

The Undercover Economist: Exposing Why the Rich Are Rich, the Poor Are Poor—and Why You Can Never Buy a Decent Used Car!

Tim Harford

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The subtitle of this engaging and sometimes maddening book is “Exploring why the rich are rich, the poor are poor—and why you can never buy a decent used car.” Harford, who writes for the World Bank and the *Financial Times* of London, seems to want to explain to noneconomists some of the interesting theoretical conclusions that economists use to explain observed behavior and wealth patterns. The book’s subtitle no doubt was created to lure such readers, regardless of whether they have reliable used cars or not, to investigate Harford’s analyses. What readers will find within these pages is an entertaining stroll through some of standard economic theory’s more interesting, and controversial, generalities. Harford is completely mainstream, always entertaining, but sometimes unhappily superficial.

Chapter 1 begins with an interesting discussion of coffee shop location and urban rent that applies David Ricardo’s well-established theory of rent in interesting ways that readers are likely to find informative. Harford’s discussion of the Green Belt’s relation to London rents is reminiscent of Bernard Siegan’s analysis of the effects of environmental protections on land rents in California during the 1970s. Artificially imposed scarcity changes rent at the margin by altering existing scarcity parameters. From this insight, it is easy for an economist to search for such restrictions everywhere and, when found, to isolate the winners and losers. Better public understanding of the distributional effects created by imposing artificial scarcity, in whatever form, might well dampen voter enthusiasm for such policies in the future. By explaining the generally overlooked wealth redistribution effects of such policies to his readers, Harford performs a valuable service.

Chapter 2 discusses marketing in modern supermarkets and begins with a discussion of how businesses try to segment their customers to increase overall revenues through price discrimination. Supermarkets are prime examples since they sell a variety of labels and quality and are always seeking ways to get price-insensitive customers to pay more through self-identification. One way is to offer so-called organic brands that tout their environmentally friendly production process. “Free range”

meats are also popular as self-identifiers, being the supermarket equivalent of “fair trade coffee” at Starbucks. Harford finds these tactics examples of price gouging and, after digesting his analysis, readers might well be inclined to agree with him. Harford sees price discrimination as both good and bad depending on the context, and cites several interesting examples that lead him to this conclusion.

Chapter 3 introduces readers to perfectly competitive markets or, as Harford calls them, the “world of truth,” since money prices in perfectly competitive markets tell the precise truth about the opportunity costs of all choices. All this is true as far as it goes, but the chapter ventures into some unsettling avenues when Harford begins discussing “fairness issues.” Implicit in his analysis (“... can any situation that leads to highly unequal distribution of cash be considered fair?” p. 75) is the assumption that egalitarianism applied to wealth is correct and that, somehow, economists or others with a social engineering bent can use policy—lump sum taxes, for example—to adjust the “game” of perfect competition so that it still generates efficient outcomes while maintaining equality of initial starting positions. Harford advocates, in theory, a tax on people like Tiger Woods—say a “few million”—and declares it fair and efficient because he has unfair talent to make money relative to all the less gifted among us, and the tax cannot be avoided so will not deprive Tiger of his manner of earning money. (This tax, if enacted, would have to be a great deal more than a few million at this point because Woods is on track to become the world’s first billionaire tour professional, and quite soon.)

But such a scheme is impractical, so Harford tweaks things a bit by advocating subsidies (cash) rather than tweaking tax rates or offering in-kind welfare. He uses the example of elderly pensioners in Britain where, he asserts, 25,000 seniors die each year from exposure to cold. If this is true, it is an appalling statistic. What to do? Just give them money. All the real world complications of bureaucracy, entitlement legislation and means testing are nowhere to be found in his analysis. He finishes this chapter by appealing to perfect competition as a moral norm while decrying deviations from it as “market failure.” In my regulation classes, students are often dismissive of my contention that some people actually view the perfectly competitive model as an ethical norm and argue that government should “correct” for any deviations from it, even though it is a pure abstraction that has never—and can never—exist in the actual world. I offer my skeptical students this chapter (and the antitrust division in America’s Department of Justice) as proof of my claim.

Unfortunately, things get worse in the following chapter, where Harford addresses the issue of market externalities which, like all good Pigouvians, he finds everywhere, cementing his vision of endless government tweaking of real markets to “correct” them. He is especially utopian in his discussion of traffic congestion and its alleged effects, including a strong faith in current climate change/global warming arguments. He writes as if it were an established fact that humans are causing climate

change and warming, never even for a moment addressing the reality that there are serious questions that can be posed regarding this hypothesis.

