

IN REVIEW

Black Hats and White Hats, But No Clear Methodology

◆ REVIEW BY VERN MCKINLEY

In 2003, well before most analysts looking at the housing industry were talking about a housing bubble, Danielle DiMartino Booth was writing about precisely that topic for the *Dallas Morning News*. A few years later, while still working for the newspaper, she received a call from Richard Fisher, then president of the Federal Reserve Bank of Dallas. That initial contact ultimately led to a job offer at the bank in 2006 because, in Fisher's words, "The Fed needed writers who could translate economic research into readable prose." DiMartino Booth would spend nearly a decade at the Fed's Dallas bank observing the financial crisis and advising Fisher regarding the Fed's response to it.

DiMartino Booth primarily draws on her experience working at the bank in composing *Fed Up*, a book that is at times a blistering critique of the Fed, as is obvious from its subtitle: *An Insider's Take on Why the Federal Reserve Is Bad for America*.

Black hats, white hats / DiMartino Booth can be found sporting a black cowboy hat in the book's promotional materials. The imagery is apropos because of how she classifies nearly every person or group she profiles in her book: she casts them either as having flawed methods and powers of analysis (black hats) or as being reality-based and accurate (white hats).

For example, members of the Fed's Federal Open Market Committee get black hats: "They returned to their lofty perches, some at the Eccles Building, others to the executive floors of Federal Reserve District Bank buildings, safely cushioned from the decision they had just made. ... They would feel no pain in their ivory towers." DiMartino Booth's condescending Ph.D. colleagues in Dallas also get black hats: "I didn't have a

Ph.D. As far as they were concerned, I had nothing interesting or valuable to say.... Few had even the slightest interest in financial markets. Nor in talking to me because of my lack of academic accomplishments."

Janet Yellen gets a black hat: "Tiny colorless Janet Yellen"; "Top corporate leaders in Yellen's district thought she was a clueless academic more interested in labor issues than the dilemmas of those running businesses."

On the other hand, Dick Fisher gets a big white hat: "Unlike the majority of those seated around the massive oval table, he'd been in the trenches as a manager of a hedge fund (Wall Street) and as a diplomat involved in negotiating NAFTA (government), and had been retained by the world's biggest player for strategic advice (private enterprise)." The Federal Reserve District Bank management also gets a collective white hat: "All twelve District Banks have a board of directors elected from their regions. Unlike members of the Board of Governors, they are not isolated from their constituents." Zoltan Pozsar, an analyst focused on "shadow banking," is another white hat: "Like me, Pozsar was a finance major and non-Ph.D. His work vividly reveals how an outsider sometimes sees things more clearly than those inside a system."

Some of DiMartino Booth's criticisms are well-founded, including her descriptions of the detached nature of many of the Fed's academic economists. She also highlights the fact that the Fed has largely bought off the economics profession, snuffing out most potential dissent. At the Fed, "the percentage of professional economists had grown exponentially.... The Federal Reserve is the single largest employer of Ph.D. economists in the nation, and presumably the world. ... They dare not bite the hand that feeds."

Additionally, she highlights the lack of diversity in the Federal Reserve System, not just in the sense of hiring women and minorities for senior management positions, but in the sense of background: "[Now-retired Dallas Fed research director Harvey] Rosenblum

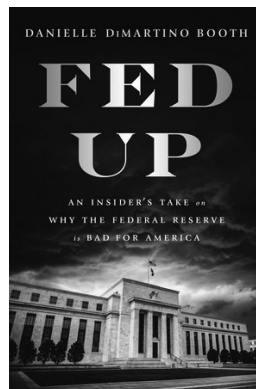
approached hiring by looking for variety in schools of economic thought and vintage, or the era candidates received their doctorate. Vintages tend to ossify.... Every five years you have to make sure you are bringing in new ideas. Diversity does matter."

Forecasting a housing bubble?

