IN REVIEW

Birx's Story

REVIEW BY DAVID R. HENDERSON

From March 2020 to January 2021, Dr. Deborah Birx was the coordinator of the White House Coronavirus Task Force. Many of us got to know her because of her regular appearances on TV in the early stages of the COVID-19 pandemic. Now she has written a long book, *Silent Invasion*, on her experiences in that job. She gives her views on appropriate pandemic policy and on the various players in the White House.

The book's subtitle is overly long, and so is the book. We learn over and over her view, which she seemed to have expressed almost daily at White House meetings, that the key to reining in the pandemic was social distancing, testing, masking, limiting the size of indoor gatherings, and—occasionally—lockdowns.

Unfortunately, given the book's length, she doesn't give strong evidence for her views. And at times she reveals herself to have a strange view of "proof." Also, the evidence against the efficacy of masks—evidence that surfaced well before she finished her book—would cause one to hope that she would address this matter. (See "How Effective Are Cloth Face Masks?" Winter 2021–2022.) But she does not; her support for masking is as strong as it was in 2020.

There are other examples of sloppy thinking. Although Birx claims that she carefully looked at the COVID numbers virtually daily, she fails at times to make important distinctions such as the difference between the infection fatality rate and the case fatality rate. She doesn't address the famous Great Barrington Declaration (GBD), which advocated focusing government attention on high-risk populations while leaving much of the rest of society to function unrestrained, though at one point in the book she seems to endorse that idea.

After reading the book, I give Birx credit on three policy issues: First, she is fairly critical of how the Centers for Disease Control substantially slowed the development of COVID tests and gives the private sector kudos for how quickly it reacted. Second, she shows a real understanding of how the absence of property rights for tribal nations badly hurts the people who live there. Third, although she—like me—favors people receiving the COVID vaccines, she wisely points out that they are not a silver bullet for ending the pandemic.

Questionable choice / One question Birx addresses early in the book is how she got such an important job. She wasn't an obvious choice to head the U.S. COVID response; when she received the offer, she was in Africa as the U.S. Global AIDS coordinator for the President's Emergency Plan for AIDS Relief. There's not a close connection between AIDS and how it spreads and SARS-CoV-2 (the technical name for the coronavirus) and how it spreads. A key factor in her getting the job was her friendship with Matt Pottinger, a former journalist and Marine who was the deputy national security adviser. In her telling, Pottinger seemed to be very high on Birx's abilities. But she doesn't tell the reader what expertise Pottinger had that would have enabled him to make a good choice for such an important position.

And there *are* reasons to question her judgment on scientific and policy matters. Start with her concept of "proof." In comparing her and her assistant, Tyler Ann McGuffee, not getting infected in the White House with all the White House people who *did* get infected, she notes that McGuffee and she consistently used masks, while many of the infected did not. She writes triumphantly: "Mitigation works. Tyler Ann and I are uninfected proof of that truth." Is their experience evidence that mitigation works? Yes. But is it proof? Not even close.

She makes a similar claim later in the book, writing, "I'm walking proof of the efficacy of masks and other precautions." After I got vaccinated, I used masks as little as I was allowed to. So, if one person's experience is enough to constitute proof, then I could just as easily say that I, David Henderson, "am walking proof that masks aren't necessary," at least once one is vaccinated. Birx and I would both be wrong; we are simply two test subjects in a large experiment.

Birx vs. Atlas / One non-surprise in the book is Birx's contempt for her fellow Trump COVID adviser, Dr. Scott Atlas, a colleague of mine at the Hoover Institution. The chapter in which she discusses her conflicts with Atlas in front of then-president Donald Trump is cleverly titled "Scott Atlas Shrugs." (Disclosure: in the months since *Regulation* published my review of Atlas's book on his experiences in the Trump administration, he and I have become friends. See "Atlas's Case Against the COVID Lockdowns," Spring 2022.) Birx lists several claims that he made in front of the president. From my understanding of Atlas's views, I can believe that he did say much of what she claims he said.

According to her, for example, he argued that children didn't get ill from the virus, that there was no risk to anyone young, and that masks were overrated and not needed. I

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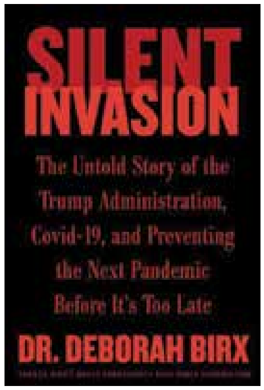


Silent Invasion: The Untold Story of the Trump Administration, Covid-19, and Preventing the Next Pandemic Before It's Too Late
By Dr. Deborah Birx
506 pp.; Harper, 2022

don't know if he used nuance at all. If I had been in his position, I would have said that COVID was about as risky to children as the seasonal flu. But the point is that they were at little risk. Certainly, the data back that up. According to the CDC, as of August 19, 2022, after two-and-a-half years of the pandemic in the United States, 1,224 American residents ages 0–17 had died of COVID. That's about 500 deaths per year. Each death is a personal tragedy, but as a societal matter COVID poses a very low risk to children. For comparison, consider that in 2017–2018, 526 Americans in the same age range died of the flu. Each of those deaths is also a personal tragedy, but no one has described them as a societal problem.

Birx claims that on each of her listed claims, she "refuted" Atlas. She uses that word—as many people now do—to mean that she *disputed* his views, not that she *disproved* them. She's an equal opportunity misuser of the word: in that same chapter, she claims that earlier Atlas had been "refuting her daily reports."

What she doesn't say with much detail is how she "refuted" (that is, argued against) his claims. But in one part of the chapter, she does give one nugget. Although she doesn't specify the particular Atlas claim that she was arguing against, she writes, "We knew the majority of hospitalizations and deaths were from the community, not just nursing homes." That's absolutely the case, but it's not clear what she thinks that shows. Atlas and his Stanford colleague Jay Bhattacharya (who is both an economist and an epidemiologist) were arguing for focusing protection on those most vulnerable. Among those people were residents of nursing homes. She doesn't disagree with that. Given that the nursing home population in the United States is about 1.5 million and the U.S. population exceeds 330 million, no one would have been surprised about her statement that the majority of deaths and hospitalizations were of people *not* from nursing homes. But, though the overall number of COVID deaths may have come from the general public, the elderly and nursing home populations were much more at risk. So, it's not clear why she seems to discount Atlas's attention to them.

GBD / One issue she never discusses is her thinking about the GBD. The GBD was a short statement that the aforementioned Bhattacharya, along with Harvard University medical school biostatistician and epidemiologist Martin Kulldorf and Oxford University epidemiologist Sunetra Gupta, wrote in early October 2020 and named after the city in which they wrote it. Here's a key passage from the GBD:

> The most compassionate approach that balances the risks and benefits of reaching herd immunity, is to allow those who are at minimal risk of death to live their lives normally to build up immunity to the virus through natural infection, while better protecting those who are at highest risk. We call this Focused Protection.

The authors of the GBD spelled out the idea of focused protection a little, writing:

> By way of example, nursing homes should use staff with acquired immunity and perform frequent testing of other staff and all visitors. Staff rotation should be minimized. Retired people living at home should have groceries and other essentials delivered to their home. When possible, they should meet family members outside rather than inside.

Some of those measures seem, and would have been, costly. But the costs would have been a rounding error compared to the trillions of dollars the federal government spent on extremely unfocused protection.

Interestingly, given that Birx doesn't mention the GBD, she comes close to endorsing many of its key elements. In describing her trips to talk to health officers and governors in various states (see "Birx Reconsidered," Summer 2021), she writes:

> No matter where we went, we heard two things without fail. Every leader and every American wanted to protect the old and vulnerable while charting a path forward for the young and less vulnerable. The former meant preventing Covid-19 from sickening and killing the elderly and those with severe underlying comorbidities; the latter meant not jeopardizing the education or future prospects of those in schools, small businesses, and working in the hospitality industry. We put the message out that testing and masking brought both these aims together.

In short, "every leader and every American" wanted what the GBD authors wanted. And it seems from context that Birx also wanted what these leaders and Americans wanted. She did differ with the GBD writers on strategy, with Birx pushing for masks and testing more generally and the GBD writers wanting testing of people visiting high-risk residents of nursing homes. Was she concerned that if she referenced the GBD in her book, careful readers might have noticed the similarity between it and her own views? We don't know and may never know.

Lockdowns / Early in her time at the White House, Birx became one of main champions of lockdowns. We were told in March 2020 that we should lock down for 15 days to "flatten the curve." This meant slowing the rate of spread so that hospitals would not be overwhelmed. Some observers at the time thought that this 15-day lockdown was just an opening bid and that the government had a longer lockdown in mind. I, naively, didn't think that. Birx reveals that I should have. In a chapter titled "Turning Fifteen into Thirty," she writes, "No sooner had we convinced the Trump administration to implement our version of a two-week shutdown than I was trying to figure out how to extend it. Fifteen Days to Slow the Spread was a start, but I knew it would be just that. I didn't have the numbers in front of me yet to make the case for extending it longer, but I had two weeks to get them." That's revealing in two ways. First, she planned for a much longer lockdown. Second, she knew what she wanted to find and she looked for data to make her case.

