

Can Someone Make a Rational Decision?

Reviewed by *Ike Brannon*

CAN I KEEP MY JERSEY? 11 Teams, 5 Countries, and 4 Years in My Life as a Basketball Vagabond

By Paul Shirley

336 pages; Villard, 2007

Paul Shirley is the rare professional athlete for whom a fan can feel a modicum of empathy. An average high school athlete but a stellar student who won a National Merit Scholarship and majored in mechanical engineering at Iowa State University, he became an exceptional college player by dint of hard work and a 6'10" frame. His team's NCAA tournament success in his senior year (propelled by his All-American teammate Marcus Fizer) highlighted his ability and garnered Shirley some attention from NBA teams. Over the last six seasons, he has kicked around on the fringes of the NBA and the European leagues, earning a decent living while staying well below the level of stardom.

A few years ago, Shirley began writing about his adventures and career frustrations on web logs for the Phoenix Suns and ESPN. His posts are quite different from the ponderous, stultifying blogs published by many star athletes, and the book is an outgrowth of his blogs. Shirley has above-average powers of observation, a keen ability to write, and maintains an awe about being in the NBA that most of us would have if we were magically placed in his sneakers. As a result, Shirley has crafted a page-turner.

The book has two different narratives: what life is like in the NBA (and it can be as grand and as glorious as it seems from the outside, albeit *sans* groupies, even for the marginal players like Shirley) and how circuitous the path can be into the league. He documents tortured itiner-

Ike Brannon is an economist in Washington, D.C.

aries while playing for obscure European teams along with dicey medical care, maddening tryouts, and a few of the quotidian details of the vagabond life of a temporary expatriate and minor league basketball player in North Dakota.

FOR THE ECONOMIST A sports narrative as entertaining and insightful as this immediately begs comparisons to *Ball Four*, Jim Bouton's masterpiece about his last season in the major leagues. By that standard, Shirley's book falls a bit short, although it is not entirely the fault of the author. In Shirley's world, the players of today are more inclined to attend a prayer service than a drug-fueled orgy (to his stated chagrin) and his tenuous status on his NBA teams does not allow him to establish anything but superficial relationships with established players. There is nothing remotely as exciting as Bouton's famous story of ending a night of drinking with Mickey Mantle and his other Yankee teammates by climbing on the narrow roof of a hotel in the hope of seeing women undressing in the adjacent building. Shirley regales us with the barest details of precisely one Certs encounter, which is probably for the best since the included anecdotes of him with the opposite sex appear to put him in the same league as Wally Cox.

But whatever Shirley's book lacks in terms of titillating postgame parties it makes up for with its sober, astute insider analysis of how NBA teams make personnel decisions, and this is what economists will especially enjoy. In fact, a better way to view this book is not as a successor to *Ball Four*, but instead as a basketball equivalent to *Moneyball*, Michael Lewis'

2003 bestseller about the Oakland A's and the success of its general manager, Billy Beane, in using new statistical techniques to evaluate players and keep his low-budget team competitive in the American League. However, it is not the discussion of data analysis that connects the books, but rather the apparent lack of NBA teams' use of such analysis.

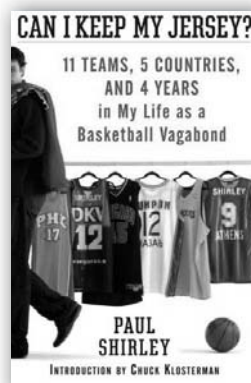
In a trenchant review of *Moneyball* that appeared in the *New Republic*, Richard Posner and Richard Thaler of the University of Chicago laid its implications bare: Major League Baseball is generally thought to be a hypercompetitive, billion-dollar industry that also has an incredible array of statistics available to measure the performance of nearly everyone in the business, yet many teams

eschew any systematic analysis of data. Instead, executives end up making multi-million dollar decisions based on nothing more than hunch, sentimentality, or whimsy. If baseball teams cannot bring themselves to use available data to make sensible decisions, what hope do we have that other businesses are operating at

peak efficiency?

What Shirley reveals in these observations of his quest to stick in the NBA is that professional basketball appears to be no better than baseball in its evaluation of players — at least, those players at the bottom end of the talent distribution. Shirley's NBA gigs all come because of connections he has — he hooks up with a couple of teams because of his relationship with his former college coach, Tim Floyd, and another because he happens to be in the city of a team that suddenly finds itself a player short. No one is watching and evaluating his play; he simply gets hired because he's the path of least resistance.

But it is not just the marginal players who are subject to less-than-rigorous cost-benefit analysis. He also holds forth on a number of other personnel moves upon which he is privy to non-public information. The infuriating missteps



by general managers that he illuminates with his insider status border on the mystifying. Player signings out of pique, desperation, or sheer inertia seem to be commonplace in the NBA — an observation that comes as no surprise to New York Knicks fans.

What makes Shirley so interesting in all this is that he not only understands these flaws but he also manages to use them to his fullest advantage, although he does not always admit he is doing so. Despite the fact that he still idolizes some of his NBA teammates, he rarely hangs out with players when he is on the road with them, instead hewing to the assistant GMs, coaches, and junior executives who have something interesting to say outside of basketball and, incidentally, contribute to personnel decisions more than would any friendship with Shaquille O'Neil.

EFFICIENT (LABOR) MARKET? The larger question lay bare by Shirley is why is such an ostensibly competitive industry so plagued with poor decisionmaking? Why are the poor personnel people not drummed out of the league, rather than allowed to remain ensconced in their GM suites for years?

The easiest answer goes back to John Keynes, who succinctly explained the herd process in the market for stock pickers. An analyst will never be fired for doing poorly, he reasoned, as long as he goes along with the herd, but a rogue stock picker who has a bad quarter will stick out like a sore thumb.

Richard Thaler helped to form an entire branch of economics called behavioral economics to analyze the myriad ways in which people deviate from profit-maximizing “rational” decisions. From the work of Thaler and his acolytes we know that inertia exerts a powerful pull over our financial decisions, that most people are quite risk-averse and need a substantial premium to be exposed to a little volatility, and that people discount the distant future more heavily than most models would predict.

The substantial work in behavioral economics has been, for the most part, focused on financial markets because

that is where there is money to be made. But no one for a minute believes that the types of systematic mistakes and biases we see in financial markets are not made in labor markets as well. However, in the labor market the obstacle in making a profit-maximizing hiring decision lies not only in the lack of data but also in the fact that the person doing the hiring may not have the same incentives as the owners of the corporation. This principal-agent problem has existed (and

Why is such an ostensibly competitive industry as the NBA so plagued with poor decisionmaking?

been written about) since the advent of the discipline of economics.