/ A debilitating flaw of the book is that, although the critiques of the methodology for the Fed economists' predictions are often on point, the book is light on describing a cogent methodology that DiMartino Booth herself uses when forecasting the economy or market activity.

To take just one example, there is the case of her writing on the housing bubble. Given her harsh assessments, I would have expected her to explain some type of clear, underlying system to discern that a bubble was rising and also to apply that methodology when offering other forecasts.

Hoping to find that methodology, I looked up the article she cited to back her claim that "I first forecasted a housing bubble in a story that ran in the *Dallas Morning*



Fed Up: An Insider's Take on Why the Federal Reserve Is Bad for America

By Danielle DiMartino Booth

336 pp.; Portfolio (Penguin), 2017

News on January 2, 2003.” That column was similar to the *Wall Street Journal*’s “Heard on the Street” format, with a columnist in an ear-to-the-ground role giving market insights and commentary. As for her supposed forecast, she merely surveyed four industry analysts, one of whom was David Tice, a persistent bear on market forecasting. Tice said, “There’s definitely a housing bubble.” I don’t understand how quoting someone else who was bearish on housing back in 2003 amounts to DiMartino Booth forecasting the housing bubble. If this exemplary column is an indicator, she probably quoted hundreds of analysts in a similar way over the course of her years working at the *Dallas Morning News*. Which ones were right and which were wrong? And of those who were right, did she agree with them and why? The book does not address those basic questions.

This question of methodology carries through the entirety of *Fed Up*. At one point she dismisses the work of her economist colleagues at the Dallas Fed by saying, “I never learned anything from them that the markets hadn’t already told me.” Her so-called “market” methodology as detailed throughout the book has as its starting point various intense conversations she has with the “tremendous network of colleagues who are now friends in New York.” She refers to this input as “collective market intelligence” and “many prisms.” Apparently, after this information is assimilated and combined with what she hears on CNBC (her favorite cable network, which she mentions throughout the book), it is then fed into some type of “black box” where it is blended with her internal feelings about the future state of the economy. Maybe she did think there was a housing bubble brewing in 2003, but was she just lucky or did she really have some clear method that she could point to for thinking that way? Is her approach any more reliable over the long run than the academic economists that she criticizes?

Unclear philosophy / It is also difficult to say what DiMartino Booth’s underlying economic or political philosophy is. She

repeats the tired trope of a deregulation bogeyman combined with greed in the lead-up to the crisis: “Greenspan championed the era of financial deregulation that drove Wall Street to levels of greed that surprised even the most hardened investment banking veterans.” She is certainly not a free market advocate: “I listened to [Milton] Friedman’s full-throated defense of free-market capitalism. Loved the guy, but it was also true that unfettered, unregulated free markets can lead to disasters.” Her arguments for what caused the financial crisis are also difficult to classify, as they do not contain much in the way of substantive philosophy or analysis: “Shadow banking is what caused the financial crisis.”

There are not many new revelations about the financial crisis in *Fed Up*. Most of the descriptions of the failures and bailouts of Bear Stearns, AIG, and other institu-

tions just repeat the standard narrative of the crisis that the world would have come to an end if the Treasury, the New York Fed, and the Federal Deposit Insurance Corporation had not intervened. A perusal of the endnotes for *Fed Up* reveals a concentration of source materials in articles from the *Wall Street Journal*, *Bloomberg*, and the *New York Times*, and not much original research for the book. Finally, DiMartino Booth provides the reader with a great deal of color regarding the personal details of her life as the financial crisis unfolded, which I found unnecessary.

As a skeptic of many of the policies and statements that came out of the Federal Reserve System over the past decade and as a supporter of transparency measures such as “Audit the Fed,” I am open to well-documented critiques of the institution. Sadly, *Fed Up* does not meet that standard. R

Great Background on Controversial Issues

◆ REVIEW BY DAVID R. HENDERSON

Three years ago in this magazine, I praised Peter Schuck’s *Why Government Fails So Often*, calling it one of the most important books of the year (“Why Isn’t Peter Schuck a Libertarian?” Summer 2014). Based on that book, I had high expectations for his latest, *One Nation Undecided*.