And surprise, surprise, she found the data. She reports that on March 18, 2020, her aide Irum Zaidi put together a "virtual summit" with experts from various countries, including some from Imperial College, London. Although she doesn't attach predictions to particular experts, Birx writes that if no mitigation measures were taken, then, according to various experts (I'm guessing she's including the Imperial College, London experts here), there would be "between 1.5 million and 2.5 million" U.S. deaths over just a few months. With school closings, social distancing, and a strict lockdown, and with perfect compliance, the U.S. death toll over those few months would be 150,000 to 500,000. We know that we didn't have perfect compliance and that some major states—Colorado, Georgia, and Florida, to name three—backed off from lockdowns between late April and July 2020. Yet we didn't quite reach 150,000 deaths in that time. Moreover, although Birx doesn't mention this, a disproportionate number of deaths were in New York, New Jersey, and Pennsylvania nursing homes where state health officials had sent people whom they knew or suspected had COVID. The models didn't include that. So, performance with imperfect compliance and other questionable policies was way better than the most optimistic of the models predicted. Does Birx acknowledge that? No.

Overriding tradeoffs / Birx has the mentality of an omniscient central planner. Often in the book, she expresses frustration that millions of Americans acted differently from the way she wanted them to. For example, in discussing the fact that people in Texas, New Mexico, and Arizona were very mobile, she writes: "Had they not gotten the message? Had we not made it clear enough? More likely, we presumed, it was a combination of the two." She seems unaware of a third alternative: they had heard her message clearly enough but found it unpersuasive. That points to something that Birx shows about herself again and again throughout the book: her absolute confidence that she is right and those who disagree with her are wrong.

Birx has the mentality of an omniscient central planner and seems unsympathetic to people who would make tradeoffs different from hers.

I shouldn't leave out a fourth alternative: people want to make their own tradeoffs. Birx seems unsympathetic to people who make tradeoffs different from the ones she recommends, which is strange because she made such tradeoffs in her own life. Recall that in November 2020 she had recommended that people limit their Thanksgiving gatherings to their immediate households. But she refused to follow her own recommendation: she and some in-laws got together in a different household the day after Thanksgiving.

Early in the book and in her time thinking about COVID, Birx had the same insight that both Stanford Medical School epidemiologist John P.A. Ioannidis and Jay Bhattacharya had: the actual infections at any point in time had to be a large multiple of the number of cases, but many infections were so mild that they went undetected. Ioannidis made that point in a March 2020 *STAT* essay, "A Fiasco in the Making? As the Coronavirus Pandemic Takes Hold, We Are Making Decisions Without Reliable Data." His reasoning was that many people with COVID who had few or mild symptoms would not bother getting tested while the people who were tested were disproportionately those who were quite sick. The infection fatality rate, therefore, would likely be a fraction of the case fatality rate. The data have borne him out. But in her book, Birx refers to a "nearly 10 percent fatality rate in those over age seventy" and claims that the rate for this group in March and April 2020 was 30 percent. She's certainly aware that this was the case fatality rate, but she doesn't bother telling the reader that. One wonders whom else in the Trump White House she didn't bother to tell.

Conclusion / As noted above, there are several areas in which Birx deserves credit. At various points throughout the book, she criticizes the CDC, although with too little detail about just how bad the agency was for insisting on producing its own tests rather than going with tests produced in other countries or by private or non-federal entities. At one point she even mildly throws National Institute of Allergy and Infectious Diseases director Anthony Fauci and CDC head Robert Redfield under the bus for, early on, claiming without much data that the risk to Americans was low.

Also, she shows a solid understanding of the importance of property rights. She and her aide, Zaidi, visited a number of Indian reservations to understand how they were dealing with the virus and to give their thoughts. She quickly saw a major problem: "As with other tribal nations we'd met, their land was held in trust by the U.S. government, so the tribes couldn't use it as an investment or for most entrepreneurial enterprises, which exacerbated the cycle of poverty."

Despite those acknowledgments of the value of private incentives and the problems of government intervention, the book shows that Birx is firmly on the interventionist side. Unfortunately, her successors may well repeat many of these same mistakes in future public health emergencies. R

A Scholarly Appeal

REVIEW BY IKE BRANNON

There are few politicians making an argument in favor of liberalized immigration in any form these days. The right continues its lurch toward nativism, and the progressive left has become increasingly ambivalent about new immigrants. The partisan fight over the legal status of the Dreamers obscures the fact that even people on the left have embraced the mistaken notion that immigrants take jobs away from hard-working Americans.

While it's hard to see this popular view changing anytime soon, that doesn't mean liberal scholars should stop trying to persuade the public. To that end, Tim Kane's recent book, *The Immigrant Superpower*, takes direct aim at the hardened assumptions of right-wing restrictionists and nativists. Kane, an economist with stops at the Joint Economic Committee, the Kauffman Foundation, and the Hoover Institution, effectively dismantles nativist shibboleths about foreigners taking our jobs or trying to change our culture. His book's effectiveness goes beyond just tearing down hackneyed objections to foreign workers.

Patriotic immigrants / *The Immigrant Superpower* isn't the first book that attempts to dissuade Americans of these fallacies, but it may be one of the best. Kane marshals a wealth of evidence to expand upon the immense benefits that immigrants bring to U.S. citizens and society writ large.

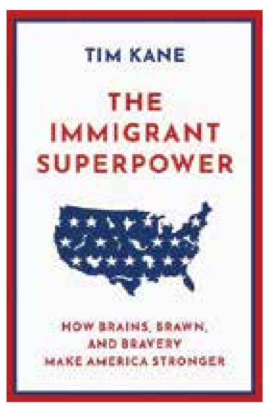
One of his most non-intuitive findings—at least to nativists—is that foreign-born Americans are more patriotic than the native-born. That undercuts the nativist subtext that immigrants will degrade our culture. He commissioned a survey (performed by YouGov) of U.S. citizens born in the country and immigrants who had recently become U.S. citizens that asked about their reverence for the Constitution and the value they place on basic rights. By a significant margin, immigrants declared themselves to be more committed to what we would construe as core constitutional values.

The political implications of this are obvious and have been uttered by a few others (most notably progressive-leaning political scientist Ruy Texiera, who paid a price for saying it): The idea that an influx of new immigrants to such places as Texas and Florida will soon turn them into purple states ready to support a progressive agenda is wishful thinking by Democrats. Few people come to America with the desire to radically change it.

Peak immigration? / Kane's second salient point is to burst the myth that America has never had so many immigrants as it does now. He explains the huge gap between the Census Bureau's count of immigrants and the count by the Department of Homeland Security (DHS; home to the alphabet soup of immigration agencies). The Census data perpetuate the (mistaken) notion that we are at peak immigration as a percentage of the population. Census's historical data regarding country-of-origin/birth/ethnicity can be inconsistent because the way these questions are asked has changed quite a bit in the last 170 years.

Better data on immigrant inflows come from the DHS, which currently oversees an annual hard count of immigrant inflows that has been conducted annually since 1820 (thanks to predecessor agencies). By this count, the proportion of the U.S. population in 2021 that was born abroad is about half of the peak from a century ago.

The United States is a far cry from even the polyglot babel that was the 1910s. Kane observes that the mix of ethnicities and languages across the U.S. Army regiments sailing to Europe to fight World War I was a source of frustration and wonder.



The Immigrant Superpower: How Brains, Brawn, and Bravery Make America Stronger

By Tim Kane

304 pp.; Oxford University Press, 2022

More people, more growth / Kane's third insight is that the debate over the economic effects of immigration is both settled and, to be blunt, doesn't support the nativists. As libertarian readers know by now, there is a vast economic literature showing that immigrants do not steal jobs. For starters, they add as much to labor demand as they displace on the supply side, and their entrepreneurial bent means that on net their presence results in more jobs and higher wages for U.S.-born Americans. Kane includes a careful cross-state study that affirms the academic literature.

Political commentator Matt Yglesias's 2020 book *One Billion Americans* argued that the economic might the country would produce with a population thrice our current one would allow us to afford all manner of investments that are currently beyond our grasp. (See "Yglesias's Reasonably Strong Case for Way More Immigration," Winter 2020–2021.) To name one, currently impractical passenger rail routes might suddenly make sense if our medium-sized cities began absorbing more immigrants and growing. Kane—a former Air Force officer who wrote a well-regarded book about military personnel—argues that the economic might of an America more welcoming to foreigners would effectively change the geopolitical dynamics between the big superpowers in America's favor.

Journalist and pundit Mickey Kaus once observed that a person's support for immigration is directly dependent upon the extent to which that person's community is affected by immigration. People in cities with a large proportion of immigrants are the most supportive: they've seen what immigration can do for a community and appreciate it.

It's unlikely that we'll be able to boost immigration support by having immigrants move in with nativist families across the Midwest. But Kane's book goes beyond the normal debate to offer new reasons why the status quo isn't sufficient and that there's reason to let more people migrate to America. R

Policymaking Beyond Economics

REVIEW BY PHIL R. MURRAY

Ever feel frustrated with the quality of policy analysis from an economist's perspective? Consider picking up Elizabeth Popp Berman's *Thinking like an Economist*. The author is a sociologist who teaches organizational studies at the University of Michigan. Her book documents the rise and proliferation of economic perspectives in the way government officials make policy. As you may imagine, her perspective is quite different from the typical reader of this journal. An economist who reads her book may realize that the state of policymaking could be worse and may even chuckle at how influential economic ideas have become.

Berman uses the phrase "economic style of reasoning" to describe how economists see the world. She focuses on microeconomics. According to her, two principles are key: First, this way of thinking "maintains a deep appreciation of markets as efficient allocators of resources." Second, she continues, "the economic style places a very high value on efficiency as the measure of good policy." Her characterization is reasonable.

Economic style of reasoning / The author asks two questions that guide her history of policymaking. The first is, how should government make decisions?

Economists working for the RAND Corporation used "systems analysis" to answer this question. The approach combined operations research and cost–benefit analysis to solve problems. RAND economists set up the Planning–Programming–Budgeting System (PPBS) at the Defense Department under secretary Robert McNamara in the early 1960s. Berman describes the method as follows:

> PPBS began by specifying the broad goals of an agency or office; identifying the various programs that might be used to achieve those goals; quantifying, to the extent possible, the cost-effectiveness of those alternative programs; and then using that information as a guide to budgeting.

