasant handled the acquisition of the real estate and the building of the infrastructure.

Mount Pleasant officials paid for the property they took, but many of those payments were shady. The officials offered some owners of large tracts $50,000 per acre, but others got "predevelopment market prices, which could be as low as $5,000 per acre." Officials notified owners of small tracts that their properties were in the path of highway construction and offered them "market value plus 40 percent." But they also misled homeowners who balked at selling into believing that they would lose the ability to drive to and from their homes.

Mount Pleasant officials also voted to declare the properties blighted. Tabak points out that "one of the qualifying criteria is a crime rate three times the rate of the surrounding community, which is nonsensical for the Foxconn property." All but one official ignored that requirement.

Officials pulled off this "land grab" without voter approval. "In fact," Tabak writes, "all the decisions had been made behind closed doors, with the help of economic development staffers in Madison and Milwaukee, lawyers and contractors, including [Foxconn advising firm] Ernst & Young's people in Chicago."

The Wisconsin Economic Development Corporation (WEDC) played a key role in recruiting Foxconn. Tabak reports that the WEDC's budget was $43 million in 2017, about nine-tenths of which came from taxpayers. About $29 million of that went to "salary and operating expenses," with most of the balance going to "grants." "In other words," he interprets, "in Wisconsin it cost taxpayers some $30 million to find companies that deserve $10 million in grants." In making this barb, Tabak is being kind; if, as he reports, taxpayers footed around 90% of the WEDC's budget, the cost to taxpayers was more like *$39 million.*

Sham studies / Proponents of taxpayer-funded economic development tout "economic impact studies" to justify using tax dollars for these projects. Ernst & Young produced one for the Foxconn deal. According to Tabak, "E&Y used established benchmarks to predict that for every ten jobs Foxconn creates, another seventeen jobs would be created in Wisconsin." They further estimated that a typical Foxconn job would pay a salary of $53,875. But some critics dismissed those numbers. Noting Mount Pleasant's nearness to the Illinois border, they asked how many Illinoisans would get the new jobs and whether Wisconsin businesses would receive all the Foxconn capital expenditures.

Other critics, such as John Locke Foundation economist Roy Cordato, were dismissive of such studies altogether. Cordato told Tabak:

> The main flaw in economic impact studies is that they do not look at alternative uses of resources, do not provide a true cost/benefit analysis. In fact, the most common models, such as the IMPLAN one used by E&Y for their Foxconn study, are incapable of producing a negative number.

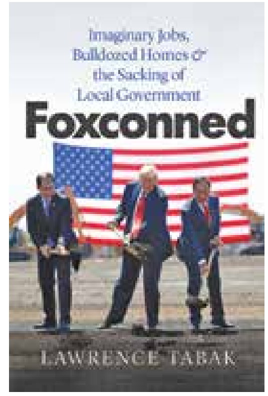
Tabak cites a 2019 report by George Mason University's Mercatus Center on such economic analyses, writing:

> They used Wisconsin's Foxconn project as their core case study and concluded through an analysis of likely scenarios and alternative uses of funds expended that the net effect for Wisconsin would not be the economic windfall promised by the consultants but a long-term burden on the state and its taxpayers.

Yet, despite the warnings of economists, industry observers, and other skeptics of cronyism, politicians pushed the Foxconn deal forward.

TIF abuse / Government officials who imagine that they foster economic development rely on the "tool" of tax-increment financing (TIF). Tabak explains how TIF works:

> An area that is in need of improvement is typically designated as "blighted," and the property tax revenue — which normally goes to various recipients such as schools — is frozen at the current level, most commonly for twenty-three years. Public funds are then used to make the area more attractive — razing slums, improving roads, adding infrastructure. In a successful TIF district, the subsequent improvements spark development that increases the tax base; the increase, or "increment," over the frozen amount is funneled into the TIF authority that oversees the district. The authority then pays back any debt or costs incurred by the TIF development, until the district either matures after twenty-three years or sooner if the debts are retired.



Foxconned: Imaginary Jobs, Bulldozed Homes & the Sacking of Local Government

By Lawrence Tabak

290 pp.; University of Chicago Press, 2021

Manufacturers need land and infrastructure. They can pay for it themselves or lobby government officials for subsidies. Officials use TIF because "it allows municipalities to borrow money to invest in land and infrastructure that in turn can attract corporate and industrial development." "But," Tabak warns, "TIF also comes with risk and the potential for abuse." The risk is whether a manufacturer will actually make investments and produce what consumers want. The abuse refers to misspending TIF funds.

In the case of Foxconn, Tabak suggests that officials spent too much compensating businesses to move off seized land, authorized unnecessary purchases for the fire department, and paid too much for "professional services." The main problem may be that Foxconn never really planned to produce flat-screen TVs at the site; as noted, its capital expenditures have ultimately amounted to less than $1 billion. The economy of southeastern Wisconsin did not boom as a result of the deal.

To prevent future economic development fiascoes, some state legislatures have imposed limits on the use of TIF. One legal limit is the maximum area of a city that may be designated for TIF. Another is the maximum amount government officials may agree to spend on a deal that uses TIF. A third restraint is legislation that prohibits government officials from transferring property from one private party to another. But officials manage to circumvent these legislative fixes. According to Tabak, for instance, the Wisconsin legislature made an exception that allowed Mount Pleasant to spend more than the legal maximum on the Foxconn deal. And although Tabak characterizes the real estate around the town as "pristine and well maintained," government officials declared it blighted, took it, and gave it to Foxconn.

Part of the problem with industrial policy, as Tabak sees it, is that government officials don't have the necessary expertise. He reckons that Wisconsin officials lacked knowledge of "Asian business culture, the psychology of auctions, and the competitive realities of flat-panel LCD manufacturing." The general problem is that no one can foretell the industries and firms of the future. He quotes Vivek Wadhwa, a Silicon Valley entrepreneur with academic appointments at Harvard Law School and Carnegie Mellon: "Most of the top-down cluster-development projects in the United States and around the world have died a slow death in relative obscurity." He also quotes economic research concluding that "direct, top-down policies are most likely to fail." Perhaps government officials and the citizenry will see the futility of picking winners and leave economic growth to the spontaneous order of the market.

