IN REVIEW

Labor and Populism

REVIEW BY E.F. STEPHENSON

Prolific author and University of Texas, Austin, professor Michael Lind believes the United States is suffering from several crises: a demographic crisis of falling fertility, a social crisis of loneliness and isolation, an identity politics crisis, and a political crisis in which transactional policymaking has been replaced by polarizing culture wars and moral panics. In his 2023 book *Hell to Pay*, he argues that "these four crises are worsened if not caused by … an underlying economic crisis … of too many jobs with low wages." The book espouses themes central to today's populist politics, making it worthwhile to review even though it is a couple of years old.

Is there a crisis? / Surprisingly, given the centrality of wages to the book's premise, Lind offers little evidence there *is* a low-wages crisis. He gives unsourced figures on the growth in labor earnings at various points in the income distribution over the past 40 years: Earnings at the 95th percentile increased 63.2 percent, while earnings at the 50th percentile increased 15.1 percent, and the 10th percentile increased just 3.3 percent. It bears noting, though, that those are *earnings*, not *wages*, and earnings are a function of *both* the hourly pay rate and the number of hours worked. So, these data alone are not sufficient to show a problem with wages.

Lind later cites the nationalist think tank American Compass's Cost-of-Thriving Index (COTI), which estimates the amount of time each year that a typical employee must work to provide a family of four a middle-class standard of living. That time increased from 30 weeks to 53 for male workers and from 45 to 66 for female workers between 1985 and 2018 according to COTI. But there's reason to question those numbers. Winship and Horpedahl (2023) show that COTI's methodology is inadequate and a proper analysis finds that earnings have *increased* substantially since the mid-1980s. Likewise, economist Mark Perry regularly reports Census Bureau data on the shares of households in various earnings brackets, and his numbers indicate that, from 1967 to 2023, the percentage of families earning more than $100,000 has more than tripled, while the shares of people earning below $35,000 or between $35,000 and $100,000 (all in 2023 dollars) have fallen by about a third. Thus, people seem to be moving up the income ladder, and Lind's central premise is questionable if not just plain wrong.

Labor's bargaining power / Putting those concerns aside, if we accept his premise that low wages ail modern America, then we might expect him to discuss how poorly performing schools, particularly in major cities, harm human capital, and other reasons that some workers have low earning power. However, he says the idea that workers' pay reflects their human capital is "the big lie" (title of chapter 1) because determining each worker's marginal revenue product (MRP) in a large multinational corporation "can't be done." Lind is correct that disentangling workers' contributions in large organizations is more complicated than basic economic models suggest, but that doesn't mean that workers' wages are arbitrarily determined. Workers who can generate MRPs greatly above their current pay have a strong motivation—a possible pay hike—to seek other employment. Likewise, one rarely if ever encounters a lawyer manning the French fry station at a fast-food joint or a high school dropout as CEO of a large corporation. Human capital, it seems, is reflected in wages.

Having dismissed human capital as the basis for earnings, Lind posits that wages are determined by labor's bargaining power. It's unfortunate that he sees human capital and bargaining as competing theories because they are not mutually exclusive. On one hand, workers with greater potential productivity may well have more bargaining power, but on the other hand there is some evidence that pay is partly determined by bargaining. Regardless, Lind's contention sets the stage for four chapters outlining ways in which workers' bargaining power has supposedly been destroyed since the early 1980s.

The first two of these chapters deal with domestic business practices. One discusses declining private sector unionization, with emphasis on employers' use of specialized law firms and consultants to avoid becoming unionized. (Presumably, unions also use specialized people to assist their organizing efforts, but Lind makes no mention of that.) The second chapter deals with employment practices such as non-compete clauses and treating workers as contractors rather than employees. Here, he recounts some interesting information about collusive "no poach" agreements among some tech firms and some fast-food companies. There's no doubt that firms sometimes use sharp-elbowed employment practices, but he offers no evidence to indicate the aggregate effect of such tactics is large.

The other two chapters focus on

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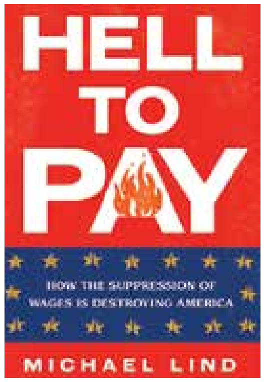
what Lind calls "global labor arbitrage": offshoring production (e.g., the "China shock") and hiring immigrant labor. He cites a 1988 General Accounting Office study reporting several instances in which illegal immigrants harmed employment for American workers, but this evidence is far from definitive or current; several more recent papers show no net harm to native workers arising from changes in immigrant flows. Nowrasteh and Powell (2020) provide a more thorough literature review of the relationship between immigration and wages, and conclude by quoting a National Academy of Sciences review:



Hell to Pay: How the Suppression of Wages Is Destroying America
By Michael Lind
224 pp.; Penguin Random House, 2023

> The impact of immigration on the wages of native-born workers overall is very small. To the extent that negative impacts occur, they are most likely to be found for prior immigrants or native-born workers who have not completed high school.