But leave all that aside, and readers still will be treated to an endless litany of the horrors of modern transportation systems and their purported devastating effects on human welfare—“each driver who gets into his car is creating misery for other people” (p. 81). What follows is a long argument in favor of marginal cost pricing for auto use. Harford assumes that the move to the technology for doing this, the vast bureaucratic apparatus necessary for calculation and billing, the invasions of privacy that would be an inevitable spillover for using this technology . . . all that is more than justified by an appeal to fully internalized costs of auto use. The large benefits of auto transportation are never discussed, only the alleged horrible social costs. It’s almost as if Al Gore wrote this analysis, right down to the claim that it is “unfair” that the rich can buy more food than the poor.

It is perhaps best left to readers to decide for themselves how convincing they find this chapter, which ends with an ineffective discussion of GDP and growth that claims GDP is the “total cost of producing everything in the economy in one year” (p. 108). It is not a major point, but as in a previous chapter where Harford uses monopoly when he means monopsony, these minor definitional deviations from correct terminology are annoying even though economists will know what he means. It is the peculiar claims he sometimes makes, for example, that every weapons purchase ought to be counted a negative GDP transaction rather than a positive one, that undercut his overall thesis.

Before it gets better—and it does—there is Chapter 5 on markets and medical care. Space does not permit a detailed discussion of all the questionable claims made in this chapter about the virtues of single payer, taxpayer-funded health systems versus the alternatives. Harford writes about America’s healthcare system as if it were somehow a pure market failure situation without once acknowledging that the admittedly overly complex, “patchy” coverage system is primarily a creation of vast governmental regulatory intrusions both today and in the past, at every level of government. Just because people do not have health insurance does not mean they do not receive medical care.

Harford’s proposed solution to these problems—whether the result of prior public policy or not—is fine: medical savings accounts coupled with catastrophic health insurance coverage enabling consumers to decide how much they want to spend on routine medicine and pay for it out of their MSAs, retaining a property right in all monies not spent, and applying the surplus to things such as retirement. As an alternative, it probably would be superior to what we now have, but achieving this reform in the face of the powerful political and private interests that will oppose it makes Harford’s solution nice to contemplate but very unlikely—despite the model of Singapore—to be enacted.

Chapters 6 and 7 include descriptive discussions of the stock market and stock valuations and various aspects of game theory, especially the

design and implementation of auctions. Both are interesting even if a bit difficult for readers without a background in economics. Chapter 8 is a trenchant discussion of why poor nations are poor, using Cameroon as an exemplar. It is here that the book gets back on track. Harford rejects all the fashionable explanations for poverty in the third world and shows that corrupt governments are the general cause of all such ongoing economic basket cases. It is a devastating critique of “expert aid agencies” planning infrastructure changes and other useless things in chronically poor nations. As Harford states, “This Nepalese example is yet another demonstration that if a society cannot provide the right kind of incentives to behave productively, no amount of technical infrastructure can save it from poverty” (p. 196).

The following chapter is a nice complement, as Harford makes a strong case in favor of globalization, especially as it helps poorer nations. The author deserves credit for eschewing the simplistic, politically correct policies that many advocate, and others support with their purchasing patterns, as not only ineffective ways to help but also as positively bad things for the very people affected. Such rhetoric and purchasing decisions might make people feel better about themselves, as with the book’s opening discussion of “fair trade” coffee, but they do not help the poor. Globalization does.

As if to further prove his arguments in favor of globalization, Harford ends his book with a chapter on the rise of modern China, showing what went wrong for so long, why it did, and why things have started to right themselves. In this chapter, he claims that China is lifting one million people a month out of poverty, even as Cameroon and other nations like it slip further behind as their poverty populations expand. China has moved from communist to state-capitalist and will, of course, evolve further but the final result remains uncertain. Its recent evolution has, however, enriched not only its own people but also the overall world economy as well. One hopes that China’s transition from totalitarianism to economic freedom will someday be joined by a similar transition to political freedom.

Overall, despite its flaws, Harford’s book can be recommended to any reader interested in generally interesting discussions of many current economic problems. I still don’t understand what’s “undercover” about this book but then, considering its subtitle, I presently own a used car every bit as reliable as any new car I have ever owned.

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