Tabak favors a multilateral agreement among state governors to refrain from offering tax breaks and subsidies to businesses seeking locations. He believes that if Congress set a legal maximum on tax breaks and subsidies, the number of deals would decrease. Deal-making would not disappear, however, if state economic development agencies remain in place with their budgets and vested interests. He correctly identifies these deals as "corporate welfare" and expects both the political left and right to see their common interest in resisting it.

Some errors? / Although Tabak demonstrates a good understanding of economics, he appears to make a few errors.

In a passage where he laments job losses in manufacturing and the harm associated with it, he states, "During the middle of the 'Glorious Thirty,' the unemployment rate for men between twenty-five and fifty-five across the US was 5 percent." By the "Glorious Thirty," he means the 1950s–1970s, which was generally a good time for U.S. employment — indeed, even better than Tabak describes. Taking "the middle" to be the 1960s, the unemployment rate for men between 25 and 54 years old rose from about 4% in 1960 to 5.6% in 1961, and then gradually fell to below 2% in 1969. The median unemployment rate for prime-aged men was 3.0% over the entire decade of the 1960s.

He then turns to unemployment in the wake of the Great Recession of early this century. "In 2010, in the wake of the global financial crisis and subsequent recession," he writes, "the number ballooned to 20 percent and the subsequent recovery largely bypassed this demographic." If, by "the number," he means the unemployment rate for prime-aged men, that number peaked at 10% in September and October of 2009. I corresponded with Tabak and, concerning this passage, he wrote that he may have been referring to the percentage of prime-aged men not in the labor force, which is a larger group than those deemed "unemployed" in government statistics. Labor force participation by prime-aged men has been in long-term decline in the United States, but it still was 89% in 2010, which means that only 11% of prime-age men were not in the labor force.

In another passage where the author discusses wealth inequality, he presents a graph of the percent change in inflation-adjusted wealth beginning in 1989 for various groups. Underneath, he writes, "Since 1989, the wealth of the top 1 percent has skyrocketed by nearly 300 percent." One line in the graph shows just that. Another line shows that the wealth of the bottom 50% rose from 1989 to 1999, fell over the next 10 years, and then recovered by 2018. The upshot is that the bottom 50% had no more wealth in 2018 than in 1989. The author uses data from the Federal Reserve's Distributional Financial Accounts. Using the same data, I calculated that the inflation-adjusted wealth of the top 1% grew 243% from 1989 to the fourth quarter of 2019 — a large gain, but well short of 300%. My calculations also indicated that the inflation-adjusted wealth of the bottom 50% grew by 100%. In my correspondence with Tabak, he stood by his view that there is "striking inequality" and it certainly is true that the wealth gap between the top and bottom of the distribution widened over this period. Still, as I read the data, the wealth of the bottom half doubled over this time, and they are not as asset-poor as Tabak's graph indicates.

Conclusion / There is now a "new contract" between Foxconn and Wisconsin. Foxconn will pay taxes on its property, which will cover interest on the bonds for the land and infrastructure. As for subsidies, the state will now *only* pay Foxconn up to $80 million. But taxpayers still face the day when the principal on the bonds comes due.

Tabak's work is a persuasive argument against government officials who imagine that they can plan economic development. He recognizes "how inept the public sector has proved itself to be in picking winners." Ironically, however, the reforms he recommends — such as limits or prohibitions on tax subsidies — rely on government officials to do the right thing. Even he must be pessimistic about the prospect of that, given that he believes the political class is beholden to its patrons in the business community. R

Ellig's Lasting Views on the Regulatory Process

REVIEW BY MICHAEL O'RIELLY

Public policy outcomes that necessitate regulatory rulemaking are inevitably time-consuming, tedious, messy, and often adversarial. Those individuals who can bring light and order to improving the regulatory process deserve respect and acknowledgement; those who do so repeatedly and show a path for future policymakers are modern-day craftsmen.

Then there is the rarefied air of master craftsmen, which aptly describes the late Jerry Ellig. His posthumous book, *Jerry Ellig on Dynamic Competition and Rational Regulation*, highlights the range of issues he worked on in his career as a scholar and government economist.

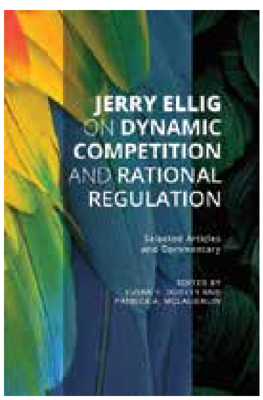
Cost–benefit analysis / Ellig's research focused on regulatory impact analysis, regulation of network industries, and the performance of management in government. With the aid of his academic colleagues, this collection of published works wonderfully amplifies his approach to the statutory mandates for regulatory procedures, including the use of cost–benefit analysis (CBA). What the book could never do is sufficiently capture the good-natured and happy-warrior attitude with which he pursued his vision for regulatory enlightenment.

Ellig and I briefly worked together at the Federal Communications Commission when he served as its chief economist. While my very public goal was to codify many of the foundational principles that he and I agreed upon, I surmised that he saw the value of improving the overall system for rulemaking so that it applied a more rigorous CBA. I appreciated the view, which I think Ellig espoused, that a lot more good can be done if the focus is on improving the process rather than using temporary political advantage to generate short-term policy victories. In the end, the FCC approved a more rigorous CBA regime that should not only improve rulemakings but help set a standard that can be used by other agencies. While the improvement was less than I had hoped for, the fact that Ellig was engaged helped convince me that a partial improvement is still an improvement, and that it did not preclude further advancements down the road.

Greater efficiency and rationality / This book's selected scholarship is both refreshing and sober. The opening piece is Ellig's 2015 testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, which captures his worldview and a key theme in his work. He told the senators, "The persistence of mediocre regulatory impact analysis across administrations is an institutional problem, not a personnel or partisan problem." Indeed, the Mercatus Center's Regulatory Report Card governing 2008–2012, a prized effort of Ellig, found that not one of the 108 examined regulations by various agencies produced a passing score. He succinctly graded each analysis as deserving an 'F'.