I studied labor markets in graduate school, where we learned all sorts of models that attempted to capture the complexity of hiring decisions. Nothing I encountered in my studies seemed the least bit convincing. After 15 years in the labor market, having gone through a half-dozen jobs and also participated in the hiring of a few people myself, I am well aware of the naïveté of my having believed that there is anything remotely like an objective examination of job applicants. In academia, most applicant dossiers were quickly disposed of in favor of people who were from the same schools as the people on the search committee, fit the requisite gender/racial requirements tacitly placed on the position, or people who did not appear to pose a professional threat to any committee member. More than once I saw people offered jobs simply out of sheer spite, with the department chair hoping to raise the ire of a foe by hiring his exact opposite. I have seen more than one academic department reject a young talent for the sole reason that the dean was prepared to pay him a salary above some current professors, despite having it explained to them that hiring such a person would undoubtedly result in an incipient pay raise for them as well.

Of course, I learned later what the rest of the world already knew — that academia is catty, cliquish, petty, and

lazy. In the absence of any objective, empirical way to analyze past or future performance, department chairs make hiring decisions with the goal of making their lives as easy as possible. After I took a job working for a congressional staff, I learned that congressional offices are not dissimilar to academia.

Both academia and congressional offices suffer from the paucity of any objective measure of performance. But even in the workaday world of the modern corporation, the performance at most jobs is difficult to ascertain. Good managers compensate by checking out references, soliciting the opinions of other employees, conducting thoughtful interviews, and upon hiring, offering copious assistance and regularly

monitoring their performance while providing ample feedback. In the end, a good workplace strives to be a bit like C.S. Lewis's idea of heaven: if you're a sinner, you don't want to be there.

Some baseball teams, perhaps a majority, are beginning to take quantitative analysis seriously, and a few football teams are trying to do the same. The Houston Rockets are the first NBA team to invest serious dollars into quantitative analysis as well, and analysts are rushing to develop the same types of pliable statistics for basketball that Bill James and others derived for baseball. The days of a hands-off owner handing the personnel management over to a stubborn old-timer who operates by sheer hunch and ignores all data are not dead, but they may not exist for much longer.

MISTAKES OF YOUTH It is difficult not to come to like Shirley as you read through his book, but he can be a bit maddening at times. It is clear to the casual fan that Shirley would be best served to go to a top European league and build up his game for a couple of years before making a serious run at a steady NBA gig. But after his first, rather unfortunate season abroad (where the team stiffed him out of a good chunk of his salary), he decided to stay in the United States and play for chump change with a minor league team in order to keep himself available should a spot open up on an NBA team's roster.

Of course, in a world where international jet service is commonplace, it is often easier for a player to get to New York from Barcelona than from Bismark, N.D., but Shirley's gamble pays off when a late-season roster spot opens up.

What is more disheartening is that he actually seems to prefer life in North Dakota over Barcelona, although by the end of his season in Spain he begins to appreciate his fortune in having lived there. (Shirley has played in Spain for the last two seasons — which are not covered in the book — and now seems to better appreciate the experience.)

His constant denigration of religion is

a bit off-putting as well. Ridiculing the ostentatious prayers said before and after games while identifying other less-than-holy behavior of the aforementioned prayermongers is one thing, but Shirley more-or-less concludes that all religious people are hypocritical and unworthy. I suspect that it is the one part of the book that he will look back on at some future date and regret.

Fortunately for readers, Shirley's few youthful exuberances are a small price to pay for what is otherwise a very interesting book. It says more about how the typical NBA team makes decisions than nearly anything else out there. **R**

Disappointing Follow-Up

Reviewed by David R. Henderson

CODE RED: An Economist Explains How to Revive the Healthcare System Without Destroying It

By David Dranove

281 pages; Princeton University Press, 2008

In 2000, Northwestern University health economist David Dranove published *The Economic Evolution of American Health Care*. It was an important book whose greatest flaw was that it came out a few years too late. In the book, Dranove showed that managed care is working. It put insurers in a position to limit what their beneficiaries could buy without, as many economists and others had feared, noticeably reducing the quality of care. The book made a persuasive case that the main effect of managed care was to increase real wages substantially by reining in health care spending.

Given the previous book's quality, I was eager to read Dranove's latest, *Code Red*. I'm disappointed to report that it is a bit of a mishmash. He mixes strong arguments and good policy proposals

David R. Henderson is a research fellow with the Hoover Institution, an economics professor at the Naval Postgraduate School, co-author of *Making Great Decisions in Business and Life* (Chicago Park Press, 2006) and editor of the *Concise Encyclopedia of Economics* (Liberty Fund, 2008). From 1982 to 1984, he was the senior economist for health policy with President Reagan's Council of Economic Advisers.

with bad arguments and bad proposals.

MANDATES In the new book, Dranove argues for government intervention to assure that almost everyone is covered by health insurance. He advocates requiring everyone with income of at least twice the poverty level to buy health insurance or pay a tax. He justifies that mandate by arguing that "anyone without health insurance is a freeloader in the making." Yet Dranove never mentions one of the main government interventions that leads to freeloading: the Emergency Medical Treatment and Active Labor Act. The act requires hospitals to treat emergency cases even if the patient cannot pay.

Although he favors eliminating some mandates for specific coverages, Dranove "would require a minimum set of coverage requirements, such as those included in Medicare Parts B and D." He would also "force self-insured plans [in other words, the various health insurance plans run by big companies but administered by health insurance companies] to cover preventive measures." Which measures? "An expert panel could routinely review the evidence to determine which preventive measures merit cover-

age." That recommendation is particularly shocking for an economist to advocate. Economists are better than most at understanding the dangers of leaving decisions to central planners who can use force to implement their policies.

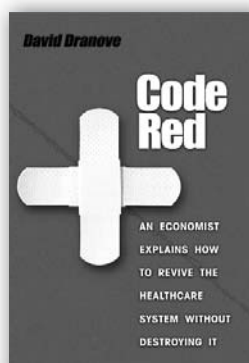
CON, P4P *Code Red* does have strengths. One is Dranove's devastating critique of Certificate of Need (CON) laws. The acronym is well-deserved. Take Dranove's state of Illinois: He points out that Illinois has one of the toughest CON laws, "having recently approved the first greenfield hospital construction in over twenty years." Because of those strict laws on entry of new hospitals, "Illinois hospitals today are located where Illinoisians lived in the 1950s, and the hospitals that received Hill Burton licenses dictate which of today's growing suburbs get to have local hospital services." (Under the 1946 Hill-Burton Act, the federal government subsidized the construction of nonprofit hospitals on condition that those hospitals would treat patients who lacked insurance and could not afford to pay for health care.)