***Government interventions* /** Lind then turns to what he calls the "anti-worker welfare state." Here, I expected him to analyze how the phaseouts associated with means-tested assistance programs act as implicit taxes that trap workers in poverty. Instead, he focuses on people who are employed but have low enough incomes to remain eligible for some forms of welfare and cites figures that employees of Walmart and McDonald's draw benefits such as food stamps and Medicaid totaling more than $1 billion per year. This idea appears in several other places in the book, yet Lind never considers that his preferred policy of requiring firms to pay "living" wages might lead to higher government outlays via disemployment effects. It may well be better for taxpayers to have companies employ workers at low wages rather than to have taxpayers fully support people priced out of jobs because of wage mandates. It may also be better for workers because some of those who gain experience at low wages will get promoted or become more attractive to other potential employers.

Lind follows with a chapter on occupational licensing and the overselling of college. This is the book's best chapter, but it would have been even better if he had focused on licensing barriers confronting low-wage workers rather than dwelling on doctors and lawyers. As documented by Carpenter et al. (2017), licensing is widespread and burdensome for dozens of low-income occupations. As for colleges, Lind considers them to be a credentialing "arms race." He adds that the demand for college degrees is partly an artifact of the Supreme Court's 1971 *Griggs v. Duke Power* case prohibiting employment practices that are discriminatory in effect unless they are demonstrably related to job performance; college degrees apparently are a court-approved way to discriminate between candidates.

The remainder of the book's chapters fall into two groups. One group focuses on how low-wage employment exacerbates some prominent social problems. For instance, Lind connects low wages with the declining US fertility rate. It's certainly possible to see linkages between low-wage employment (or the choice to spend several years in college seeking credentials that lead to higher pay) and lower fertility, but he goes so far as to claim the United States is "uniquely bad" in paying low wages, yet fertility has fallen in most developed countries, some even more sharply than the United States. His attempts to tie wages to loneliness and political division are even less convincing. These chapters ignore other potential contributors to his selected social problems, such as how land use regulations damage housing affordability for young families and how anonymous social media forums coarsen public discourse.

***Conclusion* /** The final chapters focus on Lind's policy prescriptions. At this point, readers will have seen him use "neoliberal" as a pejorative dozens of times, and they will rightly not expect him to recommend more economic dynamism or better educational options. Instead, he hopes to achieve a "wage earner's republic" by requiring living wages throughout the economy: Large employers would be subject to sectoral collective bargaining while small firms would be subject to wage boards. Lind also would expand social insurance programs like Medicare and Social Security while eliminating means-tested benefits. (He disregards existing social insurance programs' financial woes.) He would also have a system of "national developmentalism" in which the government would engage in industrial policy and impose protective tariffs.

In sum, Lind misdiagnoses current economic conditions, provides weak connections between them and social problems such as low fertility and political division, and offers solutions that would do little to genuinely help workers who earn persistently low wages. His book argues many of the themes now trumpeted by the populist left and right, along with their flawed policy prescriptions. R

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IN REVIEW

An Incomplete History of 1920s Fed Lending

REVIEW BY VERN MCKINLEY

During the 2007–2009 Great Recession, Walter Bagehot's name crossed the lips of many Federal Reserve economists and commentators on the major financial networks. In his 1873 book *Lombard Street*, Bagehot had counseled that, in a financial crisis, "The holders of the cash reserve must be ready not only to keep it for their own liabilities, but to advance it most freely for the liabilities of others. They must lend to merchants, to minor bankers, to 'this man and that man,' whenever the security is good." Accordingly, the central bankers cited him to support their operating as "lender of last resort" (LOLR) to prop up unstable banking systems.

How did the Federal Reserve System take on this role for the US banking system? In his new book *The Young Fed*, Fed economist Mark Carlson looks back more than a century to the institution's 1913 enabling legislation, which would soon be tested by the US economy's roller coaster ride through the 1920s. He describes how the Fed's wielding of its LOLR powers in that turbulent time shaped the institution and influences its operations to this day.

Introduction / In the first four chapters, Carlson explains essential concepts, albeit the discussion is scattered and disjointed across the chapters. To support weakened institutions during a crisis or panic, the Fed provides them liquidity (i.e., money, lent at high interest and secured by collateral) so the banks can continue operating and ease public fears. This typically is done through the "discount window," a source of short-term lending. The trigger for emergency lending is an articulated concern by the Fed that a systemic event is imminent and that, without Fed lending, there would be severe economic consequences for the financial system. However, if the institution has more than short-term liquidity problems—that is, if there are idiosyncratic problems—those can be addressed by shuttering the institution or through other means such as restructuring.