Other essays in the book explore the recalcitrant agency approaches to thoughtful and justified regulatory processes. These works probe the value — and general agency rejection — of required regulatory impact analysis for significant regulations. One case study in the book calls out the Securities and Exchange Commission for court rejections in multiple proceedings for "faulty economic analysis" and the refreshing move toward doing CBA in its regulatory guidance. From there, Ellig and others set forth principles that should be expected from agencies — including independent agencies — contemplating new burdens and suggesting improvements via best practices. Ultimately, it serves as a treatise to nudge the regulatory state's relentless paper pushing toward greater efficiency and rationality.

Ellig's greatest asset may have been his willingness to accept agencies' gradual improvements in their regulatory impact analysis.



Jerry Ellig on Dynamic Competition and Rational Regulation: Selected Articles and Commentary

Edited by Susan E. Dudley and Patrick A. McLaughlin

434 pp.; Mercatus Center at George Mason University, 2021

A secondary theme in the book is the correlation between competition and regulation, which Ellig explored through a diversity of subjects. Known as an expert of industries that have a network design, he and Daniel Lin carefully reviewed the competing approaches in their introductory chapter "A Taxonomy of Dynamic Competition Theories," which opened the Ellig-edited 2001 Cambridge University Press book *Dynamic Competition and Public Policy*. They argue that seemingly different industries have important economic similarities and should have similar competitive freedoms. Select lessons in rail, trucking, shipping, natural gas, and electric market restructuring also apply to funeral caskets and wine.

Ellig's papers in collaboration with colleagues examine the growth in regulation and the effects of its counterpart, deregulation. "Wine Wars" and "Market and Nonmarket Barriers to Internet Wine Sales," explore a variety of arguments put forth to prohibit internet wine sales in New York, Michigan, and Virginia. Opponents' appeals to the Dormant Commerce Clause, underaged drinking, the 21st Amendment, physical presence obligations, and more were appropriately dismissed in favor of allowing consumers direct shipment and the greater variety and lower prices likely to result.

The last portion of the book outlines the role of Congress and the courts to force proper regulatory action by federal agencies. These traditional checks on regulatory bodies serve important functions in correcting agency ignorance or haphazardness. For example, the essay "Courts Have a Role to Play Reining in Federal Agencies" declares that "a clear statutory standard [by Congress] could promote consistency and rein in any potential judicial tendencies toward either excessive activism or excessive deference." Further, "courts are quite capable of evaluating the evidence agencies provide that underlies major regulatory decision — including economic analysis." While the current Congress may not be so receptive to this message, more aggressive engagement could come if party control flips or if the right cases are presented to the Supreme Court.

Conclusion / Beyond his gregarious personality, Jerry's greatest asset may have been his willingness to accept agencies' gradual improvements in their regulatory impact analysis and efforts to devote real resources to it. Unlike many in Washington, he never seemed to see this as a battle or personal war but a means to more fully ground the regulatory process in economics and facts and improve the outcomes for everyone. I believe those elements will cement his legacy as a regulatory visionary. *R*

IN REVIEW

A Wide-Ranging Book for Non-Economists *and* Economists

REVIEW BY DAVID R. HENDERSON

In the late 1980s, I wrote a fan letter to University of Virginia professor Steven Rhoads about his 1985 book *The Economist's View of the World.* I had used it with great success in a master's-level economics course at the Naval Postgraduate School. Among other things, I wrote, "I still think it's one of the top ten economics books of the last 50 years." Rhoads quoted my letter in the 35th anniversary edition of the book, published last year. How does the 2021 edition measure up? I still think it's one of the top 10 big-picture economics books of the last 50 years.

In the last 20 years, there have been a lot of good economics books in niche areas such as housing, health care, immigration, and business economics, to name just four. But Rhoads' book is special for two reasons. First, it gently teaches readers the basic concepts of economics, such as opportunity cost, marginalism, and incentives. It then applies those concepts to a wide range of government policies, showing how economists think about them and why many of them — and not just the libertarian ones — believe so many government policies are destructive. Rhoads, a political scientist, shows economics and economists at their best. Second, it challenges economists about their views on preferences and on the workings of the political system. His discussion here is better than in the 1985 edition. I was stunned, for example, by his quotes from economists I have respected about how people's preferences should inform government policy.

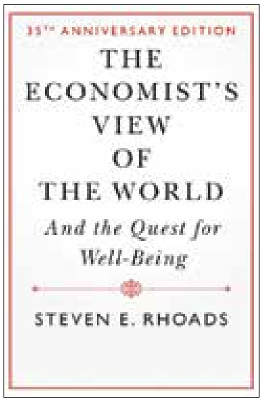
Opportunity cost / The first few chapters of this edition track those in the 1985 edition, but with updated examples. On opportunity cost, for example, he notes that people who are polled about various policies think very differently about them if they are reminded that policies have costs. For example, 48% of Americans polled think that a universal basic income is a good idea, but 54% of that 48% would not be willing to pay higher taxes to fund it. And 77% of people polled "favor a provision of the Affordable Care Act that requires insurance companies to cover anyone who applies for insurance, even if they have pre-existing medical conditions," but that support drops to 40% if the provision would result in their paying higher taxes. People are supportive of all sorts of government programs — until it comes to paying for them.

In the chapter, Rhoads uses transit to demonstrate politicians' frequent failure to weigh costs against benefits when policymaking. He quotes Brookings Institution transportation economist Clifford Winston's statement that "cost-effectiveness analyses suggest improvements in bus service generally cost about $1 to $10 per transit trip while rail construction typically costs around $10 to $100 per new trip."

Marginalism / One of the first principles I taught my students in my economics courses was the power of "thinking on the margin." Appropriately, Rhoads has a chapter titled "Marginalism." He points out that many people think of medical care as something that everyone needs and they fail to think about the components of health care. Few would deny that a person with acute appendicitis needs an appendectomy, but many other forms of health care are not so clear-cut. Do I "need" to have two checkups every year or would one do? People's answers to such questions, notes Rhoads, depend on how much of the cost they bear. He describes one experiment in which a group of beneficiaries of Medi-Cal (California's Medicaid program) had to pay $1 for their first two office visits each month. Another group did not have to make this small co-pay. The result? Office visits for the first group were 8% lower than for the second group. Time costs matter, too, because those are borne totally by beneficiaries. Rhoads notes that when one college's health facility was moved so that it took students 20 minutes to get there rather than the previous 5–10 minutes, student visits fell by almost 40%! What Rhoads doesn't say but clearly must be thinking is that when people cut back on their health office visits, they are cutting back on the least important visits — that is, the marginal ones.