President Lyndon Johnson ordered the adoption of PPBS to make decisions throughout his administration. Although government agencies neither wholeheartedly nor widely embraced it, the author credits the system for establishing the economic style of reasoning in the executive branch. From there, Congress based the Congressional Budget Office on the economic style, and university departments of public administration around the country taught it to their students.

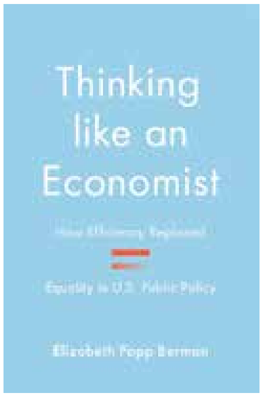
Political goals / Berman tells stories about how economists think without teaching readers how to think like an economist. This is no textbook. It is a history filled with names, dates, and agencies.

That brings us to the second question guiding her history, how should we govern markets? Early on, government officials regulated industry with "social and political goals" in mind. Social goals include "protecting small business, or ensuring 'fair' prices."

As for a political goal, the author writes, "Lawmakers advocated for breaking up large firms because they represented a dangerous concentration of power." Economists specializing in industrial organization jettisoned "social and political goals" in favor of allocative efficiency. Harvard University economists thought in terms of "structure," "conduct," and "performance." The more firms, the better. Mergers were suspect. Abnormal profits indicated a lack of competition.

This view was ultimately challenged by University of Chicago economists, who downplayed structure, conduct, and performance. For example, a merger that increased industry concentration was not necessarily undesirable because it might lower prices to consumers. Whereas Harvard economists reasoned that an activist antitrust policy was necessary to maintain competition among firms in an industry, Chicago economists took exception. They reasoned that big business was not necessarily anticompetitive; free entry would preserve competition. "Chicago's approach," Berman sums up, "suggested that government rarely needed to intervene, even in concentrated markets." Officials at the Antitrust Division of the Department of Justice and at the Federal Trade Commission adopted economic perspectives, especially the Chicago school's, over time.

Social policy / The economic style of reasoning influenced what Berman calls "social policy" and "social regulation."



Thinking like an Economist: How Efficiency Replaced Equality in U.S. Public Policy

By Elizabeth Popp Berman

329 pp.; Princeton University Press, 2022

The former covers poverty, health care, and education. President Johnson sold his Great Society legislation by appealing to the "logics" of "universalism, equality, and rights." Based on those principles, everyone has a right to income, health care, and education. An economist will raise the issue of cost. This difference between the rationale for the Great Society and the stark reality of tradeoffs benefited economists. Their numbers and their stature rose in response to legislative efforts in these policy areas.

Take poverty. There is a rationale for "social insurance." Berman states, "Social insurance programs focus on protecting citizens from risk through universal coverage—for example, through national health, unemployment, or old age insurance." These programs presumably prevent people from falling into poverty. "Advocates of social insurance like universal programs," she adds, "in part because of their political durability." Because almost everyone receives benefits, in other words, the programs will be popular and difficult to remove. Economists objected. The author explains, "Social insurance programs benefited—unnecessarily, in the economist's view—the well-off as well as the needy, making the programs both less progressive and more expensive." Milton Friedman advanced his idea of a negative income tax. Fellow economists, in particular James Tobin while he was on President John F. Kennedy's Council of Economic Advisers (CEA), argued on its behalf. Economists drew up a version of the negative income tax for Richard Nixon's administration. Although Congress did not take up that bill, Berman uses the episode as evidence of the growing influence of economists.

What the author refers to as "social regulation" covers the environment and working conditions. Congress passed much legislation in the early 1970s that begat regulations. Berman repeats her theme that the original motivation for these regulations was noneconomic, even anti-economic. Economists asserted their way of thinking in response.

Case study / Take the Clean Air Act of 1970 (CAA). According to the author, "It reflected ideas about the importance of rights (in this case, to health), the promise of technology, and the dangers of regulatory capture." Some proponents were so optimistic about technology that they believed more demanding regulations would actually spur innovations that would make complying with the regulations possible. Authors of the legislation believed that by making regulations "inflexible," they would prevent regulatory capture. The author tells us that the CAA "was also specifically written to exclude economic reasoning, on the grounds that allowing consideration of costs would open the door to delay and foot-dragging." It is no surprise that legislation designed to ignore economic reality would attract opposition from business and economists.

Berman illustrates the conflict with ozone regulation. The original regulation was 0.08 parts per million (ppm). That level, she admits, "was selected hastily, with limited technical justification." Economics was not a factor in setting the level because the CAA forbade its use. Following protests from industry, Environmental Protection Agency administrator Doug Costle recommended raising the level to 0.10 ppm. Charles Schultze, President Jimmy Carter's head of the CEA, ordered the Regulatory Analysis Review Group (RARG) to weigh in. RARG staff focused on costs, though not benefits, and determined that the best level would be 0.16 ppm. Some EPA officials at the "air office" reminded everyone that the letter of the law proscribed cost analysis. The head of the EPA's Office of Planning and Management, inclined to use economics, suggested 0.15 ppm. One wonders what the role of science was in making the decision. Berman offers this:

> Each office sought support from White House science advisors to resolve the impasse. Perhaps reluctant to decide the debate itself, the science office punted, suggesting that a standard in the 0.10 to 0.16 ppm range would be appropriate.

In the end, the EPA administrator set the new regulation at 0.12 ppm. Both sides—those who refused to consider costs and those who insisted on it—were unhappy. Sen. Edmund Muskie, the "architect of the CAA," scolded Costle, Schultze, and economist Alfred Kahn for using costs to set the permissible ozone level.

When to reason economically / The author's appreciation of the economic way of thinking is hard to assess. She assumes that an active government is a legitimate and effective way to make the world a better place, and approves of economics as cost analysis. She states:

> In the domains of social policy and market governance, liberals took the lead in advocating for the economic style. They professed sympathy to the larger goal of using the government's power to improve the public welfare; they simply disagreed about the best way of achieving that goal.

By "liberals," she means people more like members of the Democratic Party than classical liberals. By "the best way" she means least costly. For instance, assuming that people have a right to housing and the government has a role to help poor people get it, economists can help determine whether public housing or vouchers are a better way to accomplish the goal. But if one is skeptical of an active government's ability to produce favorable outcomes, the author appears to disapprove of what economics might reveal. Ronald

Reagan's administration presumed that a smaller role of government was better. In the case of housing policy, the Office of Policy Development and Research at the Department of Housing and Urban Development "shifted its attention to studying the deregulation of housing production, in keeping with the administration's political priorities, rather than searching for the most efficient forms of housing assistance." This reviewer's impression that Berman disapproves of reducing regulations in the housing market may be wrong, but it would not be wrong to use economics to investigate how deregulation might achieve the goal of more affordable housing.

Economists took different approaches to evaluating regulations depending on their political stripes. Economists who leaned to the left took the objective of a regulation as a given, Berman explains, and then searched for lower-cost alternatives of accomplishing that objective. Economists who leaned to the right tallied both benefits and costs. Reagan's Executive Order 12291 required analyzing both benefits and costs (unless forbidden by legislation). The author criticizes the Reagan administration for using economic reasoning in a "selective" and "strategic" manner. "When economic reasoning came into conflict with Reagan's underlying preference for less regulation," she writes, "the administration prioritized less regulation over the mandate of efficiency." This was evidently not always the case. She shares the story of how the Reagan administration initially intended to allow more lead in gas. But when confronted with the results of a cost–benefit analysis, it opted instead to regulate lower levels of lead. (See "The EPA's Faustian Bargain," Fall 2006.)

Absolute principle / The author offers advice for those who want to shape policy; progressives would be her primary audience. The claims on which she bases this advice plus the advice itself make up some of the most thought-provoking passages in the book.

Consider this assertion of Berman's: "The economic style does not allow for commitment to absolute principles—for moral values that are ends in themselves, rather than objectives to be evaluated in terms of costs, benefits, and trade-offs." On the basis of that claim, Berman advises progressives to free themselves from the shackles of cost considerations and argue for rights instead.

Her advice suffers from a failure to acknowledge the difference between positive rights and negative rights. Her endorsement of "student loan forgiveness" strains her credibility. The "moral case" for student loan forgiveness that she refers to must be subtle if not preposterous.

Berman's book is a detailed history of policies covering antitrust, health care, education, the environment, and working conditions. There is repetition, though it is tolerable. The author convinces the reader that there has been an "institutionalization" of economic thinking across the three branches of government, as well as universities and think tanks. She resents how economics crowds out "concerns about rights, equality, power, democratic process, and the politics of making policy." This resentment detracts from an otherwise good understanding of economics. She claims, "Arguments based on claims about absolute rights, which implied that cost should not be considered, lost legitimacy." But to ignore costs is to ignore reality. A policymaker who disregards science would rightly be considered closed-minded. So, too, would a policymaker who disregards economics. R

Muddled Classifications of People

REVIEW BY GEORGE LEEF

Despite constitutional language stating that all citizens are entitled to equal protection of the laws, the federal, state, and many local governments have adopted policies that classify Americans in certain ways and then use those classifications to treat them differently. Everyone agrees that the way many of the southern states used to draw distinctions between people to maintain white supremacy was abominable, but in modern America we continue to do something similar. The supposed difference between the old days of segregation and today's racial classifications is that our present policies are meant to help rather than to hinder.