The 1920s / Carlson sets the scene for the reader as to the state of the economy and the banking system for this most volatile of decades. The 1920s opened with an economic shock to US rural areas. As he explains, World War I

> severely disrupted European agricultural production, and prices of agricultural commodities soared globally. US farmers bought more land, planted more crops, and raised more livestock amid expectations that the boom would last for some time or that prices might continue to rise.

As tends to happen with booms, there was a subsequent bust:

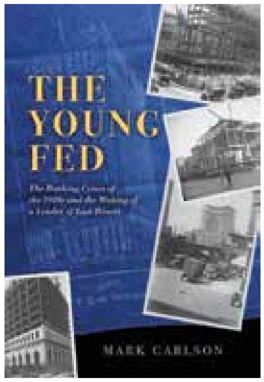
> A significant portion of the expansion of farm activities was financed through borrowing. When European agriculture recovered far more quickly after the war than expected, prices of agricultural commodities collapsed and farmers struggled to repay debts.

Carlson then outlines the Fed's policy response, which led to a historical event that financial journalist James Grant calls the "Forgotten Depression." According to Carlson, "To combat an inflationary surge after World War I, the Federal Reserve tightened policy notably and likely contributed to the severity of the recession in 1920 and 1921."

The book deals mainly with the experiences of the Federal Reserve Banks of Atlanta, Chicago, Dallas, Kansas City, Minneapolis, and San Francisco.

Case studies / The core of *The Young Fed* is chapter 5, by far the longest chapter in the book. It presents 14 case studies on lending (three city-level cases, for Boise, ID, Tampa, FL, and Havana, Cuba, and 11 individual bank-level cases). It is the most interesting of the chapters, assuming the reader has some curiosity about 100-year-old tales of banks approaching failure.

Most of the banks that were the subject of the case studies focused their lending on customers that previously flourished: citrus growers, cotton farmers, sugar producers, and cattle ranchers, among others. The case studies follow a standard template: Carlson introduces the bank, provides information on its assets and deposit size, the relevant geographic area (often a region experiencing an investment bust), and the bank's regional interconnections with other banks. He then discusses the particular weakness of the bank that led to its problems, including a summary of the capability or incapability of the management team and its financial standing in terms of capital and liquidity; the extent of any deposit drain through runs on the institution that may have been triggered as part of the instability; the size of any Fed funding that may have been provided, including visual descriptions of piles of physical currency; if any losses were ultimately absorbed by



The Young Fed: The Banking Crises of the 1920s and the Making of a Lender of Last Resort
By Mark Carlson
240 pp.; University of Chicago Press, 2025

the Fed; and speculation on whether the failure of the bank might lead to contagion.

It should be noted that most of these case-study banks were microscopic, even if their size is converted to equivalent 2025 dollars. Some of the banks ultimately failed even after receiving funding from the Fed. There were other cases where the Fed provided funding, replacing departing creditors that ran on the bank. Carlson often mentions the Fed's motive in preventing a "disorderly" collapse, especially concerning interconnected institutions and regional panics. However, he never explains precisely what he means by "disorderly" or to what lengths the Fed should go to in pursuit of this goal. According to Carlson, some of the cases were deemed a success, but there is not much in the way of benchmarks for this conclusion. For example, a bank may have stayed open, but at what cost? On multiple occasions, he also gives the Federal Reserve credit for its "creativity" in structuring these resolutions. Carlson also speculates that there is evidence the actions of the Federal Reserve worked to "head off contagion…, preventing more widespread panics," but no specific cases are cited to support this claim.

Where art thou, FRBNY? / Those who have followed the booms and busts of recent decades know that during the recent global financial crisis, when investment bank Bear Stearns faltered in 2008, the Federal Reserve Bank of New York (FRBNY) rode to the rescue. As for commercial banks, the FRBNY supervised Citigroup, a major megabank that stumbled during the crisis, and the Federal Reserve System provided the institution with over $300 billion through Fed lending and other support programs. The question is whether the 1920s were dramatically different. Either there was no lending by the FRBNY during the 1920s, or the data are simply not available. Throughout the book, a detailed discussion (with relevant data) of the individual borrowers and lending operations of the FRBNY during the 1920s is notably absent. The Fed prides itself on being data-dependent and the FRBNY has always had a primary role in overseeing and supporting the US financial system. Thus, I believe a Fed economist such as the author should have done the work necessary to present any available FRBNY lending data and explain the circumstances around that lending or at least explain why there was a dearth of data in the case of the FRBNY.

Did the FRBNY act as a LOLR in the 1920s? Absolutely. A table in *The Young Fed* reveals that, in November 1920, the FRBNY had nearly $1 billion in loans outstanding to a sub-sample of 88 banks, but the book offers no individual bank data or case studies of that lending. In my book with James Freeman on Citigroup, we detailed how the FRBNY had loans of $144 million (about $3 billion today) outstanding to the current bank's predecessor in early 1921. There is no detail on these significant loans in *Young Fed*. Citi was a megabank even back then and would have been systemic. This was at a time when that bank was, in the words of an internally commissioned history of the bank, "tottering" on the edge of failure.