He ends the chapter by noting Nobel economics laureate James Buchanan's claim that you can distinguish between economists and non-economists by their reaction to the statement, "Anything that's worth doing is worth doing well." Economists point out that we don't need to do everything well. So-so works in many instances. I don't completely sweep around our two kitty litter boxes every morning, for example. Sometimes I wait a day, and that's good enough.

Incentives / The chapter on incentives is as good as the ones on opportunity cost and marginalism. Rhoads points out that taxes on pollution or a system of tradable emissions permits would lead to a given reduction of pollution at least cost. With a tax on each unit of pollution, polluters that can reduce emissions for a cost less than the tax will do so; those whose cost of reducing pollution exceeds the tax will keep polluting. If the resulting level of pollution is deemed to be too high, the tax can be increased until the desired emission level is reached. Tradable permits lead to the same result: those that have a high cost of reducing pollution will buy permits from those that can reduce pollution at a low cost. To the charge that such a system gives people "licenses to pollute," Rhoads answers the way economists would respond: allowing any amount of pollution implicitly gives polluters a license to pollute up to the limit.



The Economist's View of the World
By Steven E. Rhoads
312 pp.; Cambridge University Press, 2021

Rhoads points out that the costs of reducing a given amount of pollution vary widely. He notes a famous study that found that a paper products factory in St. Louis could reduce particulate emissions by 1 ton for only \$4 whereas reducing emissions from a brewery in St. Louis cost \$600 per ton. Requiring each to cut emissions by 1 ton would have cost \$604, whereas requiring a 2-ton reduction and letting the two companies work it out would have resulted in the paper products factory reducing pollution by 2 tons for a cost of \$8. This would save \$596 while yielding the same environmental benefit. Because the costs can vary so much, notes Rhoads, some studies have found that "such incentive-based schemes could achieve equivalent air quality for as little as 10 percent of the costs of existing methods."

Rhoads follows many economists in applying the same reasoning to climate change. Like many of them, he favors a carbon tax or a system of tradable carbon permits (now generally called cap-and-trade) to achieve a given level of emission reduction at least cost. He's right that this would achieve what he says it would. At one point, though, he refers to a carbon tax as "carbon pricing." We already have carbon pricing; no one is giving it away. Although a tax affects the price of carbon, a tax is not a price. Also, and unfortunately, Rhoads — like many economists — doesn't consider whether there might be even lower cost ways of mitigating global warming, such as geo-engineering.

Rhoads nicely lays out the very different incentive effects of the Corporate Average Fuel Economy (CAFE) regulations and an increased tax on gasoline. The former requires car manufacturers to achieve a high average miles-per-gallon on their year's production of cars. Thus, tightened standards apply only to new cars and would cause people to hold onto older cars longer, undercutting the goal of reducing gasoline usage; CAFE also does nothing to incentivize less driving. A higher gasoline tax, in contrast, would cause virtually all users of gasoline to cut back somewhat. Moreover, although he doesn't mention this, it would allow companies that want to sell gas guzzlers and consumers who want to buy them to do so. It might even cause companies to put a spare tire in the trunk, something many car manufacturers no longer do in their attempt to hit the CAFE target.

Government vs. free markets / Rhoads's chapter titled "Government and the Economy" makes a strong case that the free market works very well at efficiently allocating goods, provided there are no major externalities, while government works very badly. A big reason why markets work so well, he explains, is incentives. For-profit firms have a strong incentive to produce efficiently. Government agencies, in contrast, have no such incentive. U.S. cities that hire private firms to collect garbage, for example, have costs that are on average 30% lower than costs for having a city government agency do the work.

Rhoads also shows why government industrial policy is such a failure. He quotes Columbia University economist Richard Nelson's point that private technological innovation is usually unpredictable: we don't know in advance what will work. Nelson has pointed out that in industries like chemicals and electronics, "most of the bad bets were quickly abandoned." But government agencies tend to stick with what doesn't work despite mounting evidence that it doesn't. Nelson named the federal government's expenditures on supersonic transport and military research-and-development programs as examples. He argued that the historical record for government support of particular products that officials think will be winners is "unequivocal. Unequivocally negative."

But if free markets work so well, why is it commonly said that living standards have stagnated for middle-class Americans? The fact is, they haven't. Rhoads cites the Urban Institute's Stephen Rose, whose meta-analysis found that between 1979 and 2014, inflation-adjusted median income grew by over 40%. Is the middle class shrinking? Yes, because part of its membership is moving upward on the income scale. In 1967, only 6% of Americans were in the *upper* middle class; by 2018, 33% were. What about poverty? The officially measured U.S. poverty rate has not fallen substantially, but that's because the income measure does not include the child credit, Earned Income Tax Credit, Medicaid, food stamps, government housing assistance, subsidized school lunches, and other programs. An alternate measure is what's called "consumption poverty," which measures what people actually buy. Economist Bruce Meyer of the University of Chicago notes that the consumption poverty rate fell from 13% in 1980 to 3% in 2016.

Safety information / In a chapter titled "Economists and Individual Well-Being," Rhoads points out that competitive pressures "do not always yield important kinds of safety information." That's true, but his example of cigarette advertising is particularly inapt. On this, he would do well to read a 1985 Federal Trade Commission report by John E. Calfee titled "Cigarette Advertising, Health Information and Regulation Before 1970." Calfee notes that in the 1950s, cigarette companies started to advertise the bad health consequences of their competitors' cigarettes. Writes Calfee,

> Voluntary health-related advertising reached its climax in the 1952–54 "cancer scare" when, with no government assistance, the industry's self-inflicted "negative" advertising helped cause sales to decline more rapidly than at any other

time between the Great Depression and the present.

Can you guess what happened next? The government stepped in to stop it. Calfee explains:

> Near the end of 1954, however, the FTC brought the industry's alarmist health advertising to a halt by establishing a set of cigarette advertising guides that eliminated virtually all health claims in cigarette advertising. The market's self-destructive episode of 1952–54 has never been repeated.

In short, rather than the federal government being the white knight warning 1950s consumers about the danger of smoking, it was the villain.