In his new book *Classified*, Professor David Bernstein of the Antonin Scalia School of Law at George Mason University takes a penetrating look at the way governments today continue to classify people by race, and the consequences are generally bad. The classifications, he shows, are arbitrary and incoherent, rewarding some and penalizing others without rhyme or reason. Even if you think there's good reason to favor Americans whose ancestors were held in slavery, racial preferences have expanded so much that very few of those who receive these benefits have any such claim. Mostly, our race-based policies benefit people who immigrated to the United States after 1965 and their descendants, as well as those Bernstein calls "identity entrepreneurs," which is to say, people who try to get ahead by posing as members of "protected" groups.

Questionable classifications / Americans might assume that the government carefully crafted its group classifications to benefit those who have somehow suffered from discrimination. Bernstein makes plain at the outset that nothing of the sort happened. The system of classifications was haphazard and is logically indefensible. He observes, inter alia, that people of mixed-race heritage cannot indicate that they are multiracial on census forms, that someone who immigrates to the United States from India is classified as Asian but an immigrant from Afghanistan is classified as white, that a fair-skinned immigrant from Spain is regarded as "Hispanic" but a dark-skinned Egyptian, Greek, or Iranian is deemed white, and that the government requires biomedical researchers to report their results broken down by racial categories despite the fact that the categories have no scientific validity.

Here's the problem as Bernstein sees it:

> Modern American racial and ethnic classifications do not reflect biology, genetics, or any other objective sources. Classifications such as Hispanic, Asian American, and white combine extremely internally diverse groups in terms of appearance, culture, religion, and more under a single, arbitrary heading. The government developed its classification scheme via a combination of amateur anthropology and sociology, interest group lobbying, incompetence, inertia, lack of public oversight, and happenstance.

Case studies / Bernstein has been following cases involving racial classifications for years and he presents many that show how absurd and harmful our system is. Consider, for example, the Malone brothers of Milton, MA, who applied for jobs as firefighters in Boston. The application asked for their race and they checked "white." They failed to score high enough on the required exam and were therefore rejected. Then they reapplied, declaring themselves "black" on the application. This time, their scores were deemed high enough under the city's preference for blacks and the Malones began 10-year careers with the Boston Fire Department.

They ultimately ran into trouble when one of the brothers applied for a promotion. A superior noticed that he had declared himself "black," but the superior thought that was false. When he questioned them, they said they thought they had a black ancestor but could not provide evidence of it. The superior then referred the case to a hearing examiner who concluded that the Malones had made no effort to ascertain whether they actually had any black ancestry and therefore had acted in bad faith when they availed themselves of the preference for black applicants. That determination cost them their jobs. What is noteworthy here is that Boston initially thought the Malones not good enough to be firefighters, but then became willing to employ and train them after they declared themselves to be black, and then, when the gambit was revealed, terminated two veteran and presumably capable firefighters. Racial entrepreneurship is costly.

Instead of being carefully crafted to benefit those harmed by discrimination, the classification system is haphazard and logically indefensible.

Some of the cases are almost amusing. A man named Robert Earl Lee who worked for Montgomery County, MD, legally changed his name to Roberto Eduardo Leon and identified himself as Hispanic because he thought that would give him a better chance at a promotion. That angered leaders in the Hispanic community who called Lee's stunt "an insult" and demanded he remain officially "white." Lee responded that he'd grown up in San Diego, spoke Spanish, and claimed that his mother had said his father was Spanish. That was good enough for the county's director of employee relations.

At that point, federal officials got into the act. The Equal Employment Opportunity Commission informed Montgomery County that allowing Lee to take advantage of a racial preference just by changing his name was "an abuse of federal law." Montgomery County buckled and rescinded his reclassification. At the end of this kerfuffle, Lee sniffed, "All I want is equal opportunity."

History / Bernstein's history of the evolution of racial classifications is illuminating. In 1946, President Harry Truman created a Commission on Civil Rights, charged with identifying and eliminating racial discrimination in the federal workforce. Then, under Dwight Eisenhower, the government set up a commission to prevent racial discrimination in federal contracting. The preference regime didn't really take hold until President Richard Nixon's "Philadelphia Plan" in 1969, which mandated that all contractors on federal construction projects institute "goals and timetables" for increasing minority employment. That was soon followed by an executive order requiring federal agencies to assist "minority-owned" businesses. That raises the question, who should qualify as a minority?

In 1973, the U.S. Civil Rights Commission issued a report urging the federal government to create a system for collecting racial and ethnic data. The categories it called for were: Asian/Oriental, Native American, Spanish, Negro, all other minority groups, and white. Then in 1977, President Jimmy Carter's Office of Management and Budget released "Statistical Policy Directive 15" that set forth the standards for all federal agencies to collect data based on race and ethnicity. Bernstein points out that Directive 15's classifications lump together people who have almost nothing in common while dividing others who have much in common.

The mania for group favor-

Classified: The Untold Story of Racial Classification in America

By David E. Bernstein

208 pp.; Bombardier Books, 2022

itism began in earnest. Congress passed the Public Works Employment Act of 1977, specifying that 10% of government contracts be set aside for minority-owned businesses. The next year it passed the Small Business Investment Act, with preferences for "Black, Hispanic, Native American and other minority" firms. Agencies such as the Department of Transportation, Small Business Administration, and Federal Communications Commission wrestled with cases where the question was whether someone was or was not a member of a preferred group.

It's unfair and wasteful that people in (or who purport to be in) favored classifications are treated differently, Bernstein argues, and it clearly has harmful results. That is particularly so when it comes to medical research. Both the Food and Drug Administration and the National Institutes of Health (NIH) mandate that research be done with group quotas. For example, in 2021 Moderna had to delay the release of its COVID vaccine because NIH director Francis Collins told the firm that it needed to test the vaccine on more non-whites before the agency allowed its distribution. Was there scientific evidence that the vaccine might have different effects on different racial groups? No. Collins said that his reason was that he feared the public wouldn't trust the vaccine unless the research trials had more race-based data.

SCOTUS / In his concluding chapter, Bernstein wonders if there is any way out of the current mania for racial and ethnic classifications. Can we get back to the 14th Amendment's insistence upon equal protection of the laws for all? Can we bring about, in the author's nice phrasing, the separation of race and state?

He doubts that we'll be able to make much progress through legislation or administrative action; group preferences are too well entrenched. The courts, however, might act. He points to an important precedent, *Adarand Constructors v. Pena* (1995), where the Supreme Court struck down a set-aside program for favored groups. Bernstein cites Justice Antonin Scalia's concurring opinion: "In the eye of government, we are just one race here. It is American."

This term the Supreme Court is grappling with racial preferences in a pair of cases involving Harvard and the University of North Carolina. The plaintiffs are Asian-American students who argue they were rejected for admission because the schools limit the number of students who are of Asian ancestry. For years, colleges and universities have defended such policies by arguing they need "diversity" in student bodies to create educational benefits for all. Bernstein responds, "Yet the way colleges go about achieving racial and ethnic diversity makes little sense if diversity per se is the objective, as opposed to using diversity as a subterfuge while pursuing other objectives." Universities are content with crude quotas even if many of the "diverse" students add nothing but optical diversity, while they reject many applicants who are far more culturally different but are lumped into the "overrepresented" white and Asian categories. Moreover, law schools are being flooded with applicants making dubious claims of Native American status.

America would be much better off if the Court were to pull the plug on the mania for racial classifications to achieve social engineering goals.

Classified is a very timely book that challenges what has become a sacred cow in American politics: the supposed need to group people by race and treat them differently. It could help steer our national conversation in a positive direction. *R*

Welchism's Effects on Capitalism

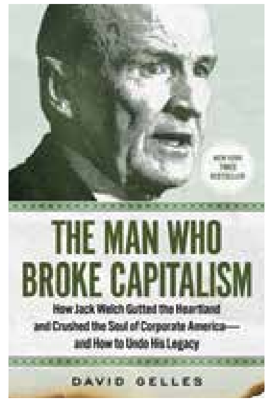
REVIEW BY VERN MCKINLEY

Nearly everyone who has grown up in the United States, and even those who grew up elsewhere, knows General Electric (GE) in some way, shape, or form. They may know the simple GE logo because it has a prominent place in their kitchen, emblazoned on a stove, oven, or refrigerator. They may have borrowed money from GE Capital at some point in their life, as the GE conglomerate once offered a wide range of financial services, including various forms of consumer credit. They may remember the long-time GE advertising jingle: "GE: We bring good things to living, we bring good things to life."

They may also remember GE's larger-than-life former CEO Jack Welch, who led the company from 1981 to 2001 and who passed away in 2020. David Gelles's newest book profiles Welch and critically examines his time at GE and the management philosophy Gelles calls "Welchism." Gelles is a correspondent on the climate desk at the *New York Times* and previously authored the 2015 book *Mindful Work: How Meditation Is Changing Business from the Inside Out.*

GE before Welch / From the beginning of *The Man Who Broke Capitalism*, Gelles makes clear that he yearns for the bygone days of the mid-20th century, when there supposedly existed a kinder, gentler corporate model. He writes:

> For the fifty years before Welch took over, corporations, workers, and the government enjoyed a relatively harmonious equilibrium. Most companies paid decent wages, employees put in their time, just about everyone paid their taxes, regulations were accepted as necessary safeguards, and the government invested in things like education and infrastructure.



The Man Who Broke Capitalism: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America—and How to Undo His Legacy

By David Gelles

271 pp.; Simon & Schuster, 2022

According to Gelles, in those days GE was befitting of the moniker "Generous Electric" because it was

> part of the bedrock of the American economy, the culmination of nearly a century's worth of innovative engineering breakthroughs and careful financial stewardship. GE's scientists helped win the world wars, and won Nobel Prizes, too. The devices they invented and commercialized ushered in modern life as we know it, full of electrical conveniences and technological marvels.