Though not quite as good as his 2014 book, the new one is, nevertheless, quite good. *One Nation Undecided* gives detailed background on the facts and analysis of five controversial U.S. issues: poverty, immigration, campaign finance, affirmative action, and religious exemptions from government policies. Whatever your views on these issues, it’s important to know the facts. Reading this book carefully made me, a policy wonk, realize how little I knew about four of those issues and that I didn’t

know quite as much as I thought I knew about the fifth, immigration.

In *Why Government Fails*, Schuck laid out in exquisite detail the ways that government fails. That led me to wonder why he considers himself a political moderate rather than a libertarian or classical liberal. The fact that he’s not a libertarian shows throughout *One Nation Undecided*. In it, he seems overly confident in government officials’ ability and willingness to craft effective policies on the five issues he addresses. That being said, he generally lays out the policy tradeoffs clearly, and sometimes both his reasoning and his conclusions will hearten a libertarian.

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To his great credit, he almost never pulls his punches and virtually never fights dirty. Moreover, even if all he presented were the facts, a public discussion informed by those facts would be head and shoulders above what we hear and read in most forums.

Poverty / Of the five issues he discusses, Schuck, the Simeon E. Baldwin Professor of Law Emeritus at Yale University, devotes the most space to U.S. poverty. He points out that many important social changes since 1965 distort “and vastly overstate” the current poverty rate in America. If we include noncash government benefits such as food and housing, if we take account of the Earned Income Tax Credit, and if we use a more realistic measure of inflation than the Consumer Price Index, then we would conclude that the 2013 poverty rate was not the reported 14.5%, but, rather, 4.8%. Moreover, he notes, the official double-digit poverty rate treats cohabiting couples differently than married ones. Treating them the same “would lower the poverty rate even more.”

One refreshing aspect of his chapter on poverty is that he distinguishes clearly between poverty and income inequality, and between inequality and inequity. Schuck writes that inequality is “an *empirical fact*,” whereas inequity “is not fact but a *moral judgment* about the moral fairness or justice of a particular level of inequality” (italics in original). Actually, inequity can also refer to unfair treatment that has nothing to do with inequality, but his distinction is a good one. It is one, moreover, that many economists—including Nobel prizewinner Joseph Stiglitz in his textbook *Economics of the Public Sector*—fail to make.

The poverty chapter is full of evidence, some not surprising and some quite surprising. As an example of the latter, Schuck notes that an important factor in being poor, not just as a child but also later in life, is being born to an unmarried mother and an absent father. This and other facts led poverty experts Isabel Sawhill and Ron Haskins to advocate the “success sequence,” three choices that

would substantially reduce the poverty rate, especially if carried out together. The sequence is: complete high school; work; and have children only when married and over the age of 21.

Another example of a surprising statistic is the small number of people who are in prison for mere drug possession: only “3 percent of state prisoners, who constitute 87 percent of U.S. prisoners.” He points out that almost half of prisoners “are violent offenders.” So why is our incarceration rate so much higher than Europe’s? It is, writes Schuck, “because our incidence of violent crime and recidivism is so much higher.” Interestingly, he reports, “incarceration is not a leading driver of poverty.”

On the idea of “banning the box” (BTB)—that is, prohibiting employers from asking potential employees about their criminal records—Schuck quotes a 2016 National Bureau of Economic Research (NBER) study that finds that BTB would *hurt* job prospects. While he doesn’t explain why, the reason is apparent to anyone who thinks about it. In the absence of information on applicants’ criminal records, employers will use other statistical categories in which they expect the number of criminals to be disproportionately high. And, sure enough, the authors of the NBER study, Jennifer Doleac and Benjamin Hansen, write that “BTB policies decrease the probability of being employed by 3.4 percentage points (5.1%) for young, low-skilled black men, and by 2.3 percentage points (2.9%) for young, low-skilled Hispanic men.” (See “Working Papers,” Fall 2016.)