Rhoads's pivot / Toward the end of the book, Rhoads challenges the character of many modern economists. He scores some points. He notes, for example, a survey's finding that about 9% of economists gave nothing to charity, a number that was more than double the percentage of any other profession.

One of his biggest criticisms is of economists taking people's tastes and preferences as given and arguing that the political system should cater to people's preferences regardless of their content. While economists often criticize the political system from a public choice viewpoint, arguing that politicians are following their narrow self-interest (I've done so myself), Rhoads points out that many of us are abysmally ignorant of how politicians actually deliberate on issues. He notes that James Madison argued that politicians should deliberate and not just cater to their constituents' wishes. But many modern authors think that a political system is better the more the chosen policies reflect constituents' wishes. Rhoads writes, "Thus, the economists are declared right, and Madison wrong." Moreover, he adds, modern economists don't even seem to know about this controversy.

He shows a good awareness not only of modern economists but also of classical economics, but there is one glaring exception. In discussing Thomas Carlyle's characterization of economics as the "dismal science," he claims that Carlyle based that view on "Malthusian reasons." Thomas Malthus, recall, thought that population growth would keep most people on the edge of starvation. But that's not what Carlyle was thinking. In his "Occasional Discourse on the Negro Question," Carlyle argued against classical economists and in favor of slavery. What made economics dismal, said Carlyle, is that economists *opposed* slavery.

Conclusion / These criticisms do not outweigh the book's overall excellence. Sometimes people ask me what book I would recommend if they want to understand the basics of economics and have no prior knowledge. The one I always recommend is Henry Hazlitt's 1946 classic, *Economics in One Lesson*. Second to that, I would add *The Economist's View of the World*. *R*

Why Does Public Radio Exist?

REVIEW BY GEORGE LEEF

National Public Radio (NPR) endeavors to report the news, but sometimes it becomes the news. That was the case earlier this year when long-time NPR Supreme Court reporter Nina Totenberg reported that Justice Sonia Sotomayor had asked her colleagues to wear masks when they were together, but then participated in a proceeding remotely because Justice Neil Gorsuch declined to wear one. The story generated public backlash against Gorsuch, resulting in the two justices putting out a joint statement denying the story, as did Chief Justice John Roberts. Nevertheless, Totenberg stuck by her reporting.

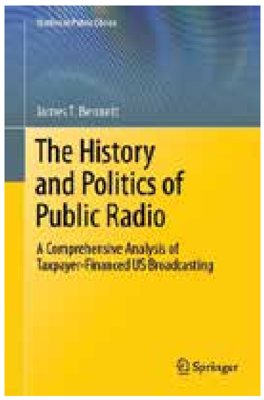
For Americans who have grown up listening to NPR, such politically freighted stories are no surprise. NPR has been part of the national fabric for more than 50 years; some people love it and others hate it. Either way, George Mason University political economist James Bennett's book *The History and Politics of Public Radio* will be of interest. Exactly how did we get where we are with governmentally supported radio? Is there a case for it? Would privatization be better? This slender volume is packed with a great deal of information and argumentation.

Broadcast licensing / Radio transmission hit the world in 1912, followed soon after by the question of whether government should play a role in overseeing it. Writes Bennett:

> This being the Progressive Era, the government was not about to allow the new medium to develop without a guiding hand, especially since more than 1,000 amateur ham radio operators were fiddling around in their garages and makeshift laboratories, far from the oversight of officialdom. This was a bottom-up phenomenon, unregulated and in its nerdish way, unruly. It needed regulation, or so the authorities believed.

The result was the Radio Act of 1912, which required that all radio transmitters be licensed by the U.S. secretary of commerce and labor. Most of the early licensees were educational institutions. But when President Woodrow Wilson decided the United States would enter the Great War, his administration took complete control of radio. The few commercial stations were taken over and amateur operators ordered to cease transmitting, all in the name of national security. Moreover, some of Wilson's minions pushed for a permanent government monopoly over radio and all other means of electronic communication.

During the war, the administration used its authority to shape public opinion with the creation of the U.S. Committee on Public Information. It was headed by progressive journalist George Creel, who was enthused about using the medium for the "propagation of faith" — meaning faith in the government. The war ended in 1918, but the idea of radio as a vehicle for creating a "right thinking" populace remains with us today. Then as now, numerous intellectuals regard ordinary Americans as needing government guidance through publicly supported radio and other media.



The History and Politics of Public Radio: A Comprehensive Analysis of Taxpayer-Funded US Broadcasting
By James T. Bennett
133 pp.; Springer, 2021

Even during the generally laissez-faire Calvin Coolidge administration, the government would not leave radio alone. After a 1926 court ruling against the legality of federal regulation of radio, Congress passed and Coolidge signed the Radio Act of 1927 to license radio spectrum. The law was justified by the alleged need to prevent "chaos" in the scramble for spectrum space. Federal licensing thus was firmly entrenched, but radio was still a conglomeration of private stations. Arch-progressives were unhappy, pointing to Great Britain and Canada, where the people were (in their view) so much better served by the more enlightened programming of the BBC and CBC.

Broadcast freedom / Calls for a federal radio monopoly resumed in full force during Franklin D. Roosevelt's presidency. Leftists lamented that "advertisers held the whip hand" over broadcasting rather than public servants. They wanted radio to be included in FDR's great plans for "economic rationalization." Fortunately (from Bennett's point of view), creating an American version of the BBC and wiping out private radio stations didn't make the New Deal agenda. Nothing would disturb the status quo until Lyndon Johnson's presidency.

In the intervening years, the airwaves were filled with a wildly eclectic mixture of stations. People who wanted to use radio for educational purposes could do so if they could find the necessary funds. Bennett points to Lewis Hill, who believed that radio should contain multitudes of voices and thus began Pacifica Radio, which largely featured commentary from the radical left, but also from the far right. He raised the money through subscriptions, hoping that enough listeners would choose to pay for what they could hear for free. It worked; when the stations were running short on funds, they'd announce a pledge drive and loyalists pitched in with enough to keep them going.