Dranove points out that allowing existing hospitals to object to new hospitals

would be like U.S. automakers being able to "block entry by Japanese and Korean competitors, claiming that they had more than enough capacity to meet our automotive needs." Of course, that is what Detroit persuaded the Reagan administration to do to Japan in 1981, with its so-called "voluntary export restraints." Fortunately,

the auto import restraints ended in 1994, but their health care equivalent is still alive — and sick — today. Dranove, who has followed the issue closely, states that he has "heard members of the Illinois Health Facilities Planning Board argue that it is acceptable for patients to travel forty-five minutes to a hospital because residents in rural states must travel further." I would guess that the people who argued that have never had a serious medical emergency that required them to get to the hospital within minutes. Quite sensibly, Dranove advocates ending CON.

Dranove is also on solid ground when he points out the perverse incentives that



the federal government's Medicare program gives to hospitals. Under the prospective payment system introduced in the early 1980s, hospitals are paid according to Diagnosis Related Groups (DRGs). He notes that hospitals sometimes game the system by "upcoding" — that is, by moving patients into more-remunerative DRGs.

He also effectively undercuts the case for various faddish reforms. For example, he shows that payment for performance (P4P) is not payment for outcomes. Rather, it is almost entirely about paying doctors and hospitals for following various processes, in the hope that those processes will lead to better outcomes. Dranove also points out some unintended consequences of P4P. In England, he notes, doctors are rewarded for scheduling appointments on short notice. The unintended but entirely predictable response is that some doctors "refuse to schedule appointments more than two or three days in advance." Similarly, according to London's *Daily Mail*, after Britain's Labour government decreed that hospitals must treat patients within four hours of their entering the building, hospitals started "stacking" ambulances — that is, having patients wait in ambulances outside the hospital so that they would not violate the four-hour rule.

Dranove points out that the so-called "patient bill of rights," introduced by the Clinton administration after Hillary Clinton's regulatory program died, "would have spelled the end of managed care cost containment." He adds that this might have been exactly what some of the bill's sponsors wanted, because then they could say that market forces had failed and that the government should step in.

COMMUNITY RATING Dranove also gives nuggets along the way that are important information for people in the health-care debate. One is that most doctors pay community-rated malpractice premiums that do not increase even if they are shown to be negligent. Because their own premiums will not increase as a result of their (mis-)behavior, providers do not face the usual disincentive to be negligent that, say, drivers face. Is this community rating the result of insurance companies having concluded that

the legal system is so random that an individual doctor's behavior does not matter? Or is it the result of government regulation that requires community rating? Dranove does not say.

He does point out that state risk pools, on which some health policy advocates have laid their hopes, have been utter failures. As of December 2004, he notes, nationwide enrollment in state risk pools was only 180,000. That is tiny compared to the approximately 45 million uninsured at the time. He also points out that 60 to 80 percent of the uninsured can afford to purchase health insurance. Dranove also references a 1998 article in *Regulation*, which found that regulations under the Comprehensive Omnibus Budget Reconciliation Act of 1983 (imposed to assure continuity of insurance coverage for workers who left their jobs) put a burden on employers of more than \$10 billion annually.

Finally, he notes that estimates by the National Center for Policy Analysis and others that state-mandated benefits drive up the cost of health insurance by 15 to 30 percent fail to take into account the fact that, without the mandates, many health insurance policies would still provide many of the benefits that the mandates require. Taking this into account, he concludes, mandates drive up the cost of insurance by about 10 percent.

MISUNDERSTANDINGS Dranove errs when he summarizes Kenneth Arrow's classic 1963 *American Economics Review* article "Agency and the Welfare Economics of Medical Care." He claims that Arrow concluded that "free market healthcare can not live up to the competitive ideal unless consumers can obtain health insurance at actuarially fair prices." Actuarially fair prices are those that would be charged if the insurance company had perfect information about consumers' risks and if the insurance company had no costs other than the money needed to pay out benefits. But Arrow did not say this; he stated that if insurance companies charge a loading fee, the optimal insurance policy will be coverage with a deductible amount and 100 percent payment above that amount. Furthermore, wrote Arrow, if the insurance company is risk-averse, there should

also be a co-payment. Of course, that is what we observe.

Dranove also criticizes John Goodman and other economists who put a lot of confidence in using price to ration health care. Dranove's one good criticism is that the health care savings observed for families with high co-payment rates in the famous RAND health insurance experiment were almost entirely the result of those families not going to providers in the first place. Once RAND enrollees initiated a visit with a provider, notes Dranove, their spending was largely independent of their deductible and co-payment. This limits the power of price in restraining demand. But Dranove goes way too far, writing, "The only way to ration by price would be to eliminate insurance." That is not true; there are degrees of insurance. Take my own case. The doctor I prefer is no longer in my insurer's network. So when I go to that doctor, my insurer pays 75 percent of the fee that it is willing to pay, but none of the extra. If my doctor charges me \$120 for a visit, but the insurer thinks the visit should cost \$100, it will pay \$75 and I will pay the \$25 co-pay plus the \$20 extra. The beauty of this, from an efficiency standpoint, is that I pay the whole incremental cost of what I perceive to be the higher quality of my doctor. That is rationing by price and it is consistent with having insurance.

After rejecting rationing by price, Dranove says that rationing (presumably not by price) is inevitable. He states that Oregon's government already uses cost-effectiveness criteria to ration services, but he neglects to point out that this is true only of Oregon's Medicaid system. He then concludes, "We are already rationing access to care; it can do no harm to try to get more bang for our health care bucks." No harm? That is a shocking statement from a reputable health economist who spends a large part of the book showing the harm that can come from intrusive government intervention.

In short, I found Dranove's criticisms of government intervention largely on target and some of his doubts about consumer-directed health care worth heeding. But he puts far too much confidence in central planning by government officials. **R**

Sowell Strikes Again

Reviewed by George Leef

ECONOMIC FACTS AND FALLACIES

By Thomas Sowell

262 pages; Basic Books, 2008

Over his long and fruitful career, Thomas Sowell has been a steadfast opponent of the sort of sloppy, illogical thinking that gives rise to so many of America's social and economic problems. He has been called "insensitive" and denounced for his insistence on digging for the truth rather than just going along with popular notions. Many years ago, Sowell wrote, "Before you can be a partisan of the poor, you must first be a partisan of the truth." That is absolutely right, but it puts him at odds with most of our political establishment.

Sowell's most recent book, *Economic Facts and Fallacies*, is a wonderfully useful volume that highlights some of the most destructive fallacies that bedevil us and cause politicians to embrace policies that seem superficially beneficial but actually make matters worse. Battling against fallacies with facts is a difficult task. He writes:

There are many reasons why fallacies have staying power, even in the face of hard evidence against them. Elected officials, for example, cannot readily admit that some policy or program that they advocated, perhaps with great fanfare, has turned out badly, without risking their whole careers. Similarly for the leaders of various causes and movements.

Indeed; when was the last time you heard a politician say something like this: "I supported the minimum wage increase, but now see that it's a policy based on fallacious thinking. Sorry for the mistake?"