Not a fan / From the introductory chapter, Gelles makes clear his disdain for Welch and the actions he took at GE:

> The changes he unleashed at GE transformed the company founded by Thomas Edison from an admired industrial behemoth known for quality engineering and laudable business practices into a sprawling multinational conglomerate that paid little regard to its employees and was addicted to short-term profits.

Welch is not the only one who wears a black hat in the book. Gelles also attacks "free market" economist Milton Friedman, a target in several recent books, including one by Gelles's *Times* colleague, Binyamin Appelbaum. (See "Milton Friedman Caused the Financial Crisis—And Other Tall Tales," Winter 2019–2020.) F.A. Hayek and Ronald Reagan take their lumps, too. Hayek is guilty of laying "the groundwork for Welchism" with his theories that "free markets alone were the best way to address society's needs" and that "welfare, social safety nets, and excessive protections for workers would inevitably lead to mediocrity and apathy." Reagan's offense is leading an administration that "would benefit corporations while marginalizing workers."

Welch at GE / A reader might be tempted to put aside the book because Gelles telegraphs his conclusions early. But for those readers who stay past the first few dozen pages, he offers a detailed history of Welch's meteoric rise to the top of GE. Gelles traces Welch's hardscrabble upbringing, with a railroad conductor father and a homemaker mother who taught him to play poker. Upon graduation from the University of Illinois with a doctorate in chemical engineering, Welch began work at a GE plastics plant in Pittsfield, MA, in 1960. Within eight years, he was head of the firm's plastics business as GE's youngest general manager and began to accrue both a large salary and stock options. A series of promotions ensued and soon Welch was well-positioned to lead GE.

Gelles criticizes three features of Welch's 20 years of leading the conglomerate:

- *Downsizing*, which Gelles calls "mass layoffs that destabilized the American working class"
- *Dealmaking*, in the form of "compulsive mergers and acquisitions…, [creating] a cash-spewing collection of unrelated businesses" as GE would pursue nearly 1,000 acquisitions while Welch was at the helm
- *Financialization* with the creation of GE Capital, which Gelles calls "a giant unregulated bank" that came to represent an outsized portion of GE's overall share of revenue and profits. GE Capital ultimately received a bailout from the Federal Deposit Insurance Corporation when it stumbled during the Great Recession and a designation as a systemically important financial institution (in other words, too big to fail), all after Welch's departure.

Gelles gives plenty of examples of each of the events that took GE away from its way of doing business before the Welch era began. I learned a lot about Welch's tactics at GE and his efforts to build GE Capital into a financial behemoth.

Fair criticisms? / I enjoy a good critique of a CEO's tenure (or any public figure), and it is reasonable to scrutinize Welch's decisions during the time he led GE. Still, I believe that some of Gelles's criticisms are unfair.

For example, he scrutinizes many of Welch's proteges "who internalized his tactics and took them to dozens of companies around the country" and makes the case that their actions reflect poorly on Welch. These proteges may have thought the tactics were effective and worth duplicating, but Welch had little control over the quality of their implementation. The proteges' faults, in Gelles's mind, include John Trani's efforts as CEO of Stanley Works tool company to outsource work to reduce costs, streamline middle management, and initiate an offshoring of the company headquarters to Bermuda to reduce the company's tax bill. Gelles describes the last of these actions as "an act of economic treason."

Another questionable criticism is Gelles's blaming Welch for the ups and downs at GE *after* his retirement from the firm. Obviously, the precipitous drop in GE stock shortly after his departure and the handoff to his successor, Jeffrey Immelt, had a great deal to do with the September 11, 2001, terrorist attacks, which occurred four days after Welch's departure, and the recession that coincided with it. However, to the extent that Immelt was Welch's "handpicked successor" and may not have been up to the job, that is certainly something for which Welch can be criticized.

Gelles notes criticisms of GE by analysts and investors and the fact that GE's largest investor "sold off half its position" in the wake of 9/11. But he fails to mention the bounce-back in GE stock shortly after the economy emerged from the 2001 recession. That is another weakness in Gelles's analysis throughout the book, as he discusses the ups and downs in the level of GE stock without putting them in the proper perspective. A time series graph of the stock level throughout Welch's tenure or during critical times and compared to the performance of the broader market would have provided useful context. It was trading at about $5 a share when he took over, and was above $300 a share when he departed. Deeper analysis is called for rather than Gelles's verbal description of spikes and drops during a particular event or over a brief, discrete time frame.

Gelles also makes several subtle and not-so-subtle comments about GE accounting practices throughout the book, calling them "creative," "fuzzy," "nimble," and "games." He states that GE "bent the accounting rules." One of Gelles's more detailed descriptions of questionable GE accounting maneuvers has citations to an article that details a four-year SEC investigation into transactions booked during 2002 and 2003, again after Welch departed from GE. This does not stop Gelles from pointing the finger at Welch: "The tactics appear to have been well honed [during Welch's time].... The suggestion [by the SEC] was unmistakable: at the height of Welch's powers, the same sort of tactics were being employed." Based on what is presented in the book and provided as supporting evidence, this statement is unsupported.

Good ol' days / Notwithstanding Gelles's desires, the U.S. and broader global economy are not going to return to their state during the 1950s. I offer this personal example as a case in point: My father had a union job at Standard Oil of Indiana for 40 years from the 1930s to the late 1970s, just as Welch was taking over GE. Many of those jobs are now gone, in part because union labor made industrial companies like GE uncompetitive. Not unlike today's environment, the decades of the 1980s and 1990s that Welch had to traverse were a turbulent time, as CEOs had to navigate the aftereffects of inflation, the dramatic changes brought on by globalization, and tough competition from overseas.

Gelles closes the book with a laundry list of potential solutions to Welchism. Suggestions regarding companies voluntarily developing their own "more responsible business model" involving the use of "fewer natural resources" and "improving the financial health of ... employees" are reasonable. But he also offers highly centralized, mandated government solutions—such as imposing compulsory requirements to put workers on corporate boards, increasing the minimum wage, raising taxes, and capping executive compensation—that would likely cause more harm than good. I don't believe capitalism is broken, as Gelles insists in the book's title. However, the dearth of positive outcomes from government interventions over the past 15 years suggests, instead, that interventionist policymaking is what is broken. *R*

Great Title, Disappointing Book

REVIEW BY PIERRE LEMIEUX

Mark T. Mitchell is a professor of government at Patrick Henry College, a religious college in Virginia. In his recent book *Plutocratic Socialism*, he argues:

- Certain virtues are necessary for the maintenance of a free society.
- Those virtues are typical of the middle class and are much more likely to flourish in a society based on widespread ownership of property.
- In societies like the United States where there has been a decline in the widespread ownership of property, a growth of economic inequality, and the rise of a powerful welfare state, a plutocracy will ally itself with a socialist and woke state to control society.

I will argue that most of Mitchell's claims are doubtful or, at least, in need of better specifications and demonstrations.

Which virtues? / To what extent does a free society and its maintenance require certain virtues of its members? Many economists believe that, on the market model, self-interest is sufficient because each individual can only pursue his own interest by serving other people's interests. One dissenter of this view was Nobel economist James Buchanan, the main founder of the public choice school of economics. Buchanan argued that a widely shared ethics of natural equality between individuals is required. (See "An Enlightenment Thinker," Spring 2022.)

Mitchell's long list of virtues is very different from Buchanan's parsimony. To less controversial virtues such as independence and personal responsibility, Mitchell adds self-control, "a willingness to defer physical pleasure rooted in appetitive desire," thrift, frugality, concern for others and for the future, neighborliness, a sense of duty, an ethics of stewardship, and even "belonging." He believes that the "ownership of property" fosters these virtues.

Mitchell criticizes what he takes to be the hedonism of economic theory. He apparently is unaware that modern economics assumes that the individual seeks utility, which means nothing more than improving one's situation given one's preferences (and the constraints one faces). Those preferences may include traditional virtues.

Mitchell seems to play on two meanings of "self-government": the moral government of an individual by himself, and government by 50 percent plus 1, which is to say democracy. As long of individuals are not identical, these two meanings are contradictory: democracy conceived as "the rule by the people" means that some people rule over others. (See "Populist Choices Are Meaningless," Spring 2021.)

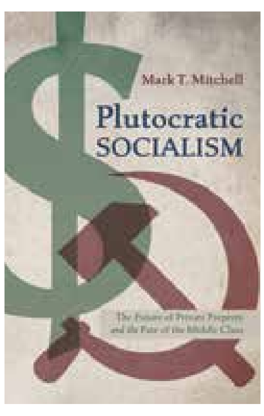
Which middle class? / Mitchell's concepts of "middle class" and "property" seem arbitrary and not useful to analyze what is and has been happening in society. He characterizes the middle class as comprised of those who have the virtues that he believes are necessary to a free society and are roughly those of the yeoman farmer, which Thomas Jefferson saw as the representation of American society. This middle class disappeared following the great improvements in agricultural productivity and the shift of consumer demand toward other goods and especially services such as education and health.

As a matter of historical fact and analytical usefulness, it is preferable to view the middle class as economist Deirdre McCloskey sees it: the commercial bourgeoisie—that is, the merchants, manufacturers, entrepreneurs, inventors, and specialized workers who were at the forefront of the Industrial Revolution and of the Great Enrichment that followed. This middle class developed different values, influenced by the desire for material betterment, progress, and tolerance. Things changed, and for the better as far as ordinary people are concerned. Think of the dramatic and unprecedented increase in the standard of living and what goes with it, such as improved health and life expectancy.