Hill exemplified the spirit of many visionaries who thought that radio should reflect the vast variety of America, with much of the programming geared to local interests. In the 1950s and '60s, radio was pretty much wide open despite occasional heavy-handed efforts to silence voices that prominent politicians disliked. (Bennett unfortunately doesn't tell the story of John F. Kennedy's pursuit of Red Lion Broadcasting for its hostile coverage of his administration, which ultimately led to the Supreme Court's 1969 ruling that the Federal Communications Commission could impose its "fairness rule" on radio licensees.)

Government broadcasting / Then, in the mid-1960s, the federal government got interested in radio again. With Johnson in the White House, people who wanted government funding for educational broadcasting bestirred themselves, seeing his "Great Society" program as a way to achieve their goals.

In the mid-1960s, however, the big medium was *television*, not radio. Legislation to create a Corporation for Public Television was introduced with the support of the administration. Its backers were not interested in including radio, but some avid educational radio supporters managed to get the words "and radio" included in the language of the bill. Bennett tells the amusing story of how the phrase was added, deleted by the TV-only forces, and finally slyly reinserted. In the end, the radio people got their way and the entity that emerged in 1967 was called the Corporation for Public Broadcasting. Consequently, there would be federal money for radio, leading to National Public Radio, which went on the air in 1971.

But NPR wasn't the whole story. Scattered around the country were many private radio stations with "educational" missions such as the Pacifica stations. They were now entitled to some of those federal dollars, provided they met certain standards in the law. A few of the radio entrepreneurs understood that taking the government's money would in time mean the end of their independence, but most chose the money anyway. The result, Bennett laments, has been the loss of local vitality in radio, which has been replaced with the bland, Washington-centered, conventionally leftist focus of NPR.

That focus led, inevitably, to conflict when Republicans were in office. Richard Nixon wanted to cut off funding for the Corporation for Public Broadcasting and in 1972 vetoed the bill that provided its subsidy. He later relented, in large part because of a memo from the general counsel in his Office for Telecommunication Policy, one Antonin Scalia, arguing that a pitched battle with the supporters of public broadcasting would end badly. There would be similar threats to pull federal support during Ronald Reagan's administration and when Newt Gingrich took over as Speaker of the House in 1995. In neither instance was the federal money yanked, but NPR had a fundraising bonanza by telling listeners that conservatives wanted to take away their beloved programs.

Outmoded policy / That leads Bennett into an interesting question: does public radio need its federal money? Only 15% of the funding for NPR comes from the government, so why not rely entirely on donations? Oddly enough, the most leftist of all the people who have headed it, the McGovernite stalwart Frank Mankiewicz, set forth a goal of NPR becoming fully independent during the Reagan years. He later backed away from that. But what would happen if NPR stations had to operate the way Pacifica stations did years ago, looking exclusively to willing supporters for their funding? Bennett cites some interesting research concluding that the existence of federal subsidy does more to deter giving than to stimulate it.

It's difficult to justify federal subsidies for radio that is popular with affluent listeners, as NPR is. The gadfly commentator Michael Kinsley hit a nerve when he wrote in 1983, "Why should the general taxpayer be subsidizing the entertainment of people who are thought to be likely customers of Piper Heidsieck, Gucci, and E. F. Hutton (the three original 'enhanced underwriters' at [New York City's public TV] Channel 13)?"

The case for government funding is further weakened, Bennett argues, by the fact that radio today competes with a huge number of alternative providers of news, educational programming, and entertainment, such as podcasts. Observing that the number of podcasts available today is around 700,000, he writes, "Podcasters not only enjoy a freedom of outlook and subject not shared by NPR reporters, but they also enter a field without the enormous obstacles faced by would-be broadcasters: they don't need a license and they don't need a tower."

If you think that government subsidies and regulation of radio are outmoded, you're on Bennett's wavelength. *R*

From the Past

An Enlightenment Thinker

REVIEW BY PIERRE LEMIEUX

Classical liberalism is under attack today from both the left and right, the progressives (or "liberal" in the peculiar American sense) and the conservatives. This two-pronged attack is not new, but it may have reached a new peak.

What is classical liberalism, anyway? A good way to answer that question is to read *Why I, Too, Am Not a Conservative* by the late Nobel economics laureate James Buchanan. The book, containing several essays he had previously written plus two original chapters, aims at "articulating the liberal vision, interpreted in its classical understanding," Buchanan explains. Like him, in this review I will use "liberalism" to refer to "classical liberalism."

Buchanan "loosely" defines liberalism as a "political organization in the form of constitutional democracy and economic organization through operative market arrangements, relatively free of hands-on political direction." It also entails free trade, private property, the rule of law, and open franchise. He identifies his main intellectual predecessors as Adam Smith, Immanuel Kant, Thomas Jefferson, James Madison, and John Rawls. To find Rawls, the Harvard philosopher who wrote *A Theory of Justice*, on this list will not be the only surprise for those unfamiliar with Buchanan's work.

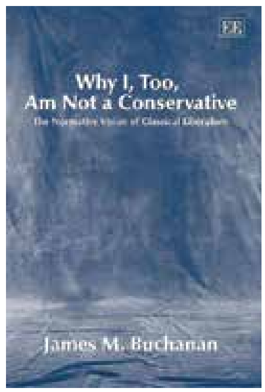
The subtitle of the book, *The Normative Vision of Classical Liberalism*, indicates that it is about political and moral philosophy, although it is strongly grounded in economics. Since its birth in the 18th century, modern economics has looked at man through a presupposition of natural equality, competence, and perfectibility — a viewpoint typical of the Enlightenment. In many ways, as we will see, Buchanan is an Enlightenment thinker.

Problems with conservatism / In 1960, another liberal economist and Nobel economics laureate, Friedrich Hayek, published *The Constitution of Liberty* with a postscript titled "Why I Am Not a Conservative." In *Why I, Too, Am Not a Conservative*, Buchanan wanted to echo Hayek's position while deploring that the latter had drifted too far toward conservatism. Buchanan opposed many ideas typical of European-style conservatism, to which American conservatism is increasingly becoming similar. In the book, he argues against the conservatives' attachment to the status quo when reforms in favor of more individual liberty are desirable. He criticizes conservatives' embrace of social hierarchy in lieu of the "natural equality" of individuals, their siding with Plato instead of Adam Smith. While values are viewed by conservatives as objective and transcendent, he argues for the liberal view that they are subjective and reside in the consciousness of each individual. Against the conservatives' paternalism, the classical liberal believes in equal individual liberty and responsibility.