A comment from Carlson regarding the uneven availability of data throughout the Reserve Banks is telling:

> Certain Reserve Banks within the Federal Reserve System had more experience with emergency lending, and discussions of financial instability issues feature more frequently in the writings and correspondence of the officials at these institutions. There is much less information about how officials at other Reserve Banks thought about emergency lending.… Reflecting the locations of the stresses in the banking system and the availability of relevant information, this book deals mainly with the experiences of the Federal Reserve Banks of Atlanta, Chicago, Dallas, Kansas City, Minneapolis, and San Francisco.

There are available documents on emergency lending by the FRBNY in the Citi case and others during the 1920s. I believe Carlson should have provided more of the available details and explanations on these Reserve Banks, particularly in the case of the FRBNY given its importance in the financial system.

Conclusion / The final two chapters of *The Young Fed* look at more recent examples of the LOLR authority, including the "intervention to support Continental Illinois of Chicago in 1984." Carlson discusses Fed lending to Continental, the outsized role of the Federal Deposit Insurance Corporation in this resolution, and the need to avoid a failure in a "disorderly manner." In the last chapter, Carlson draws some final, abbreviated conclusions about this crisis management tool of the Fed.

The Young Fed provides the reader with a modestly interesting historical perspective with its contemporary case studies for small and medium-sized banks threatened with illiquidity and/or insolvency during the financial instability of the 1920s. Unfortunately, the author rarely second guesses the Fed's actions. Given the noted gaps in the data on lending to larger New York–based institutions, I believe the lessons that can be drawn from the book are rather limited given the small size (not systemic) and agricultural focus of the featured institutions. The book does not state outright in the affirmative that the Fed should try to stop every potential failure, but in nearly every case study in *The Young*

Fed the Reserve Banks manage to find a justification to do so, even if it may not have been the prudent choice.

The FDIC has been relatively effective in quickly shuttering modest-sized banks such as those detailed in the case studies, particularly as the agency has had a lot of practice since the 1980s. As a result, the failure of many small to medium-sized banks today would be resolved without the angst that accompanied the failures of the 1920s and would not have cumulatively caused a systemic event. Now, if only the federal banking authorities would also have the courage to shutter large banks and megabanks without reliance on accompanying bailouts, such as in the case of Citigroup in 2008 and Silicon Valley Bank in 2023. *R*

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Chronicling Human Progress

REVIEW BY THOMAS GRENNES

In *How Economics Explains the World*, Andrew Leigh explores the profound effects of economic forces on human history, from early hunting and gathering to modern issues such as climate change. Leigh is a member of the Australian Parliament and (beginning last May) assistant minister for productivity, competition, charities, and treasury. Previously, he was a professor of economics at the Australian National University.

This engaging and concise book covers important economic issues over an extensive period of human history. It discusses the development of capitalism, the evolution of economic thought, and the influence of economic forces on historical events. Its intended audience is people with an interest in economic issues who have little or no formal background in economics. The book makes complex economic concepts accessible to a large audience.

Out of Africa / The earliest humans were hunter-gatherers in southern Africa. They evolved from primates, as Africa was a favorable location for evolution. However, since their early evolution about 300,000 years ago, humans have prospered more in regions distant from Africa. Indeed, in 2025 Africa remains the poorest continent in terms of gross domestic product per capita.

Human innovations allowed mobility that reduced the importance of early locations. As humans migrated, they found it advantageous to take plants and animals with them to their new locations. The author emphasizes the importance of migration throughout history, and it continues to be important—and controversial—today.

The development of language was crucial to human progress. Language permitted the development of collective (shared) knowledge that exceeded the capacity of any single person. Accumulated knowledge led to the development of stone tools, including the plow, that contributed to the development of agriculture that replaced hunting and gathering.

Despite the resulting increases in agricultural productivity, early human life was difficult. In the words of Thomas Hobbes, early human life was "solitary, poor, nasty, brutish, and short." In this archaic era, some 40 percent of babies died in their first year, and life expectancy was 33 years. But change was coming.

Agriculture allowed people to specialize in producing what they did best and acquire other goods from people with different relative productivities. More perceptive people learned that specialization and trade benefited both parties, even if one party was more productive at both activities. Both parties would gain if each specialized in making the product it did relatively (not absolutely) better. This idea was later called comparative advantage. Specialization led to the development of towns, organized markets, and trade.