Although he claims to defend private property *rights*, Mitchell focuses on property *ownership*. But private property rights, rather than some configuration of property ownership, are what is important for economic efficiency, prosperity and, I would argue, the real possibility of virtue. It is the protection of property rights that prevents constant conflicts over resources and allows extended exchange, market competition, and economic growth. Viewed from another angle, a "broadly disseminated private property" is the result, not the cause, of individual liberty.

Capital and property / There is more to property than what Mitchell considers. Economists see *wealth* as anything that produces utility over time, as opposed to rapidly consumed goods or services. *Capital* is a sort of wealth that produces returns in terms of money or in terms of goods or services that may be exchanged for money. It is useful to distinguish physical capital (a machine, a business building, an inventory of inputs, land), financial capital (a title to physical capital), or human capital (a stock of technical knowledge or other productive skills that reside in an individual). A farm is only one sort of physical capital; its returns over time are goods that can be consumed directly or exchanged for something else.

Capital, which Mitchell calls "productive property," is not limited to a yeoman farmer's land and implements. He admits this but seems to maintain a romantic view of the yeoman farmer who, on his little piece of land, produces food to feed his family and who is supposedly self-sufficient on that account. But unless the family is very poor and practices subsistence farming, most farmers' produce is sold on the market to acquire other goods and services. When Mitchell contrasts "the ideal of productive property" on farms to "the era of exchange" through wages, or when he laments that property has come "to be seen in terms of exchange and use rather than production," he is making scholastic distinctions that are not useful to understanding the social and economic world.



Plutocratic Socialism: The Future of Private Property and the Fate of the Middle Class

By Mark T. Mitchell

180 pp.; Front Porch Republic Books, 2022

The employee—whether blue-collar or white, skilled or unskilled—does essentially the same thing as the farmer. In return for wages, he rents his human capital to his employer, who uses it to produce goods or services. Equivalently, we may say that the employee produces stuff that he exchanges with his employer for wages, which he then uses to buy goods and services for himself and his family. Similarly, the owner of financial (and often physical) capital lends or invests it against an expected financial return. These other economic actors are not necessarily less self-sufficient, or less independent, or less hard-working than the farmer.

A construction worker may have human capital worth $500,000, which is the same as saying that he uses it to earn $50,000 a year (assuming a 10% rate of return on capital) over his working life. A highly educated and skilled surgeon may own human capital of 10 or 20 times as much. But Mitchell, following Marx, claims that the proletarian has no capital. As Nobel economics laureate Gary Becker discovered half a century ago, it is more analytically useful—it helps explain the social world better—to consider that the proletarian owns his human capital; it is *his* capital, not the master's capital as would be the case for a slave (including a slave of society). Interestingly, Mitchell has foreclosed this analytical avenue by suggesting (or assuming) that an individual is not the owner of his body, but only the steward of a body that belongs to God.

It is not clear how the ownership of capital other than farmland could not instill the same middle-class virtues. The pension funds and urban and suburban houses of middle-class members are capital. To quote Holy Cross political scientist Davis Lewis Schaefer in a recent book review:

> The authors conclude by reminding us that prior to the Enlightenment, "the major source of income and wealth was land," the quantity of which was fixed: hence (except to a limited extent under the Roman empire) no economic growth.... By contrast, the modern

> commercial republic offers ordinary folk the "open field" and "fair chance" that Abraham Lincoln espoused to advance themselves through their own labor and talents.

Mitchell argues that a property "owner" is the steward of future generations. But it is one thing to argue, as George Mason University economist Tyler Cowen does, that the welfare of future generations must not be discounted at the market interest rate (see "An Open and Enlightened Libertarianism," Spring 2019); it is quite another to say that individuals of future generations own what current individuals now think is theirs. If individuals of future generations are wealthier than we are, it would be a redistribution from the poor to the rich.

Among Mitchell's economic errors is the claim that an individual's utility maximization leads to a situation where "the horizon of my concerns extends no further than the horizon of my own life or the duration of my desires." As a matter of fact, many people spend money on their children and accumulate capital to leave an inheritance, sometimes to charities. It is, of course, not true that the rate at which an individual discounts the future is close to infinity. Moreover, the owner of capital who wants to consume it does that by selling it to another individual whose discount rate is lower. When an impatient owner wants to consume the future returns of his capital now, *he merely transfers it to a new owner.*

In other words, from all we know about our world, the market is the best possible steward. Nobody burns downs a forest he owns, which means a forest that he may sell, if it has a positive market value—that is, if it is expected to yield returns that someone in the future is likely to want.

The welfare state and plutocrats / According to Mitchell, the decline of middle-class ownership of "productive property" has led to increasing inequality, economic insecurity, and the consequent growth of the welfare state. It is not clear how the decline of the farm-owning "middle class" could have, by itself, yielded this chain of events. To believe this, we would have to accept that the virtues of independence and self-reliance are exclusively attached to the ownership of small pieces of agricultural land. As suggested above, the new commercial and industrial bourgeoisie also carried similar values, without the dislike of pleasure and material goods, and with the added benefit that it produced the Great Enrichment.

Mitchell also is not clear on how the middle class, as opposed to the poor, became more economically insecure and ran into the arms of the welfare state. Did "they"—the two classes—switch places? Whatever *relative* mobility there was—down for some and up for others—and whatever the measures we use, the net result is that nearly everybody became absolutely richer because of economic growth. Recent research by economists Justin Callais and Vincent Geloso concludes that economic growth fueled by economic freedom more than compensates for the starting handicap of poorer parents' children.

Nobody burns down a forest he owns if it has positive market value—that is, if it is expected to yield returns that someone in the future is likely to want.

Moreover, the causality may have gone at least partly the other way around: from the welfare state—and the powerful state more generally—to more income inequality. According to Brookings economist Jonathan Rothwell, without the different sorts of "barriers to free exchange, put up in place by powerful interest groups," income inequality would fall by half. (See "The One-Percenter State," Spring 2020.) Mitchell, who is rightly concerned with the growth of government power, should consider this argument, which incidentally negates his protectionist intuitions. He seems to believe that "globalization" increases the centralization of power, while—if globalization means free trade—it is the exact opposite: it reduces the power of Leviathan.

The most interesting feature of *Plutocratic Socialism* is Mitchell's claim that a plutocracy has allied itself with the socialist and woke state. The poor and the economically insecure are being taken care of and dehumanized by the welfare state while the plutocrats maintain their wealth under government protection against competition, including through tax and subsidy privileges. This would explain why the plutocracy has joined the woke activists as illustrated by the Davos crowd (i.e., the World Economic Forum) and its apparent support for a "Great Reset," that is, the substitution of woke socialism for the market. This hypothesis of an alliance between the woke and the socialist state on the one hand and the plutocrats on the other hand could have been better explored. (See "The Problem with Politicizing Corporations," Summer 2021.)

Mitchell does not explain why the *individual* plutocrat behaves this way. Mancur Olson's theory of collective action points out that, contrary to what Marx assumed, a *social class* does not act; only *individuals* can. Mitchell would have to explain why it is in the interest of a corporate leader or major capitalist (World Economic Forum has a large list of "partners") to espouse the woke–socialist ideology.

Ignored by Mitchell, public choice theory goes a long way to solving this puzzle. Under a state that is not strictly limited, small interest groups are more capable of organizing themselves to control government in their own interests. These special interest groups include large corporations and big trade unions. America is home to some 700 billionaires, who may (thanks to the World Economic Forum and similar business groups in America) constitute a special interest group by themselves. Most of them are not philosophically streetwise and hang out in political and artistic circles enamored with collectivist visions. And they want to avoid expropriation. Plutocratic socialism may be a product of these incentives.

A disappointing book / Have I been unfair to *Plutocratic Socialism*? Its author is often motivated by worthy concerns and defends some ideas that may look appealing to a classical liberal. Yet, Mitchell's song belongs to the sirens of an old European conservatism. Aesthetically, he doesn't even appreciate "the endless charms of our electronic devices." For him, it goes without saying that manufacturing physical things should be a darling of America. The book is surprisingly unmoored from modern economics. Will some readers find it redeemable as an essay on some Christian ethics and theology?

Mitchell would obviously reject Buchanan and Gordon Tullock's observation in *The Calculus of Consent:*

> Christian idealism, to be effective in leading to a more harmonious social order, must be tempered by an acceptance of the moral imperative of individualism, the rule of equal freedom. The acceptance of the right of the individual to do as he desires so long as his action does not infringe on the freedom of other individuals to do likewise must be a characteristic trait in any "good" society. The precept "Love thy neighbor, but also let him alone when he desires to be let alone" may, in one sense, be said to be the overriding ethical principle for Western liberal society.

A free society is by necessity a place where people have different opinions about religion and different preferences regarding the good life. It is imprudent to aim at a society governed by what some think God wants. (ISIS tried that recently.) One advantage of a free society is that individuals can, for example, ban pleasure in their lives or consider themselves stewards of their property; but those who have different preferences can also live a congenial life. This sort of society is what classical liberalism has been defending. Live and let live.

Paradoxically, *Plutocratic Socialism* suffers from the same irremediable vice as wokism and socialism: the devilish temptation to impose on all individuals the politically empowereds' conceptions of the "common good." R

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Assessing Yellen's Legacy

REVIEW BY VERN MCKINLEY

The qualifications for U.S. treasury secretary are not well defined. The last two confirmed holders of this office had vastly different backgrounds and experience in assessing economic and financial public policy issues.

In my opinion, Stephen Mnuchin, Donald Trump's treasury secretary, had weak credentials for the position. He often seemed ill-prepared to discuss policy issues, particularly early in his tenure. The *Wall Street Journal* editorial page predicted that would be the case in December 2016, describing him as an "underwhelming" nominee who was a "newcomer to political or policy debates."