Crucially for Buchanan, classical liberalism, contrary to conservatism, rests on the presumption of man's perfectibility. The individual can "become or remain free of dependency status, provided the institutions that can facilitate independence are in place." The individual can make choices and is capable of self-governance. He is also capable of abiding by the Kantian fairness principle of not treating others only as means, which implies eschewing deceit, fraud, breach of contract, promise-breaking, lying, cheating, stealing, and of course inflicting bodily harm.

What democracy implies / As Buchanan noted, the requirement of moral capacity opposed him to many economists, including his Virginia school colleague Gordon Tullock, with whom he wrote the seminal *Calculus of Consent* (1962). Buchanan thought that the market and its legal background, including democracy, are not enough to compel bad men to behave morally. We also need "a minimal level of voluntary adherence" to a Kantian sort of personal ethics in order to maintain a liberal order.

Other conditions related to the perfectibility of man are required to sustain a liberal democratic society. Individuals must understand "simple principles of social interaction," and that entails "a generalized understanding of basic economics." Or else, Buchanan claims, they must show "a widespread willingness" to defer to others who do understand.



Why I, Too, Am Not a Conservative: The Normative Vision of Classical Liberalism

By James M. Buchanan

128 pp.; Edward Elgar Publishers, 2006

To the objection that such a deference contradicts the presumption of natural equality, Buchanan likely would have answered that any individual can learn basic economics, just like Smith thought that the street porter had the same inherent intellectual capabilities as the philosopher (although they might not develop them to the same degree). "The difference between the most dissimilar characters, between a philosopher and a common street porter," Smith wrote in *The Wealth of Nations*, "seems to arise not so much from nature, as from habit, custom, and education."

A counter-objection would be that even if anybody can learn, the incentives to do so must be present. The typical citizen, whose individual influence on democratic decisions is infinitesimal, remains "rationally ignorant" of political issues and even more of the analytical tools necessary to understand them. To do otherwise requires a professional motivation or some virtuous ethics. Buchanan's optimistic belief in man, typical of the Enlightenment, does require something like what he calls a "normative leap."

Another condition of democracy, according to Buchanan, is that the fundamental principle of generality or non-discrimination apply over "all aspects of collective intrusions into individual lives." The rule of law treats people equally because they are acknowledged to be equal.

Moreover, says Buchanan, a degree of "melting pot" or assimilation is necessary to allow the maintenance of some common ethics. He added that liberals must be willing to temper "the basic principle of nondiscrimination, perhaps the most important element of classical liberalism," when necessary to prevent the destruction of the liberal culture, emphasizing the case of Islamic fundamentalists. We may suppose that he understood the risks involved in this sort of exception, given the danger of Leviathan that his theory continually emphasizes.

Buchanan's liberal ethics / Buchanan believed that "laws and institutions" (to use Smith's expression) are necessary for an efficient liberal social order. Institutions include non-compulsory rules of ethics. Those rules can either evolve or, *contra* Hayek, result from deliberate change. Buchanan did not share Hayek's dread of constructivism in social affairs. The minimal ethics of a liberal society is based on Kantian-like reciprocity: reciprocal respect, fairness, honesty, and such. The increased trust that such a common ethics generates leads to more efficacy in impersonal dealings, more trade, more division of labor, and more prosperity. In this perspective, Buchanan suggests, it is the lack of liberal laws and institutions that explains why the collapse of the Soviet empire three decades ago was not rapidly and generally followed by economic and political freedom.

The ethics of reciprocity provides a solution to prisoner dilemmas in social interaction. Persons seek their own interests, but within rules "that allow others, as natural equals, to pursue their separate interests under comparable limits." This ethics of reciprocity embodies another Kantian idea, the categorical imperative, which dictates that a person behave in such a way that his behavior can be generalized to the benefit of everybody. Buchanan insisted that the imperative does not require altruism, but only "the 'general interest,' individually defined." In other words, it is enlightened self-interest.

The idea of a general interest individually defined illustrates his constant striving to define all values only in terms of individual values, with all individuals being equal. Nobody can define values for others; only the consent of all individuals is acceptable. In this approach, the arbitrary aggregation of individual utility into some concept of social welfare can only produce an arbitrarily defined "public interest."

Buchanan was a radical liberal, but he was not an anarchist. He believed that a limited government and the rule of law are necessary for the maintenance of a free society. The more men are angels (to use Madison's terms) — that is, the more they follow an ethics of reciprocity — the less government is needed. The less ethical they are, the more they need government (up to the breaking point where the politicization of everything reduces both public and private morality). Private ethics and government controls are thus substitutes. Perhaps libertarians (including the present author) have tended to underestimate the importance of private ethics and to reject notions of fairness too easily.

Interestingly but not surprisingly, Buchanan also believed that some ethics is necessary in government and that it is buttressed by ethics in private dealings, and vice-versa. Public and private ethics go together. Doesn't the degradation of both as witnessed in America (and elsewhere in the Western world) confirm his point?

What Buchanan saw as the necessity of some common morality in a liberal society leads to interesting and sometimes troubling issues — outside the extreme cases of Islamist terrorists. Strangers should be treated with respect and welcomed to participate in free trade. However, he said, outliers who don't respect the common ethics can be tolerated only if they are not too numerous. This would imply a rejection of both "nondiscriminatory immigration policy" and the promotion of multiculturalism. Buchanan blamed Hayek for moving too rapidly from the morality of the tribe to the ethics of the "Great Society," for being too liberal — an interesting criticism given that Hayek is often considered as the more conservative of the two.

I would suggest that more thinking is required on these difficult issues. The principle "No liberty for the enemies of liberty" (a formulation that Buchanan did not use) is obviously very dangerous. It is accepted in extreme cases involving violence: the culprits are deprived of their liberty, at least for some time, by judge and jury. In other cases, the principle certainly does not cohabit easily with liberalism.

Another problem Buchanan raised is the welfare state, which rests on an ethics of compassion. Compassion, in turn, belongs to an ethics that involves a necessary hierarchy between takers and those from whom property is taken. The welfare state (as well as Christian ethics) is thus in competition with the ethics of liberalism. Buchanan's idea of a constitutional welfare state — one established at the constitutional moment in the interest of all individuals — can be viewed as a way out of that conflict.