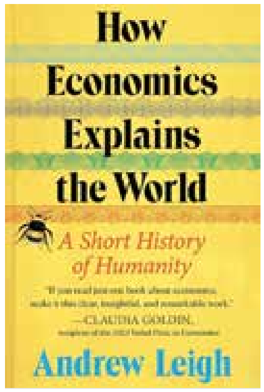
Conditions in the Fertile Crescent of the Middle East were favorable to the growth of the early founder crops (wheat, barley, peas, chickpeas, lentils, flax, and vetch). The wheel first appeared in Mesopotamia as a potter's wheel, and later it was used to propel carts. It was a major improvement for land-based transportation and had many subsequent applications. Human innovations ultimately made other geographical locations more valuable and reduced the early importance of the Fertile Crescent.

Water / Water was crucial for early transportation. Leigh reminds readers that because two-thirds of the planet is covered in water, it may have been more appropriate to name it "Water" rather than "Earth." Rivers and oceans were more important to commerce than roads. Even after the invention of the wheel, roads were so poor that water transport dominated land transport.

Early water transport was the least-cost mode for many trades, and human innovations improved it with the building of canals and deepwater ports. The Grand Canal in China (built around 600 CE) connected the Yellow and Yangtze rivers. Improved water transportation contributed to the development of cities and the migration of people, goods, and new ideas. Unfortunately, it also aided in the spread of diseases, such as the

Plague, and war between distant people.

Cities such as Lisbon, Athens, and Alexandria prospered early. Traders took maize and sweet potatoes to China in the 1500s. Inventions such as reading glasses and the printing press spread more quickly by long-distance trade.



How Economics Explains the World: A Short History of Humanity

By Andrew Leigh

224 pp.; Harper, 2024

Despite progress, life remained difficult in the Middle Ages. Childbirth resulted in the deaths of one-third of babies and mothers. Illness was common, and the Black Death was an extreme example. It was carried from Central Asia to Europe in 1347 by Genoese traders sailing from the Black Sea. It killed a third of the European population, more than in most brutal wars. It killed half the population of the city of Cairo. Over the 14th century, the world population dropped from 430 million to 350 million. The Black Death also destroyed feudalism, which was based on the power of landowners over many peasant workers.

By 1400, Europe became the most affluent region in the world. It contained many domesticated plants and animals, and geography allowed Europeans to range over a large east–west territory, while remaining in the same north–south climate band. Later, travel with the Americas, called the Columbian Exchange, brought useful plants and animals from distant continents.

Age of sail / Improvements in technology allowed wind power to substitute sails for oars. Better compasses, maps, and understanding of wind patterns made sailing more productive. Advances in sails made it possible to tack into the wind. Invention of the sea astrolabe allowed sailors to determine their latitude, and it was used by Christopher Columbus and Amerigo Vespucci during the Age of Discovery. The development of shipping insurance spread the risk of specific voyages.

Following the trips of Columbus (1492) and Vasco de Gama (1498), Magellan's crew (1519) circumnavigated the world. Evidence from these trips was followed by the important discovery by Copernicus in 1543 that the Earth revolves around the Sun, which centers the solar system.

In Germany, the invention of moveable type and the printing press around the year 1440 would ultimately lead to the Industrial Revolution. More books were produced in the next 50 years than in the previous 1,000. Leigh informs us that Martin Luther and the Protestant Reformation influenced the spread of reading by encouraging Christians to read the Bible for themselves. The Reformation boosted literacy and economic levels in Protestant Germany. In Germany today, 500 years after Luther, Protestant areas have higher incomes than Catholic areas.

Development of laws to protect property rights were important to the development of capitalism. Property rights were extended from physical property to intellectual property with the introduction of patent laws in Venice in 1474. It rewarded the creation of useful new ideas with a temporary monopoly over their use.

Industrial Revolution / Before publication of Adam Smith's *Wealth of Nations*, economic growth was relatively rare. Japan's average income in 1700 was about equal to its average income back in 1,000. This lack of sustained economic growth changed with the Industrial Revolution. Life expectancy at birth doubled. Average real income increased 14-fold.

The Industrial Revolution began with a series of interlocking revolutions: agricultural, urban, and commercial. New ideas were rapidly shared and improved. The British economist Alfred Marshall described this process as a technological revolution.

Examples of innovations in the 1880s included: coal power, steam engines, factories, modern shipping, trains, and electric motors. These advances ultimately fueled the substantial productivity gains of the 1920s. A similar productivity improvement after a lag occurred later for computers.

The pursuit of self-interest is a key component of capitalism. Adam Smith stressed the importance of restraining self-interest with institutions such as competition, both domestic and foreign (trade). Other institutions vital to the Industrial Revolution included capital markets that allowed firms to raise current funds in expectation of future revenue. Insurance allowed firms and individuals to hedge against risk. Law courts were necessary to resolve disputes. Insurance was a formal way to share risk. Private property rights for both physical and intellectual property were important. Introduction of the corporate form made it easier for firms to borrow by limiting the liability of individual shareholders.