In contrast, current secretary Janet Yellen had decades of qualifying experience with many of the significant issues of domestic and international economic and financial policy. But as we look back on her long career, has she been on the right side of these policy discussions?

In his new book *Yellen*, Jon Hilsenrath, a senior writer for the *Wall Street Journal*, describes Yellen's views, her professional work, and her contributions to public policy over the past five decades. This is his first book.

Yellen is two biographies in one, as her husband, Nobel economics laureate George Akerlof, is also the focus of alternating and combined early chapters. Wouldn't you know it: Yellen endured sexism to become the first female Fed chair and treasury secretary in U.S. history and her husband's accomplishments consume much of her biography. Hilsenrath also explains that the economist power couple are so nerdy that they named their son after economist Robert Solow, "Akerlof's MIT mentor." The later chapters give biographical information on their son Robert, who also chose a career as an economist.

From Brooklyn to the Fed and Berkeley / Yellen's early years were spent in Brooklyn, an existence Hilsenrath describes thus: "The Yellen family wasn't rich, but they lived well.… On Sundays they dressed nicely and had a fancy meal out in Brooklyn or Manhattan.… They took [transatlantic] boat cruises for vacation and hired a housekeeper." Her father Julius, a doctor, told the family stories of his patients and "the Great Depression and the suffering it had imposed on people Ruth [Yellen's mother] and Julius knew when they were young."

Yellen graduated from Brown University's Pembroke College with a degree in economics, which included a course on central banking. This was during the 1960s, a period when scholars like Milton Friedman "were coming to realize at the time that the Fed had worsened and prolonged the Great Depression." A youthful Yellen thought, "If I ever have a chance at public service, a Fed post would be a worthwhile thing to do."

She gravitated not to Friedman's free market philosophy, but to the work of

IN REVIEW

Yale's James Tobin, a former adviser to John F. Kennedy. That led her to choose Yale for her doctoral degree in economics. Tobin's draw was his opinion that "economics was important because it had the potential to make the lives of people better." He was an adherent to Keynesianism.

Yellen's doctoral work and her first academic position at Harvard were framed in the contemporary debates of the efficacy of government intervention during a time of steadily increasing inflation:

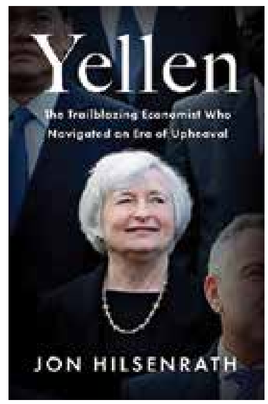
> Economic developments were outrunning Tobin's views about how the economy actually worked. The inflation that had started creeping up during the mid-1960s was running rampant by the 1970s, and the government didn't seem to know how to stop it.... The idea of government intervention in the economy was falling out of fashion. Part of the problem was that the government had pumped so much money into the system in the booming 1960s.... All of that money spurred demand for goods and services, driving the price of those goods and services higher: in a nutshell, creating inflation.

Yellen was in the audience for a debate at Yale between Tobin and Friedman. According to Hilsenrath, that

> placed Yellen right in the middle of a debate about the role of government in the economy. Friedman defined that debate and Yellen and Akerlof became central players in a counterattack against the Chicago view that Friedman represented.... By the 1970s Friedman had become a household name. He appeared on the cover of *Time* Magazine in 1969 and won a Nobel Prize in 1976.... As inflation soared during the 1970s, Chicago theories about the futility of government interference in the economy seemed to prove all too true.

By 1977, Yellen had landed in a position to play a role in this debate as a staff economist at the Federal Reserve, which is where she met Akerlof. By 1980, just before Ronald Reagan entered the White House and started a 12-year Republican reign over the executive branch, Yellen settled in as an academic at the University of California, Berkeley.

Greenspan's Fed (1986–2006) / In the early years of Bill Clinton's presidency, Yellen was appointed as a member of the Fed's Board of Governors along with vice chairman Alan Blinder. The pair pushed back against the then-well-entrenched chairman, Alan Greenspan, as "a new breed on the Fed board, which for years had been populated mostly by bankers, bureaucrats and Wall Street analysts." Greenspan's approach to managing the board's deliberations "rubbed Yellen the wrong way."



Yellen: The Trailblazing Economist Who Navigated an Era of Upheaval
By Jon Hilsenrath
400 pp.; Harper Business, 2022

Clinton secured reelection and, according to Hilsenrath, he "accomplished this in part by accepting Milton Friedman's ideas about the power of markets and the limits of government involvement in the economy." Yellen later shifted to chair Clinton's Council of Economic Advisers. The economy was calm, but she was repulsed by the "political game. It was stressful and made her uncomfortable," and she was more comfortable in the role of "pragmatic non-partisan."

By the time the Clinton administration ended, Yellen had returned to Berkeley. Hilsenrath provides some examples of what he calls Yellen's "prescient observation[s]" and analysis. These examples of speeches include a string of warnings, albeit very general, she made during 2001 about the "dark side of tech innovations ... which tend to raise income inequality"; of her worries regarding "sophisticated risk management strategies ... to monitor and manage exposure [that] have the potential to destabilize financial markets," such as value at risk programs; and her prediction that "she suspected that large budget deficits ... were very likely to return."

Bernanke's Fed (2006–2014) / Yellen returned to the Fed from 2004 to 2010 as president of the Federal Reserve Bank of San Francisco (FRBSF), closer to the pragmatic, non-partisan role she relished. The FRBSF had direct supervisory and regulatory authority over troubled Countrywide Financial, an aggressive California-based mortgage lender whose collapse was one of the key events of the financial crisis.

Hilsenrath gives Yellen a pass on oversight of Countrywide, blaming "a jury-rigged bank regulatory system," arguing that "there were limits to how much Yellen could do.... Fed supervisors in Washington, not Yellen or her staff in San Francisco, were in charge of bank oversight." He instead blames Greenspan. But Hilsenrath does a poor job of supporting his arguments; the Reserve Banks examine banks and holding companies, and as he details in *Yellen*, they can impose limitations on the institutions' operations.

Countrywide was able to migrate away from the Fed's oversight in late 2006, but it was too late as the bank collapsed shortly thereafter in the midst of a run on deposits. (See "Run, Run, Run," *Cato Policy Analysis* no. 747, April 2014.) Bank of America acquired Countrywide's rotting corpse and came to regret it, requiring its own bailout in 2009 and struggling with the acquisition for a decade. The Countrywide collapse provided Yellen with insight that she shared at Fed policy meetings. But as Hilsenrath summarizes from her testimony before the Financial Crisis Inquiry Commission, "She hadn't put the pieces of the puzzle together fast enough to stop it." In Yellen's own words: "I'm sorry. I wish I had but I didn't."

Yellen supported Bernanke's bailout, low interest rate, and quantitative easing efforts in response to the financial crisis

Regulation was first published in July 1977 "because the extension of regulation is piecemeal, the sources and targets diverse, the language complex and often opaque, and the volume overwhelming." Regulation is devoted to analyzing the implications of government regulatory policy and its effects on our public and private endeavors.

and Great Recession: "Like Bernanke, in a time of crisis she believed the imperative was to act boldly.... As for quantitative easing, the risks and unknowns were enormous.... Yellen wanted Bernanke to double down on everything."

As a reward for her loyalty to the program during the crisis, Yellen became vice-chair of the Fed from 2010 to 2014, after Donald Kohn, Bernanke's previous second-in-command, stepped aside. During her tenure, "Bernanke and Yellen were remaking modern central banking.... Secrecy was counterproductive. It was better to state goals clearly and explain your thinking."

Yellen's Fed (2014–2018) / The competition to succeed Bernanke as Fed chair came down to Harvard economist and former Clinton adviser Larry Summers, who was considered for the job when Bernanke's previous term came up in 2010, and Yellen. They shared an ideology that "the government had a role to play in managing business cycles and other economic problems." President Barack Obama was leaning toward Summers for the job, but "Summers lacked support in the progressive wing of the Democratic Party in the Senate." Yellen got the nod.

Her four-year term focused on normalization. Writes Hilsenrath: "Her job was to move the Fed back toward some state of normalcy.... Yellen was as ready to do this job as anyone who preceded her. She had served the institution at almost every level possible."

Her tenure was relatively uneventful: "After years supporting a policy of high-stakes risk-taking, the Fed's methodical new leader chose the most boring policy possible. She did nearly nothing at all." In 2015, interest rates were raised for the first time since 2008. President Donald Trump did not nominate her to a second term.

Treasury secretary / Even though Yellen was not involved in the workings of the Biden campaign, the president-elect, at the urging of Sen. Elizabeth Warren (D–MA), asked her to take on the job of treasury secretary. Initially Yellen "told him she wasn't interested. She enjoyed her quieter life.... She was seventy-four years old," according to Hilsenrath.

She acquiesced after discussing it with her husband and son. Her comments in her confirmation hearing set the tone for the new administration: "The best thing we can do is act big."

The United States is now dealing with the consequences of that view. Looking back, it was reckless to cast aside concerns about inflation for a fiscal spending spree accommodated by loose monetary policy. Biden demanded quick passage of the American Rescue Plan, which Hilsenrath describes as "more money on top of the trillions already borrowed and spent by [President Trump].... One problem was that the breadth of the program meant that many individuals who didn't need the money would get it anyway."

Yellen was uncomfortable with the swiftness of the process of putting the package together, but "she had little choice but to support it. Act big was her implicit and unavoidable endorsement," Hilsenrath writes. She stumbled further as a member of team transitory as the evidence grew of building inflation. Hilsenrath describes the alternative and correct prediction of the economist who she beat out for the chairmanship of the Fed: "Watching all this from a distance, Lawrence Summers saw a recipe for disaster.... These are the least responsible fiscal macroeconomic policies we've had in the last 40 years, he said." In 2022 Yellen had to sheepishly apologize, stating in an interview with CNN's Wolf Blitzer, "I think I was wrong then about the path that inflation would take."