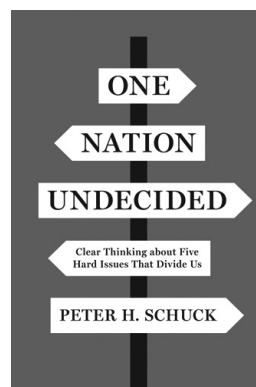
In discussing how policymakers might change policy to help poor people, Schuck points out that most Americans distinguish between the “deserving” and “undeserving” poor. Specifically, only 14% of Americans “support giving [govern-

ment] cash to poor, able-bodied adults without dependent children.” He doesn’t make clear what he thinks about this, but I found this statistic heartening. Certainly, it helps make the case that a Universal Basic Income, which even some libertarians have proposed, is a political nonstarter.

Immigration / In his chapter on immigration, Schuck nicely lays out the history of U.S. immigration policy and some of the most relevant facts and numbers. Here’s one striking number: between 1993 and 2015, the Border Patrol’s budget increased from \$363 million to nearly \$3.8 billion. Even inflation-adjusted, that’s more than a five-fold increase.

Schuck shows what a complicated web immigration law and policy are. He made me realize that even I, a consciously pro-immigration economist and an immigrant, had much less understanding of the history and facts than I had thought I had. To take one instance, I have long advocated that there be lengthy waiting periods—on the order of 20 years—before an immigrant can become a U.S. citizen. My reasoning is that it would handle the somewhat plausible objection that immigrants will “vote our system away” because they would have 20 years to learn about our system before being able to vote. Schuck points out that the 19th century Know-Nothings had proposed a 21-year wait for citizenship. Whatever

the Know-Nothings’ motives, I still think it’s a good idea. I became a resident alien in 1977 and didn’t vote until I obtained citizenship in 1986. Voting was a letdown, which I should have anticipated given that I’ve taught my students since the 1970s that an individual’s vote is unimportant. Had someone told me in 1977 that I could avoid all the hassles of hiring a lawyer and, for a short time, facing deportation, in return for being able to immigrate but



One Nation Undecided: Clear Thinking about Five Hard Issues that Divide Us

By Peter H. Schuck

425 pp.; Princeton University Press, 2017

never be able to vote or go on welfare, I would have said, “Where do I sign?”

Schuck is concerned that the naturalization rate for eligible Mexicans who are U.S. permanent residents is a low 36%. But is that bad? Given that many people worry that immigrants from more-regulated societies will vote to weaken U.S. economic freedom, couldn’t one just as easily see this as a glass that is 64% full?

Schuck, always a keen observer, notes “the relatively low quality of the immigration bureaucracy.” I experienced that first-hand in my dealings with the Immigration and Naturalization Service from about 1973 to the early 1980s. If he wants to understand why the quality is low, even compared to that of other U.S. government agencies, he would do well to consult public choice theory. Government employees have limited accountability to the public. They are hard to fire, and when you complain about them to your congressman, he might write a letter to the appropriate administrator but not do much else. However, limited accountability does not mean zero accountability. After all, if you’re a citizen, you can vote for or against your congressman if he fails to act on your behalf. But whom do immigration officials deal with primarily? Noncitizens. Noncitizens can’t vote legally. It should not be surprising, then, that accountability and, therefore, the quality of immigration officials are lower.

Schuck, who tends to think through the unintended consequences of various policy proposals, does not seem to do so with his call for compulsory E-Verify, a government program that would require employers to verify electronically that the person they hire is legally able to work. Consider the bugs that come along with any government program, ones that tend to be fixed only slowly. It’s quite conceivable that the federal government would nix the hiring of tens of thousands of people who are legal. But an even bigger problem is that E-Verify could well turn into a federal work permit program. It is not a big stretch to imagine that this or that administration, responding to the faddish

fears of the day, would prevent, say, people who are on the sex offender registry or who have past drug convictions from being able to work. On E-Verify, he discusses literally zero downsides.