Successful innovations in production lowered costs, but they always hurt someone associated with the displaced technology. Many innovations were strongly resisted by harmed parties, who even used violence in extreme cases. A prominent example is the Luddites, who destroyed textile machinery that threatened their jobs. Support for tariffs and other barriers to international trade has been a common response to successful innovations from abroad. Although tariffs have a negative net economic effect on a country, special-interest minorities sometimes acquire political power that allows them to dominate majorities who would benefit from the innovation. In Frédéric Bastiat's satirical "Petition of the Candlemakers," threatened workers requested that windows be covered to

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prevent free sunlight from destroying their jobs.

The British Corn Laws, which tariffed and placed restrictions on imported grains, were favored by the few (landholders) over the many (most everyone else). When the Corn Laws were abolished in 1846, the richest 10 percent of Britons lost, but the poorest 90 percent gained.

Migration / Migration of people, as well as plants, animals, and ideas, has been a major source of economic growth. However, international migration has often been opposed by domestic workers who fear losing their jobs. We see this, of course, today when the foreign-born population (legal plus illegal) is 15.8 percent of the population, which is higher than the earlier peaks in 1890 and 1910.

In addition to geographical mobility, occupational mobility has been a major source of economic growth that has also been opposed by workers who attempt to protect their jobs and earnings by limiting entry to their occupations. Labor unions, licensing requirements, and other limits to skill acquisition have been used to block entry into occupations.

Data since 1776 show that market economies with competition have been more prosperous than controlled economies. Leigh claims that democracies are richer and spend more on health and education than controlled economies. He also claims that democratic institutions limit wars relative to autocracies. Never in history have two fully democratic countries gone to war against each other. Wars are negative sum activities.

The Industrial Revolution brought major economic gains, but it also brought industrial-scale warfare that included the use of mass-produced weapons, railroads, steamships, and the telegraph. More than 600,000 combatants lost their lives in the American Civil War.

Inherited status / Early class systems based people's status on their parents. Most modern capitalistic systems that disapprove of inherited status result in increased social mobility. Today the highest levels of social mobility occur in Scandinavia and the lowest in Africa. In certain countries and time periods, race has determined social status.

The British Corn Laws were abolished in 1846 to the benefit of most people. About the same time, Japan abolished its rigid caste system that restricted participation in the economy and opened its economy to the world. In 1855 the UK established the Limited Liability Act that established the corporate form of business. In the United States, the Sherman Antitrust Act limited the market power of firms.

Modern economy / Alfred Marshall's *Principles of Economics* (1890) described the interaction between supply and demand and showed the interaction between price and quantity. The Federal Reserve was created in 1913 to deal with banking crises. Occasional crises had occurred because commercial banks offered short-term (liquid) deposits, but they made long-term (illiquid) loans, leaving them vulnerable to bank runs. Deposit insurance was introduced, reassuring depositors.

In the 20th century, central banks took on the additional responsibility of stabilizing national economies. Some modern central banks have been more successful at this than others. Some with less independence from the central government, such as Germany and Argentina, have produced hyperinflation because of their monetary stimulus.

Other innovations during the period included department stores promising that the customer is always right. Some stores, such as Woolworths, that stressed lower prices were called "five-and-dime" stores.

Other developments weren't as benign. Cigarettes became common, and heroin was used as a cough suppressant. Cocaine was an ingredient of Coca-Cola (which was created as a pain tonic) until the early 1900s. One expert claimed that in 1913 nearly one-quarter of US doctors were addicted to morphine.

Mass migration to the United States before World War I was partly a response to lower transport costs as a result of new ships powered by coal. The time necessary to travel from Liverpool to New York declined from 53 days in 1850 to eight days in 1910.

Growth of globalization ended with World War I in 1914, and immigration barriers were imposed in the United States in 1924. In general, globalization has been slowed by wars, natural disasters, and bouts of protectionism.

Great Depression / In the Roaring '20s, Yale economist Irving Fisher claimed that stock prices had reached a "permanently higher plateau." Not long after came the stock market crash of 1929 and the Great Depression. The crash was followed by the Smoot–Hawley tariff legislation that was signed by President Herbert Hoover against opposing signatures of 1,000 economists. The tariffs served to worsen the Depression.

The Great Depression was a huge shock to the United States and world economies. In 1932, the election of Franklin Roosevelt led to the New Deal. It included many new spending programs, such as Social Security. The ideas of British economist John Maynard Keynes influenced many of those spending policies.

Globalization / The economic shock of World War II disturbed globalization, and post-war institutions such as the International Monetary Fund, World Bank, General Agreement on Tariffs and Trade, and World Trade Organization (WTO) were part of an attempt to restore globalization.

The Glorious 30 Years (1949–1978) included major technical change that affected the labor force participation of women. This included electric stoves, vacuum cleaners, running water, refrigerators, and supermarkets, which simplified household work. By providing greater control over when to have children, oral contraceptives and other advances in birth control contributed to the fall in the fertility rate to below the replacement rate of 2.1 in the United States. Large declines in fertility occurred in all the high-income countries of the world. Interestingly, in countries like China, public policy quickly reversed itself from discouraging childbirth to subsidizing it.