The book is organized around six topic areas: urban issues, male-female differences, education, income, race, and the Third World. Each chapter examines

George C. Leef is vice president for research at the John W. Pope Center for Higher Education Policy.

a subject where most of what Americans think they know just ain't so.

URBAN POLICY In the first chapter, Sowell discusses the widely held belief that high inner-city unemployment is due to the relocation of jobs to the distant suburbs. It is true that in many major cities, such as Chicago, employment is much stronger in the suburbs than in the inner city. But is suburbanization really the cause of high unemployment (and other pathologies)? Sowell sets forth facts that shatter the assumption about causality. For one thing, in Chicago there were riots, rising crime rates, and increasing unemployment before the big employers started to move out. Furthermore, in Indianapolis, the same social problems arose even though there was no pronounced exodus of employers beyond the commuting range of inner-city workers. Those who insist that the blame for urban problems must be placed on private enterprise should (but probably won't) rethink their positions in light of Sowell's critique.

Next, consider the housing market. All manner of government programs and regulations are said to be justified by the alleged need to ensure that there is enough "affordable housing." Sowell, however, contends that we would not have any problem here if it were not for governmental interference. He writes, "It is precisely governmental intervention in housing markets which has made previously affordable housing unaffordable." His attack on the fallacious notion that we need government activism in housing begins with a revealing historical fact: at the beginning of the 20th century, people paid a smaller percentage of their incomes for housing than at the end. That is, housing cost less across the board before politicians started regulating it.

One conspicuous way in which they

have gotten involved is through zoning. To most people, zoning is good because it (supposedly) rationalizes land use in cities, substituting the wise, far-sighted plans of experts for the chaos of the free market. Although Sowell does not have room for a thoroughgoing case against zoning (Bernard Siegan's *Land Use Without Zoning* does), he points out that non-zoned Houston is not chaotic and has significantly lower housing prices than you find in cities with zoning. Only a really obtuse reader or a market-hating zealot could miss the point: the more the government interferes in the housing market, the worse for consumers. Sowell

Economic Facts and Fallacies

Thomas Sowell
Author of *Basic Economics*

sums up this way: "What is called 'planning' in political rhetoric is the government's suppression of other people's plans by superimposing on them a collective plan, created by third parties, armed with the power of government and exempted from paying the costs that these collective plans impose on others."

That is an extremely important insight. Advocates of regulation — in housing markets or anywhere else — can indulge their ideas for social improvement without personally bearing the costs. For that reason, detrimental policies are hardly ever repealed.

SOCIAL POLICY Sowell's chapter on male-female fallacies takes on some of the most emotionally charged issues in contemporary politics. If you do not think so, try telling anyone affiliated with the National Organization for Women that discrimination has little to do with the difference between the earnings of men and women — you will probably get an earful of red-hot rhetoric in reply. Sowell responds, "The most important reason why women earn less than men is that they are distributed differently among jobs and have fewer hours and less continuity in the labor force." For those who believe that "progress" in labor market equality can only come from government action, he cites data proving that there is no pay gap when you compare apples to apples. For instance, as long ago as 1969, women in academia who had never been

married had average earnings slightly higher than men who had never been married. Marriage, Sowell explains, tends to reduce a woman's earnings and to increase a man's because of family decisions that often affect women's career paths. In short, the earnings gap between men and women is not a real problem. However, proposed policy responses such as "comparable worth" legislation would create some.

When you come to Sowell's writing on education, keep in mind that he was a college professor for decades of tumult on America's campuses. Fallacious notions about education — especially higher education — swirled around him for years. In this book, he refutes several of those wrongheaded ideas. Does a student necessarily get a better education because he attends an elite university? Sowell argues that it is often the reverse. Does the fact that a college is accredited guarantee that its educational programs are of good quality? Absolutely not, because accrediting agencies do not look at educational results but instead focus on inputs and procedures. Are students so heavily burdened with college loans that government needs to step in with more financial assistance? The fact is that the average student graduates with debt that is about as burdensome as a car payment. If higher education really is beneficial (an increasingly big "if" for many students now), that much debt is not excessive.

A political trope that has been reiterated endlessly in recent years is that income is becoming increasingly skewed in the United States. The rich supposedly get much richer while the poor stay poor and the middle class is disappearing. Sowell demonstrates that this is just a matter of deception. To mention but one of the many holes he pokes in the idea, Sowell points out that the data used to "prove" that middle class earnings have been stagnant do not take into account the value of benefits (which have been increasing over time) and they lump together full- and part-time workers (important because the proportion of part-time workers has been increasing). The argument has been politically effective, but it is based on erroneous premises.

What about those "golden para-

chutes" where top executives get a ton of money after failing to improve their businesses? Certainly that is proof that the free market is not working, right? Not at all, Sowell argues: "Third party observers may find it galling that some people seem to be rewarded handsomely for failing. But third parties are neither paying their money nor are in a position to know how much it is worth to be rid of someone."

Sowell has often been excoriated as a "traitor to his race" for his positions on racial issues. Nonetheless, he continues his courageous defense of those positions, including in this book. In his chapter on race, Sowell gives the reader plenty to ponder. For example, it is generally believed that the "War on Poverty" began the climb out of poverty for African Americans. That is not the case, Sowell argues. He provides statistics showing that the percentage of black families living below the poverty line fell more rapidly in the two decades prior to the passage of the Civil Rights Act of 1964 than in the years since. What about fatherless black families? A fashionable explanation is that this phenomenon is a "legacy of slavery," but Sowell rebuts that idea by observing that fatherless families were rare among blacks in the first half of the 20th century. It has nothing to do with slavery and everything to do with modern welfare policies.

INTERNATIONAL POLICIES Myths and misconceptions about the "Third World" are plentiful and often lead to "feel-good" governmental policies. Sowell gives his readers a chapter that strips away myth and emotion to get down to the truth. It is widely believed, for example, that Third World nations are poor because of colonial exploitation. Sowell demonstrates that that explanation does not hold water. Many countries that were colonies in the past are advancing economically while others that were never colonized remain mired in poverty. So then, is the problem a lack of natural resources — do poor countries just not have enough? That explanation does not work either; Sowell notes that there are some very resource-rich countries that remain very poor and backward, while there are resource-poor ones that are prosperous. Do we need to give foreign aid to

enable poor countries to develop? Sowell demonstrates that, to the contrary, foreign aid often is counterproductive, serving merely to prop up corrupt regimes and impede necessary changes.

In his conclusion, Sowell implores people to resist "the practice of not subjecting fashionable beliefs to the test of facts, but instead accepting or rejecting beliefs according to how well they fit some pre-existing vision of the world." That is sound advice for all social and economic controversies. What readers get from this book is not just the author's thinking on six specific policy areas, but a mental toolbox that they can apply to any issue where government intervention is proposed as a solution. **R**

A Less Oppressive Paternalism

Reviewed by
David R. Henderson

NUDGE: Improving Decisions about Health, Wealth, and Happiness

By Richard H. Thaler and Cass R. Sunstein
304 pages; Yale University Press, 2008

In the last few years, much has been written about "libertarian paternalism," a fair amount of it contributed by University of Chicago economist Richard Thaler. Now comes *Nudge*, a book on that topic by Thaler and his Chicago colleague, law professor Cass Sunstein.