In *Why I, Too, Am Not a Conservative*, Buchanan explains his long-time admiration for the Rawlsian brand of contractarianism. Rawls's social contract, he claims, has been falsely interpreted as a justification for the welfare state. On the contrary, Rawls's approach is classical liberal because it is predicated on the equality of all individuals. His principle of fairness has no meaning except in the treatment of equals. And his famous "veil of ignorance" is similar to Buchanan's own "constitutional moment" or social contract. At this social-contract stage, politics is exchange, not exploitation. Buchanan thus offers a way to reconcile a limited welfare state with the extreme individualism of unanimous agreement. Again, he provides much food for thought.

A liberal vision / What differentiates the "clan" (Buchanan even says "the tribe") of classical liberals from other people, including many economists? The answer, according to Buchanan, is twofold. First, liberals understand "the philosophical implications of the science of economics." The central implication is that "there is no need for some all-powerful authority, some sovereign, to orchestrate the productive, allocative, distributive, and evaluative process summarized as 'the economy.'"

The second distinguishing characteristic of liberals is that they dream of "potentially attainable [liberal] worlds" based on the fundamental underlying value of "individual liberty itself." For Buchanan, constitutional democracy, with an emphasis on "constitutional," meaning that democracy is limited by some basic unanimity requirement, is the only political regime that can preserve that value.

He saw the "soul of liberalism" as "aesthetic–ethical–ideological." There is "no social or collective purpose," only "private purposes." There is "a faith, or normative belief, in the competence of individuals to make their own choices based on their own internal valuation." "Values emerge only from individuals." The liberal "vision" is "built on the central, and simple, notion that 'we can *all* be free,'" which is what Smith called the "system of natural liberty." These strong statements explain why we, liberals or libertarians, often look like Martians to most of our contemporaries.

Buchanan persuasively argues that only such an integrating normative ideology can win against the soul or "animating principle" of socialism. We must see policy proposals "in the larger context of the constitution of liberty rather than in some pragmatic utilitarian calculus." We can add that many economists, often brilliant ones, accept simple utilitarianism without reflecting on its philosophical foundations and its implications. They notably ignore that interpersonal utility comparisons — weighing the benefits of some against the costs imposed on others — lack any scientific grounding.

Classical liberalism is a "realistic utopia." Buchanan tells us that his life "enterprise" has been to spell out the conditions under which this utopia would be possible. Hayek also thought that liberalism was a realistic utopia, but traditional and evolved moral rules were a major pillar of his theory. Buchanan challenges Hayek on that. Social evolution, Buchanan argues, provides an explanatory argument of how moral rules are often made, but a rational justification is still needed: they must meet the criterion of an "as if" reconstruction of the resulting order. By this he means that they must be consistent with what rational individuals would unanimously consent to. Otherwise, many different and contradictory evolved social orders could be judged as desirable.

Like Hayek and 18th-century liberals, Buchanan viewed economics as a "moral science" — that is, a science that interfaces with moral values at some point or other. This is sometimes called "political economy." Buchanan argues that "economics emerged from, and intrinsically requires, a moral stance or predisposition that views social relationships among persons … as relationships between and among moral equals." Just think of supply and demand on a free market.

Values, reality, and dreams / These considerations raise the problem of "is" vs. "ought." If we know anything, it is that an "ought" (a moral principle or what "should be") cannot be derived from an "is" (a fact of reality). Just because slaves exist does not mean that they should exist. Conversely, someone's moral value is not necessarily consistent with reality. A liberal, Buchanan thought, has an attitude or predisposition to view individuals as moral equals deserving equal respect and equal treatment. But the liberal analyst must still verify that individuals act in a way consistent with those values. Perhaps *Why I, Too, Am Not a Conservative* could have been clearer on such methodological issues.

Buchanan did envision the possibility that a liberal society with natural equality might not be consistent with the empirical reality of differentiation among individuals. In a 2015 article in *Public Choice* titled "Afraid to Be Free: Dependency as Desideratum," he emphasizes that individuals may not want to be free as much as Enlightenment thinkers thought. In *Why I, Too, Am Not a Conservative*, however, he wrote:

> I feel a moral obligation to take the requisite leap of faith and to think and act as if persons can, indeed, be free and responsible beings. … We must hold fast to the faith that human animals are uniquely capable of organizing themselves within social structures that make liberty, peace and prosperity simultaneously achievable.

Even if individuals are unequal in many dimensions, "the differences are so multivarious as to make any meaningful rank ordering absurd." Thus, the normative argument against Plato's hierarchal vision is still defendable. We also know, or should know, that the presumption of equal liberty produces a beneficial social order.

Hayek may have been more realistic when, in "Why I Am Not a Conservative," he wrote, "The liberal, of course, does not deny that there are some superior people — he is not an egalitarian — but he denies that anyone has authority to decide who these superior people are." Lord Macaulay, a British historian in Hayek's liberal pantheon, wrote something similar in 1830.

Buchanan's use of terms such as "faith," "revelation," and "conversion" might be bothersome for a rationalist, but they acknowledge that values ultimately underly the evaluation of any political order. In learning and living, a measure of faith is inescapable. He also said he found it difficult "to enter dialogue or discussion with either the precommitted nonliberal or the normative eunuch." Anybody who has defended minority ideas will understand this feeling, but did Buchanan go too far? He remained willing, however, to discuss his ideas with anybody who would listen with an open mind.

"Perhaps classical liberalism is a dream after all," he wrote. "But, at least, hope remains." For that hope to be realized, enlightenment is required and thus the preaching of liberal ethics. "We do need the 'gospel' of liberalism," he also wrote, "along with the dream of societies peopled by free, responsible and prosperous beings." Many libertarians may be too preachy (I am not casting the first stone), but more mainstream classical liberals should probably be more so.

One does not need to agree with everything in Buchanan's enthusiastic celebration of liberal ethics to recognize that *Why I, Too, Am Not a Conservative* is a must-read. Many critics (such as Nancy MacLean, author of the Buchanan hit-piece *Democracy in Chains*) should first try to understand this radical liberal. R