Globalization dominated the period, but not all innovations during this period were successful. China's Great Leap Forward (1958–1962) under Mao Zedong brought a disastrous famine that resulted in the deaths of 15–45 million people, according to various estimates. Other failed reforms occurred in Cuba, North Korea, and Argentina.

Markets everywhere / Both the Reagan government in the United States and the Thatcher government in the United Kingdom carried out globalization and free market domestic policies. Free market economist Milton Friedman was an adviser to both governments. Unfortunately, we have seen a backsliding in this economic liberalism over the last decade, especially in the United States.

In the East, the Asian Tigers—Hong Kong, Singapore, Taiwan, and South Korea—reformed their economies and grew rapidly, in contrast to neighboring China. In 1978, China under Deng Xiaoping turned toward a market economy and globalization. A Chinese reformer observed that when everything was owned collectively under the old system, people's philosophy was: "Work hard, don't work hard—everyone gets the same. So, people don't want to work." That changed as China liberalized its economy.

In 1994, the WTO was created, and financial power shifted to Asia. China made major economic reforms that allowed domestic production to respond to world demand. It received Most Favored Nation status, reducing other nations' trade barriers against it, and it joined the WTO in 2001.

Under Deng, China experienced a successful transition from a planned economy to "market-based socialism." Starting in 2013, it experienced several years of 9 percent economic growth. China rose from being one of the poorest countries in the world to a GDP per capita above the world average in 2024. It also became the world's largest exporter. But Deng died in 1997, and the country took a step back after Xi Jinping took over in 2012, with the economy evolving into a kind of state capitalism.

Inequality / World population grew from 1 billion in 1800 to 8 billion today. In 1800, no country had a life expectancy over 40 years, but today every nation has at least a 40-year life expectancy. The distribution of income has changed both across countries and within countries. Asia was once the poorest continent, but rapid Asian economic growth has moved it ahead Africa.

Unfortunately, we have seen a backsliding in this economic liberalism over the last decade, especially in the United States.

Most countries have experienced an increase in economic inequality, and Russia is an extreme case. Leigh claims that "Putin's Russia is probably more unequal today than the nation ruled by Tsar Nicholas I. Since the end of communism in 1989, 99% of Russian growth has gone to the top tenth of income earners." Russia's current economy has been described as "crony capitalism." It severely limits competition, and it invites bribery and corruption.

Climate change / Leigh acknowledges major natural climate changes over human and geological history, including multiple ice ages. However, he cites evidence that recent global warming is overwhelmingly attributable to human activity. Recent global warming has increased much faster than the warmings that followed the ice ages. Greenhouse gas emissions are a serious externality that represents a major failure of humans to cooperate. It is sometimes described as a "market failure," but businesses cannot control global emissions by themselves. That would require cooperation by governments of the major polluters, such as China and the United States. There are treaties in place to address the issue, but so far there has been no significant lowering of global emissions. This unfortunate result could be described as "government failure."

Leigh presents an informative section on recent developments in the economic role of women, stressing the work of Nobel economics laureate Claudia Goldin. The gender pay gap has narrowed over time as women have acquired more education. There continues to be a motherhood penalty that is greater in occupations in which it is most difficult to combine career and family. Greater opportunities for women have contributed to declines in birth rates in the United States and all high-income countries. Leigh points out that household work is not included in GDP, with the anomalous result that if a woman hired to do household work marries her employer, measured GDP goes down.

Conclusion / Leigh's three goals for the book are to tell how capitalism and the market system developed, discuss ideas and people who shaped the discipline of economics, and outline how economic forces have shaped the world. He does an admirable job of achieving all three goals.

He emphasizes the major improvements in life over time, starting with large increases in life expectancy. Quality of life has also increased as innovations such as modern plumbing, refrigeration, washing machines and dryers, and air conditioning quickly went from being luxuries to standard in many countries.

Market economies in which voluntary trade dominates coercion and central planning are shown to produce greater prosperity. However, protectionism—whose policies allow special-interest minorities to dominate majorities—sometimes win elections. Some old ideas such as the mercantilist claim that trade deficits are harmful die hard. Modern Luddites continue to resist technological change to protect their jobs. Economic progress is also interrupted by wars and natural disasters.

Leigh covered a huge amount of historical ground, and he did it well. Interested readers can learn a great deal from this book's relatively few pages. *R*

Working Papers BY PETER VAN DOREN

A SUMMARY OF RECENT PAPERS THAT MAY BE OF INTEREST TO *REGULATION*'S READERS.