I started reading *Nudge* with my libertarian knife sharpened, looking for their answer to a particular question. (I don't mean the obvious question, "Isn't 'libertarian paternalism' an oxymoron?" Their earlier article in the *American Economic Review* had persuaded me that it isn't.) My question was this: If Thaler and Sunstein are really libertarian paternalists and not just paternalists, do they advocate changes to make existing paternalist government policies less oppressive? If so, then they are credible. If not, I thought,

then they are probably coming up with one more tiresome rationale for making government our parent, albeit a particularly sadistic parent who keeps trying to throw us in prison.

I am happy to say that many of the policies they advocate in *Nudge* would reduce government oppression. In the areas of motorcycle helmet laws, school choice, medical malpractice, and marriage, their proposals would retain some government intervention, while moving us in a more libertarian direction.

NEED TO NUDGE But why do they advocate any paternalistic policies at all? They answer that question in their first five chapters by laying out the difference between their model of people, whom they call “Humans,” and the economists’ model of people, whom they call “Econs.” Whereas Econs evaluate every situation, judging costs and benefits and quickly calculating probabilities, “Humans” look for rules of thumb. Rules of thumb substitute for thinking, which means that they save time and mental effort — effort that most people find daunting or simply would rather not exert because it is not fun or because there are better things to do. The problem is, write Thaler and Sunstein, that sometimes the rules of thumb lead us to make very bad decisions.

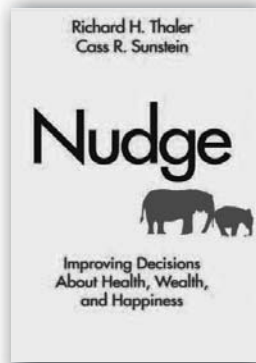
They highlight three types of rules of thumb: anchoring, availability, and representativeness. I’ll examine the first two.

First, anchoring. Imagine that you are asked to estimate the population of Milwaukee. Suppose you live in Chicago and you know that Chicago has about three million people and that Milwaukee is much smaller. Three million becomes your anchor and you estimate down to, say, one million. But if you live in Green Bay, population 100,000, and you know that Milwaukee is much bigger, you might estimate 300,000 because Green Bay’s population is your anchor. (Milwaukee’s population is 580,000.) In similar ways, Humans can make estimates and create rules of thumb that result in

welfare-reducing decisions.

Availability has to do with making decisions based on ready examples that come to mind. Consider, for instance, people’s perception of the incidence of homicide vs. the incidence of suicide. Examples of homicides are more “available” than those of suicides and therefore people think — incorrectly — that homicides are more frequent. Or consider people’s perceptions about the risk of terrorism. Virtually everyone in the United States over about the age of 15 knows September 11, and the “availability” of this example of terrorism causes people to dramatically overestimate the probability of another terrorist attack. This, again, can lead to welfare-reducing decisions.

NUDGE What does all this have to do with libertarian paternalism? Thaler and Sunstein go from this reasoning about



The idea is to “nudge” people in the direction of good choices while letting them make different decisions.

Humans and Econs to consider how subtle differences in various institutions can cause enormous differences in behavior. Enter the nudge. The idea is that various players — employers and governments, mainly — should nudge people in the direction of “good” choices while letting them, if they wish, make different decisions at a low cost. They call this “choice architecture.”

Consider the decision to enroll in your employer’s 401(k) or 403(b) plan. Most employers do not automatically enroll you. To be enrolled, you typically must fill out a form, so not being enrolled is the “default option.” But it does not have to be that way. The default option could be for the employer to enroll you for the minimum percent of your pay that gets you the maximum of your employer’s matching payment. If you do not want to be enrolled, you can opt out at little cost

other than communicating your preference to your employer. If all people were Econs, there would be no difference between outcomes under these two options. The small cost of filling out a form to enroll or to un-enroll would be a rounding error compared to the costs and benefits of being in or out. So the choice of default options should not matter, right? But it matters crucially. Thaler and Sunstein tell of a study in which, under the opt-in approach at one firm, only 20 percent of workers initially joined the retirement plan, and the number rose to 65 percent after 36 months. But when the firm switched to automatic enrollment, enrollment of new employees jumped to 90 percent and rose to 98 percent within 36 months. As an Econ, I must admit that this is strong evidence that most people are Humans, not Econs. Notice also that a firm that chooses the automatic enrollment option is engaging in purely libertarian paternalism; it is not using force and the government is not involved.

Thaler and Sunstein praise a 2006 law, the Pension Protection Act, that gives employers a small incentive to choose the automatic enrollment option. The act enables employers to avoid an annoying regulation that already existed. This is clearly a move in a libertarian direction; it would have been

problematic if the law imposed a new regulation and let employers out of it *only* by choosing automatic enrollment.

The authors also advocate moving in a libertarian direction on motorcycle helmet laws. They approvingly cite *New York Times* columnist John Tierney’s proposal that people be allowed to go without helmets if they take an extra driving course and submit proof of health insurance. Again, this is a move away from the crushing paternalism most states impose by banning choice altogether.

Perhaps my favorite of their moves away from paternalism is on the issue of medical malpractice. They point out that patients now cannot sign a legally enforceable contract in which they promise not to sue for malpractice. The result is what the authors call a “forced lottery ticket”: courts are capricious in these cases, finding negligence where there is none and missing

negligence where it exists. And the lottery ticket is not cheap: they cite estimates that exposure to medical liability accounts for 5–9 percent of hospital expenditures, which gets reflected in higher premiums for health insurance. Why do courts block the kind of contracts that Thaler and Sunstein claim that patients would want? They write, “The answer is non-libertarian paternalism, pure and simple.” They advocate letting patients, or their employers who buy the insurance, have an option that forbids malpractice suits. The nudge to get people to give up their lottery ticket is a default option whereby the patient gives up his right. Interestingly, the nudge here is not a big part of their proposal. What they advocate — letting people contract out of the right to sue — has been advocated for many years by many libertarians, with or without a nudge.

In a chapter titled “Privatizing Marriage,” Thaler and Sunstein advocate, quite sensibly, moving in a libertarian direction by separating marriage and state. They point out that, despite the evidence, almost 100 percent of people who get married think that they are highly unlikely to get divorced. This is one of those systematic, but wrong, biases that people have. People also think that arranging pre-nuptial agreements will “spoil the mood.” The result? Most people are vulnerable to “a legal system that has an astonishing degree of uncertainty.” They advocate a nudge: a default contract that favors the weakest parties, typically women. Then, people would be free to avoid the default by tailoring a contract to their desires. They also suggest that taking marriage away from the state would, with one fell swoop, solve the thorny problem of gay marriage. Let churches and other organizations choose whatever marriages they want to approve and let people choose their churches. Interestingly, their nudge is a small part of this proposal, just as with their proposal on malpractice.