Conclusion / Hilsenrath gives a balanced view of Yellen's life, recognizing her achievements but also presenting issues where in hindsight her assessments and predictions were just plain wrong. Her push for central bank transparency on monetary policy and work to normalize policy during her term as chair were achievements. On the other hand, by her own admission, she was unable to do anything timely to limit the damage during the Countrywide debacle.

Her biggest failures have been as an economic forecaster. (See "Of Hedgehogs, Foxes, and Superforecasters," Fall 2016.) Her New Keynesian views about massive stimulus combined with loose money and her "act big" rhetoric and arguments that inflation risk was not a serious concern were big errors. Even as I draft this review in late 2022, Yellen is confidently predicting that inflation will get back to a normal level by year-end 2023. In late 2021, she made the same projection for year-end 2022. We'll see if she's right this time.

I believe it was a mistake for her to accept the treasury secretary role, as her legacy would have been stronger without the damage her reputation has suffered since joining the Biden administration. Hilsenrath's well-researched book makes that conclusion clear. *R*

Working Papers BY PETER VAN DOREN

BELOW ARE SUMMARIES OF RECENT PAPERS THAT MAY BE OF INTEREST TO *REGULATION*'S READERS.

Child Poverty

■ **"Real-Time Poverty, Material Well-Being, and the Child Tax Credit," by Jeehoon Han, Bruce D. Meyer, and James X. Sullivan. NBER Working Paper no. 30371, August 2022.**

Federal support for poor children has shifted over time from cash transfers that penalized work (the Aid to Families with Dependent Children program, 1935–1996) to tax credits offered only to those who work. This switch was proposed in a 1991 report by a bipartisan National Commission on Children, which recommended a $1,000 refundable credit for all children through age 18. A version of the credit was proposed by Republicans in their 1994 Contract with American and by President Bill Clinton in 1995. It was eventually enacted in 1997 as a $500-per-child non-refundable credit, meaning that families that paid little in income tax couldn't take full advantage of the amount. In 2001 Congress increased the credit to $1,000 per child and made it partly refundable. The 2017 Tax Cuts and Jobs Act increased the credit to $2,000 per child.

During the pandemic, it was temporarily expanded to $3,000 for every child age 6–17 and $3,600 for every child under 6. In addition, the credit was made fully refundable to those whose credits exceeded their tax obligations. This policy change reignited the scholarly and political debate about the costs and benefits of requiring work in return for taxpayer assistance.

As described in this paper, early evaluations of the program claimed that the rate of child poverty was reduced by 25 percent and then rose by over 40 percent after the expiration of the monthly payments in January 2022. Evaluations of the effects using a different methodology detected only a small decline in poverty during the period of monthly child tax credit payments and no increase after the elimination of the payments. The first evaluation found gains in income without any reduction in work while the second found that increased transfers induced a compensating decline in employment among low-skilled workers with children.

This paper explains the methodological differences that led to the drastically different estimates and argues the second is methodologically superior. Claims that the child allowance would reduce poverty without meaningfully discouraging parental employment appear to be incorrect.

Zoning

■ **"Houston, You Have a Problem: How Large Cities Accommodate More Housing," by Anthony W. Orlando and Christian L. Redfearn. SSRN Working Paper no. 4242854, October 2022.**

A commonly offered solution to high housing prices is zoning reform. *Regulation* was an early participant in the examination of zoning, publishing some of Edward Glaeser and Joseph Gyourko's landmark work in the early 2000s (see "Zoning's Steep Price," Fall 2002). A recent Working Papers summary discussed calculations of the zoning "tax" by metropolitan area (see Working Papers, Winter 2021–2022).

This paper cautions readers that zoning reform in California may not result in large increases in housing supply and reductions in prices as reform advocates predict. The paper compares housing supply in California and Texas to demonstrate that the path of housing prices and population growth in both have many similarities even though California has zoning constraints while Texas is more market oriented.

The basic argument is that metropolitan areas have a life cycle. In the early phase, growth is met through single family housing development on vacant land. But once available land for greenfield development becomes too far from jobs and amenities, this development stops even if there are no legal greenbelt restrictions on further sprawl. It is replaced with high-density development on "infill" lots. Such development has higher marginal construction costs. Thus, as cities grow denser over time, their supply elasticity will decline, and the price needed to produce the marginal housing unit will increase even in the absence of zoning constraints. For example, housing supply elasticities in Harris County, the central county in the Houston metropolitan area, have decreased from 0.32 in 1980–1994, to 0.25 in 1990–2004, to 0.15 in 2000–2016.

Texas is becoming more like California with regard to housing supply—and therefore faces the prospect of rising house prices in the years ahead. While Houston has been eager to build more housing over the last 20 years, so too was Los Angeles 40 years ago. Sacramento is growing faster than most Texas cities today even though it is in California. City age and density matter.

Antitrust

■ **"Criminal Enforcement of Section 2 of the Sherman Act: An Empirical Assessment," by Daniel A. Crane. SSRN Working Paper no. 4136638, June 2022.**

In March 2022, the U.S. Justice Department announced it would consider bringing criminal cases for monopolization under Section 2 of the Sherman Act. Section 2 prohibits individual firms from possessing and exercising a high degree of market power regardless of whether the firm tried to fix prices or rig bids. This dramatic change in policy—the last Section 2 case was in 1977—was defended as simply a "revival of previous agency practice."

This paper by University of Michigan law professor Daniel Crane provides a comprehensive history of criminal Section 2 enforcement. The Justice Department brought a criminal charge under Section 2 in 175 cases. The first (against Federal Salt) was in 1903 and the last (against Braniff Airways) was in 1977. Were those cases similar to the cases the Biden administration envisions bringing against Google, Facebook, and other Big Tech companies? Claims that this change in policy is historically ground require such similarities.

Only 20 of the 175 cases involved unilateral conduct. In eight of those, the criminal charges were dismissed or all defendants were found not guilty. In the remaining 12, the largest fine—$187,000—was imposed on Safeway Stores in 1955 and would be equivalent to about $3 million today. In just three cases, a prison sentence was imposed. Two of those cases involved crimes of violence, while the third, in 1973, resulted in one individual serving one month in prison for unilateral monopolization.

Criminal Section 2 enforcement for non-violent unilateral exclusionary conduct has never been a significant part of the Justice Department's enforcement practice. Writes Crane, "If the Justice Department carries through on its recent threats to begin bringing criminal monopolization cases again and it does so for non-violent unilateral conduct offenses and seeks significant penalties, it will be breaking new ground."

Low Wage Workers

■ **"Low Wages Aren't a Growing Problem," by David Abraham and Simcha Barkai. SSRN Working Paper no. 4202741, September 2022.**

The plight of low-wage U.S. workers is a hot topic among academics and elected officials. I have reviewed many papers about the effects of minimum wage laws and the econometric difficulties economists encounter in their attempts to ascertain the laws' effects. This paper asks a simpler question: How are low-wage workers fairing over time?

Remarkably, there has been little to no increase in the number of low-wage workers since 1985 despite a large increase in the total number of workers. The number of workers earning $15 an hour or less (in 2019 dollars) was 36.5 million in 1985 and 36.7 million in 2019. In 1985 they constituted 41 percent of 88.2 million workers, while in 2019 they were only 28 percent of 132 million workers.

For those calculations, the inflation adjustment was made using the Consumer Price Index for all Urban Consumers, which economists have concluded overstates inflation. Using alternative measures results in a large decline in the number of workers earning low wages.

How about wage growth for low-wage workers? Wages in the 30th percentile grew at the same rate as those at the 70th percentile, and real wages below the 30th percentile grew even faster. The authors argue that unless we are willing to argue that conditions have worsened at the 70th percentile (which translates into a 2019 annual income of just under $60k for a full-time employee), we should not assert that conditions have worsened at the 30th percentile.

How about mobility? Data from the Panel Study of Income Dynamics, which surveys the same individuals over time, suggest that the persistence of low wages for males has not increased, and has likely decreased, over time.

Consumer Credit Cards

■ **"Who Pays for Your Rewards? Redistribution in the Credit Card Market," by Sumit Agarwal, Andrea F. Presbitero, Andre F. Silva, and Carlo Wix. SSRN Working Paper no. 4126641, December 2022.**

Many credit cards offer cash or other rewards for their use. Some people have argued that such rewards redistribute money from the poor to the affluent. In the Summer 2022 edition of Working Papers, I reviewed a paper by Todd Zywicki et al. that examines one possible avenue for this transfer: if merchants increase prices to pay for their increased bank card processing fees that pay for the rewards, those customers who pay in cash (assumed to be less affluent) pay for the rewards to card users (assumed to be more affluent).

That paper found that those with better credit scores, regardless of income, benefit from rewards programs, which are "paid for" by interchange fees charged to merchants. Those interchange fees, in turn, may or may not be passed on to consumers who use cash, depending on whether those consumers buy the same goods and services from the same merchants as those using credit cards.

The current paper by Sumit Agarwal et al. compares the incidence of rewards and interest costs for those who use rewards cards versus those who use traditional cards controlling for FICO credit score and income, including ZIP code and bank fixed effects. The Agarwal results are similar to the Zywicki paper. High-FICO cardholders earn money from reward cards while low-FICO cardholders lose money. But again, the relationship between winners and losers and income is low. High-income consumers with high FICO scores benefit from reward credit cards largely at the expense of high-income consumers with low FICO scores. *R*

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