Debt Contracts

■ **Choi, Stephen J., et al., 2025, "Swiss Cheese Contracts: The Costs of Creative Lawyering," SSRN Working Paper no. 5391281, September.**

What do lawyers do? In theory they facilitate trade and reduce transaction costs. But anecdotal evidence in the market for syndicated loans—loans from a group of lenders to a single firm—suggests the opposite: Lawyers search contracts for loopholes to extract value from their counterparts. Hence, these lawyers act as rent extractors rather than transaction-costs reducers.

Economic theory would suggest that creditor-on-creditor violence would lead to a change in the terms in standard-form contracts to plug the loopholes. But that has not happened. The standard loan agreements remain "Swiss Cheese Contracts." Teams of specialist lawyers at the nation's top law firms compete with one another to devise creative ways to exploit the many loopholes in these highly complex loan documents.

The authors' explanation for this equilibrium is a breakdown of norms in the legal world with no consequences: an arms race of exploitive behavior. They write:

> In many markets, contracts are not optimally designed instruments. Instead, they are historical artifacts, where, to understand them, we must not only know the history of how the contract has evolved, but the legal culture as well.

Financial Crises

■ **Gorton, Gary B., and Jeffery Y. Zhang, 2025, "Why Financial Crises Recur," SSRN Working Paper no. 5317971, July.**

My first Working Papers column was in the Summer 2010 issue of *Regulation*. It reviewed the work of Yale economist Gary Gorton to help understand the financial crisis of 2008–2009. Fifteen years later, Gorton believes policymakers continue to misunderstand financial crises.

The GENIUS Act of 2025 requires that crypto stablecoins—crypto assets designed to have a stable value—be backed by cash or short-term treasuries. They are not covered by federal deposit insurance. But a portfolio of treasuries is subject to interest rate risk. Gorton and Zhang thus ask:

> Suppose each stablecoin issuer holds only Treasuries in its portfolio. Now play out the shock that hit Silicon Valley Bank in 2023. If interest rates rise, then the value of the Treasuries—the assets meant to back the stablecoin's peg—will fall.
>
> If this happens to all stablecoin issuers, then they will seek to buy new Treasuries that are of higher value. As bond prices fall, issuers will need to buy more Treasuries. When interest rates are sufficiently high and the value of Treasuries are sufficiently low, holders of stablecoins will have to decide if their issuer has the cash to buy more Treasuries. At that point, holders of stablecoins might ask questions about what is in the rest of their issuer's portfolio and if the issuer is able to hedge any risk. Once the "No Questions Asked" condition is violated, holders of stablecoins will begin to run.

Thus, instead of reducing financial risk, the GENIUS Act could contribute to it.

Business Dynamism

■ **Mayo, John W., 2024, "The Report of My Death Was an Exaggeration: Business Dynamism in the United States," SSRN Working Paper no. 4950375, November.**

Has there been an economically meaningful secular decline in the propensity to expand establishments and start new firms? The Business Establishment Entry Rate calculated by the US Census Bureau shows a declining trend since the 1970s.

But be careful when making inferences from ratios. For the entry rate ratio, the number of new establishments is divided by the total number of establishments. The numerator has been relatively stable over time because the number of new businesses each year in the United States has been fairly constant, but the denominator has been increasing because the total number of businesses has been growing. In other words, the lower rate of new establishments has been driven not by reduced entry, but by a growing base of establishments in the United States, which has largely been the result of the success (increased survival) of businesses over time. So, stories of declining US business dynamism are unsupported by these data.

Corporate Share Repurchase Tax

■ **Autore, Don M., 2025, "Corporate Share Repurchases and the 2023 Excise Tax," SSRN Working Paper no. 4870874, August.**

The Inflation Reduction Act of 2022 (IRA) enacted a 1 percent excise tax on the repurchase of shares by corporations. The rationale was to induce firms to invest more of their cash rather than distribute it to shareholders through buybacks.

In response to the tax, repurchases declined by 20 percent, from around $1 trillion in 2022 to just over $800 billion in 2023. Some of this money still went to shareholders: The authors find a modest increase in dividends, roughly one-quarter as large as the reduction in buyback spending, which means a substantial overall decline in shareholder payout. However, the IRA didn't induce the wave of business investment that lawmakers envisioned: The authors find that the remainder was instead retained as cash.

Policy toward Small Business

■ **Feinstein, Brian D., 2025, "Small Business Favoritism," SSRN Working Paper no. 5375532, August.**

This article compiles a comprehensive list of small business exemptions from laws and regulations; more than 1,300 statutory provisions confer legal advantages on small firms.

In rank order, 415 provisions provide training, counseling, and technical assistance, 300 provide loans or grants, 263 establish special government contracting provisions, 138 are regulatory exemptions, 92 provide support for research and development, 67 assist international trade, and 36 reduce taxes.

The rationale for these exemptions is economies of scale in complying with government rules: Large firms are much better positioned to comply. The author argues that small business exemptions should be replaced with much less regulation and no exemptions, thereby mirroring economists' recommendations about taxes: Broaden the base and lower the rate. *R*

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