SOCIAL SECURITY On Social Security privatization, which they expect will be proposed again in the future, they tell a cautionary tale of such a privatization in Sweden. They explain that the Swedish government had chosen as a default a fund containing various indexed funds, nicely balanced between stocks and bonds,

and balanced between Swedish stocks (too heavily, in my opinion) and foreign stocks. But instead of nudging Swedes to this option, the government nudged them toward making their own choice from the hundreds of competing funds. Many people made the classic mistake of choosing based on past performance.

Their discussion of Social Security, though, is disappointing. Social Security is straight paternalism. It is based on the view that people cannot be trusted to save for their old age, and so the government should force them into a program that gives them a low, and sometimes a negative, rate of return. I would expect a libertarian paternalist to advocate making the lousy Social Security system the default option that people could avoid by filling out a form. But Thaler and Sunstein do not even hint at that solution. In correspondence, Thaler argued that old people have property rights in Social Security and that if one lets young people out of it, there would be no money to honor the elders’ property rights. To Thaler’s claim, there are two responses. First, the elders do not have property rights — someone

can never have a property right to take by force someone else’s property. If one can, I want Thaler’s house. Now.

Interestingly, Thaler and Sunstein themselves point out that Congress is entitled to change “its” mind and that “the Constitution does not protect your right to Social Security benefits.” As the Supreme Court made clear in *Flemming v. Nestor*, despite the government’s repeated claim that Social Security is insurance, it is not: Social Security is a gigantic tax-and-subsidy scheme. Second, even if old people did have a property right, why should the government single out young people to honor it? If the government is to honor it, should it not go after the people who made the commitment? One way to do this would be to attach all the property of all the congressmen and presidents who ever voted for or signed legislation to increase Social Security payments. This might sound extreme — no, this is extreme — and it would generate only a small fraction of the revenue required. But is it less just than having the government go after the future earnings of innocent two-year-olds? **R**

Yet Another Pop Econ Book

Reviewed by Ike Brannon

THE LOGIC OF LIFE: The Rational Economics of an Irrational World

By Tim Harford

272 pages; Random House, 2008

I have been a reader of books that attempt to popularize the discipline of Economics and expand the empire of issues that its tools can address since I finished my Ph.D. 15 years ago. At that time, they were a sinful pleasure in the guilt-driven halls of my department. In graduate school my professors treated any “popular” account of economics (which to them included any journal article that did not involve taking the second derivative of a translog function) the same as my junior high basketball coach treated the act of playing on an eight-foot hoop with a junior-sized basketball. To both, it was a perversion of

our training that would ultimately ruin our skills. I was not brave enough to defy the professors who held my career in their hands by deigning to cross them in any meaningful way, save for reading the stray non-academic text.

I first picked up a “pop econ” book when I came across a copy of Richard Thaler’s *The Winner’s Curse* while still in graduate school. The book introduced me and thousands of others to behavioral economics, exciting me enough about the subject to consider ditching my dissertation in progress to do something related to Thaler’s work. No dice, said my adviser, and I trudged through my detailed analysis of labor union activity across business cycles, ending with a tract so deadly dull that its sole saving grace was that my dissertation committee found it as difficult to read as it was to write. (They passed me, I suspect, to

avoid having to ever read it again.)

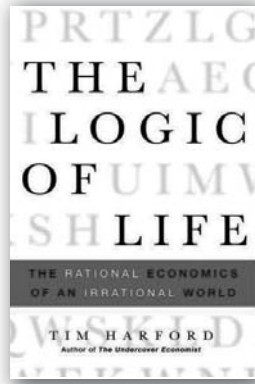
After I finished the dissertation and could consider myself a full-fledged economist, I began reading pop econ books by the bushel basket to see what I was supposed to have learned in graduate school while I sat in various math classes that had a tangential relationship with the discipline. I picked up Burton Malkiel's *A Random Walk Down Wall Street* to learn a bit about financial markets, a topic that scarcely came up in my graduate education. For good measure, I then read Peter Bernstein's *Against the Gods* and Jeremy Siegel's *Stocks for the Long Run*. Each book deserves to be called a minor classic.

After exploring the stock market, I found Steve Landsburg's *The Armchair Economist* and David Friedman's *The Hidden Order*, both of which captivated me enough to make them required reading for undergraduate classes I taught, with some success. Landsburg's quirky examples and heady intuition went over well among the economics majors I was teaching, and Friedman's almost conversational discourse on price theory was a welcome tonic for those who were banging their heads against the turgid textbook I had assigned.

I plowed through Jared Diamond's *Guns, Germs, and Steel* and was sufficiently agitated by his "Western Society won through sheer luck" attitude that I then read David Landes' *The Wealth and Poverty of Nations*. I next waded through Robert Shidelsky's three-volume biography of Keynes.

As time went on, the number of pop econ books seemed to grow exponentially. I kept reading economics, almost exclusively, but I began to feel that I was getting less and less out of each book, as the law of diminishing marginal returns would suggest. At some point, the obligation I felt to buy each new tome left me.

YET ANOTHER When a book as topical and well-written as Tim Harford's fails to



excite me, I think it is a sign that I should diversify my reading. Harford writes in a breezy and conversational tone, the topics are appropriate, he lays out his arguments clearly, and he gives just enough personal details to make each vignette clear and easy to understand. At the end, I am convinced that economics has the answer to these pesky problems of which he writes.

But I was convinced before I read the book. Of everything, there is not a single topic he examines that was the least bit new to me in this book. Game theory can explain dating behavior? Sure. Corporate career advancement is a tournament? Of course. Location still matters? You bet. Voting is an irrational act? Yes, yes, a

When a book as topical and well-written as Harford's fails to excite me, it's a sign that I should diversify my reading.

thousand times yes. I get it. Perfectly.

I know I'm not the typical reader. My primary exposure to some of the concepts in the book came from my years in the academy, when I sandwiched my study of economics between obsessive basketball-playing. Most people reading this book sensibly skipped that stage of their education and may not be familiar with all the topics Harford discusses. But other work referenced here has popped up in the popular press already: the *New York Times Magazine* examined Ed Glaeser's work on the relationship between real estate prices and building regulations as well as the brilliant career of Roland Fryer, whose work on the economics of racism Harford explores. The development of game theory? I read it in Sylvia Naser's *A Beautiful Mind*. The fact that many job tracks can be described as tournaments? The current chair of the Council of Economic Advisers, Ed Lazear, made his name with that idea a quarter-century ago, following up on Sherwin Rosen's famous piece entitled "The Economics of Superstars," the rare

academic tract that is actually readable and informative.

I began to feel this sense of déjà vu when I read *Freakonomics*. I had read a number of Steven Leavitt's academic papers (something I have never been all that inclined to do) and had seen him present one or two of them at academic conferences. I am impressed and not a little envious of his genius and success. When Stephen Dubner's *New York Times Magazine* article on Leavitt came out, I thought it was a brilliant piece of journalism, capturing his work perfectly. But when Leavitt and Dubner released their book and created a phenomenon, I felt mildly annoyed. The book is essentially the magazine piece with another 20,000 meaningless, irrelevant words inserted to make it long enough to be called a book. I know why they did it — you don't

get to give \$50,000 speeches to corporate groups on the basis of a magazine article — but that does not make it right.

Harford's book feels a bit like this, although it is nowhere near as padded as *Freakonomics*. Sometimes the

chapter's background gives a useful perspective and some of this I liked (especially the bit that discusses the changes that came to my neighborhood in Washington, D.C.), but it often just gets in the way of the heart of the story. George Mason's Tyler Cowen likes to make the point that an aversion to skipping around in a book is a compulsion that one must suppress in order to enjoy fully the experience in reading. Maybe if I just took his heed I would not have this sense of *ennui*.

Deirdre McCloskey identified this problem in Economics decades ago when she wrote about Robert Fogel's path-breaking research on the importance of the railroad in the 19th century. While economists before Fogel had almost uniformly asserted that the mighty growth the new country experienced could not have occurred without rail, Fogel argued the contrary — and succeeded in convincing almost everyone. His thesis was simple: Transportation is 10 percent of the economy, railroads were at most half of all transportation at the time, and shipping by rail at the time was maybe half as

cheap as the alternative. Do the math and you get that the railroads raised output by 2.5 percent. Brilliantly deductive, of course, but also too short to receive the accolades such an idea merits. Thus, Fogel had to wrap tens of thousands of words around the idea in order to turn it into a book and allow him to reap the rewards that were due his brilliance.

Economists have largely substituted the journal article for the book, although in my experience they often compensate for the shorter length by making it much more difficult to read, inserting high-powered math, unnecessary jargon, and an utter lack of regard for the writing quality. A few economists (such as Greg Mankiw) have taken to blogging, but most tend to use it to recommend other articles or to comment on the issues of the day, not to throw out more controversial ideas.

I am in the acquaintance of a 40-something economist who could potentially win a Nobel Prize in the next five years. He is, of course, a brilliant guy and all (and a nice guy to boot) who, besides coming up with the occasional path-breaking journal article, also makes a nice living doing some consulting on the side. When I asked him how he sandwiched all this stuff into a day, he replied that he stopped reading journal articles quite some time ago, observing that they are almost uniformly poorly written, often contain information that is only loosely relevant to the item he is actually interested in, and tend to appear well after the matter at hand has been digested by the profession. He prefers to look at PowerPoint presentations, he told me, and will often write to a professor who has a great new idea and ask for the slides from his latest talk.

Economists have improved at communicating their ideas, but we are still far from perfect in this regard. Perhaps it is as simple as a couple of *Drudge Reports* for economists, linking to scholarly work, more popular writings, blog posts, speeches, and the like. It is not just an academic problem; consider the plight of the typical congressional staffer tasked to research various bills or legislative proposals. When faced with an unfamiliar idea, he can either peruse the Congressional Research Service website for anything they have written on the subject or he can try to figure out who else has

written on the subject and to what degree they know what they are writing about. After going to a few think tank websites, possibly to no avail, and then looking at an academic paper or two (if said staffer is particularly diligent), he is more than likely going to spend two minutes looking at what the academic did and then fall back to the CRS memo. Some people think it does not much matter where a staffer learns about policy, but I am not one of them.

Harford is a great writer who has done a lot to advance good economic ideas through his excellent column in the *Financial Times*. For someone not in

the habit of reading elsewhere about economics, this book will be of great interest. For the wonk who peruses the “Economics Focus” column in the *Economist*, reads Harford’s columns in the *FT*, and checks out the occasional economist blog, the book may be a bit too familiar.

In the end, the best way to view the book is akin to the long-delayed *Neil Young Greatest Hits* album. If you’ve already got *Live Rust*, *Harvest*, and *After the Gold Rush*, it will be superfluous, but if you’re just discovering the artist — or rock ’n’ roll — it is worth checking out. I suspect most readers of *Regulation* own *Live Rust* — in vinyl. **R**

Energy Interdependence

Reviewed by George Leef

GUSHER OF LIES: The Dangerous Delusions of ‘Energy Independence’

By Robert Bryce

359 pages; Public Affairs, 2008

As part of the fall elections, candidates will claim to be vigorous supporters of “energy independence.” They will tell voters, “I’m the one who can best deliver America from the dangerous habit of relying on foreign oil.” And most voters will applaud enthusiastically because the notion that the United States needs to become energy independent has become a sacred cow. A political candidate might as well come out against motherhood as to question the need for energy independence.

That is too bad because energy independence is a stupendously foolish, costly, and ultimately impossible idea. So argues journalist Robert Bryce in his iconoclastic book *Gusher of Lies*. Bryce readily admits that until recently he was among those who worshipped in the Church of Energy Independence, but has now become a complete heretic. Instead of increased government meddling, he wants

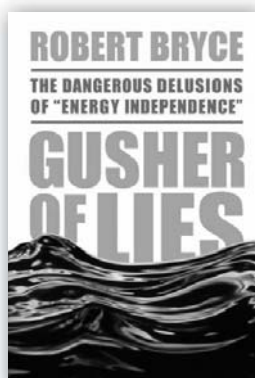
to see it get out of the energy market altogether because there is nothing it can do to improve on the free market and much that will be wasteful and even dangerous.

Bryce is neither a Democrat nor a Republican; he calls himself a member of the Disgusted Party. If you read his book, you will be disgusted too — disgusted over the fact that the leaders of both major parties have gone bonkers for an idea that makes for nice sound bites but is demonstrably ludicrous.

Although politicians have been touting energy independence since the Nixon years, it was turned into the Holy Grail following the September 11 attacks. Bryce writes:

[I]n the post-September 11 world, many Americans have been hypno-

tized by the conflation of two issues: oil and terrorism. America was attacked, goes this line of reasoning, because it has too high a profile in parts of the world where oil and Islamic extremism are abundant. And buying oil from the countries of the Persian Gulf stuffs petrodollars straight into the pockets of terrorists.



Political consultants love simple logic like that. Terrorists are bad. Buying oil helps terrorists. Therefore we must stop buying oil. Disagree and you're toast.

Once the quest for energy independence started to move people, lobbyists for various energy alternatives began issuing press releases about how their fuel source was critical in the great drive for national energy independence. Sure it needs big subsidies (oops – “investments”) but so what? Is that not better than helping the terrorists?

Bryce argues persuasively that this is all a tissue of fallacies. The indispensable core of the book is his identification of eight false beliefs regarding energy independence:

- Energy independence will enable the U.S. military to pull out of the Persian Gulf.
- Energy independence will reduce or eliminate terrorism.
- We can attain energy independence through the development of renewable fuels.
- If we become energy independent, we will not have to worry about another Arab oil embargo.
- Energy independence will stop the flow of petrodollars to rogue governments.
- The Islamic world will be forced to reform if we achieve energy independence.
- Global oil prices will tumble once we become energy independent.
- Energy independence means energy security.

Bryce methodically exposes the mistaken assumptions and bad logic in each of those ideas. For example, the notion that American energy independence will cripple the terrorists financially depends on the false assumptions that oil we don't buy will go unsold and that the terrorists are helplessly dependent on oil money. Neither is true.

Bryce is not content just to demonstrate that energy independence is a needless quest. He goes on to show the economic waste and political skullduggery that are tied up in it.

On the political front, Bryce pins the

blame mainly on a neoconservative cabal that has relentlessly pushed the Bush administration into the war in Iraq and a host of alternative energy boondoggles. Their “Set America Free Manifesto” declares that attaining energy independence must be a top national priority. It has attracted support from not

Bryce methodically exposes the mistaken assumptions and bad logic behind the belief in “energy independence.”

only the militaristic Right, but also from environmental groups and an array of special interests that are begging for federal subsidies. The coalition is an unholy alliance if ever there was one.

The author makes no effort to conceal his disdain for this crowd and its penchant for ignoring facts that do not fit into their agendas. He presents to the reader a strong set of arguments to prove that energy independence is impossible (unless we want to turn the clock way, way back) and that all of the proposed means for achieving it are certain to fall short of their over-hyped expectations.

FOOD FOR FUEL Consider ethanol. Bryce writes, “Ethanol isn't motor fuel. It's religion. And America is divided into two camps: the believers and the heretics.” Most of the believers are certain that by pushing ethanol, we will achieve two goals: energy independence and a healthier planet. They are certain about that because a bunch of rascals have foisted on them — as the book's title says — a gusher of lies.

Even at the greatly increased level of ethanol production that Congress has mandated for the future, the amounts produced will not come close to replacing oil imports, Bryce shows. Nevertheless, politicians keep blathering away about our wonderful ethanol future. Bill Clinton, for example, likes to talk about how Brazil has achieved energy independence through its commitment to ethanol, and then he leaps to the conclusion that “We can do it too!” The people cheer, never realizing that Brazil has

only a tiny fraction of the motor fuel needs of the United States, has a climate far more conducive to growing the crops used to produce ethanol (sugarcane), and that Brazil also uses a lot of oil that it produces from offshore wells. Telling people that the United States can become energy independent through increased ethanol production is flagrantly dishonest.

Bryce also makes the crucial point that ethanol production is exceedingly expensive. Farmers are subsidized to grow the corn and then the ethanol producers get huge subsidies to turn the grain into fuel. The interest groups that *Wall Street Journal* writer Holman Jenkins dubs “Cornistan” laugh all the way to the bank while Americans get a fuel that has only two-thirds of the energy of gasoline, can't be transported by pipeline, and consumes about as much energy to produce as it delivers. Only through politics could such a monumental scam be kept going.

Will the situation change once it becomes possible to make ethanol from cellulose? We keep hearing that such a breakthrough is just around the corner, but even if it happens, Bryce argues that it will not make very much difference. That is because of “the tyranny of distance.” The cost of harvesting and hauling vast quantities of switchgrass, corn stubble, or other material to ethanol plants will keep it uneconomical. It is time to pull the plug on the subsidies.

Besides the economic waste involved in producing ethanol, it is also environmentally worse than gasoline. Tailpipe emissions are more harmful and producing it uses up much more water than oil refining does. Moreover, several research papers argue that increasing cultivation of crops for ethanol will produce more greenhouse gases than the hydrocarbons they replace.

Nevertheless, General Motors, Ford, and Chrysler are all building a lot of vehicles that can run on E85, a gasoline-ethanol mix that is available at only a small number of stations. Why? The reason is that under the federal government's Corporate Average Fuel Economy regulations, producing E85-capable

vehicles allows the automakers to look more fuel efficient than they really are. That is because when the companies do their mandatory CAFE calculations for a vehicle, they only have to include the amount of gasoline it could consume. So by making it possible for a vehicle to run on E85, the auto companies raise their CAFE numbers.

Bryce is bothered by that bit of chicanery, writing that it “allows the Detroit automakers to pretend that they care about fuel economy and, at the same time, churn out fleets of trucks and SUVs that get lousy gas mileage.” Apparently, he thinks that CAFE regulation is a good thing, but I have to quibble over that non-essential point. He fails to consider that those fleets of gas-guzzlers provide the capacity and added safety that many Americans want. Producing E85-capable vehicles distorts CAFE, but CAFE itself is a distortion in the auto market.

What about the other energy alternatives that have been promoted as routes to energy independence? Bryce gives us short chapters on coal-to-liq-

uids, solar power, and wind power. He demonstrates that they are all too small and costly to matter, and they should not be subsidized.

WEAKNESSES Although the book’s attack on the mindless insistence on “energy security” is right on target, Bryce makes some rather suspect assertions along the way.

For one thing, he contends that the United States will have to maintain a military presence in the Persian Gulf regardless of the nation’s energy mix. That supposed imperative is nearly as questionable as the imperative of energy independence itself. Is it really inconceivable that we could go back to the time before massive military intervention by the United States, when the oil-producing countries, whatever their conflicts, were primarily interested in maximizing the profit from their oil sales? Bryce does not convince me otherwise.

For another, Bryce at times seems to forget his demand that we “get the government the hell out of the energy business.” He favors federal subsidies for

nuclear energy, for example. The trouble is that with government subsidies of any kind, the free market’s discovery process is short-circuited. Nuclear power should no more be subsidized than wind power, solar power, or anything else. Only by going “cold turkey” will we shake off the ill effects of governmental meddling. It seems that Bryce, while generally extolling the free market, does not really believe in it fully. He should.

Summing up, Bryce writes, “Energy security means accepting energy interdependence.” That is a message that most Americans will reflexively reject. It runs contrary to everything politicians and special interest group pleaders have been telling us for years. Say something often and loud enough, and eventually no one will question it — the Big Lie technique has been at work here. The truth, however, is that the mania for energy independence is making us simultaneously poorer and less safe. In writing this honest if somewhat flawed book, Robert Bryce has performed a great national service. **R**



Rules and Restraint

GOVERNMENT SPENDING AND THE DESIGN OF INSTITUTIONS

David M. Primo

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