Campaign finance / On campaign spending, Schuck puts the numbers into perspective. In 2014, Americans spent over \$31 billion on holiday gift cards, more than eight times the \$3.7 billion total

Multiple academic studies conclude that campaign spending has only a small effect on election outcomes and not much effect on policy outcomes.

spent on the 2014 campaigns. He does blow a decimal place, though, stating that the \$3.7 billion “represented a mere 0.0002 percent of U.S. GDP that year.” Actually, it was 100 times as much as his estimate, at 0.02% of GDP. Still, it was tiny.

What are the effects of campaign spending on election outcomes? Surprisingly, according to multiple academic studies, they are small. Moreover, the spending does not have much effect on policy outcomes. Schuck quotes one of the key studies: “Legislators’ votes depend almost entirely on their own beliefs and the preferences of the voters and their party” (Stephen Ansolabehere, John de Figueiredo and James M. Snyder Jr., “Why Is There So Little Money in U.S. Politics?” *Journal of Economic Perspectives* 17:1, 105–130 [2003]).

That helps explain “Tullock’s puzzle,” named after the late public choice economist Gordon Tullock. The puzzle is that political contributions are so low relative to the potential payoffs to beneficiaries of government policy. The resolution of the puzzle: it makes no sense to spend a lot of money to influence a politician who is influenced more by his own beliefs, party pressure, and constituents’ desires.

Schuck has an extensive and nuanced discussion of the various Supreme Court cases on campaign finance regulation and

freedom of speech. Unlike many other commentators, he distinguishes clearly between the famous *Citizens United* case and other important cases such as *McCutcheon* and *SpeechNow.org v. FEC*. One point he makes that helps explain the Supreme Court’s finding in *Citizens United* is that the government’s logic in preventing a movie from being shown just before the election would equally apply if the item at issue were a book. This, as Schuck notes, seemed

to sanction book-burning, something Justice Samuel Alito found “pretty incredible.” Indeed, although Schuck doesn’t mention this, in the Supreme Court hearings Deputy Solicitor General Malcolm Stewart

explicitly said as much. Under intense questioning, he admitted that his and the government’s logic would allow the government to ban books that were paid for with corporate funds if the books advocated voting for or against a candidate. In the limit, this would have meant a prison sentence for publishing a book.

Affirmative action / On affirmative action, Schuck writes, “No one doubts that blacks present the strongest case for affirmative action—historically, morally, and politically.” He continues: “If that case fails, as I believe my analysis will demonstrate, then the case for favoring other groups must fail as well.”

He disposes quite nicely of the “diversity” rationale for affirmative action in higher education. “The claim that members of the preferred minority groups actually create diversity value on campus,” he writes, “rests on certain essentialist premises that not only are false as a general matter but also tend to ratify the very stereotypes that the programs are intended to combat.”

As elsewhere in the book, Schuck deploys ample data to make his case. He notes a study finding that the admission bonus for being black “was equivalent to 310 SAT points relative to whites and even

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more relative to Asians.” One implication of these racial preferences is that black students, on average, “perform relatively poorly, yet they would have probably succeeded at less select institutions.”

Schuck favors nondiscrimination. Here, though, he slams “some” libertarians, writing that nondiscrimination “is no longer controversial in American society except among bigots and some libertarians.” In a book with 1,079 footnotes, he doesn’t footnote this disturbing claim. I suppose that some libertarians oppose nondiscrimination, but I, a libertarian, haven’t encountered one in decades. It’s possible that he is confusing favoring discrimination with the idea of *allowing* people to discriminate, something that many libertarians do favor.

Religious freedom / On religious tolerance, Schuck points out that U.S. society is one of the most religiously diverse in the world and that this came about mainly because of immigration of various religious sects. This diversity led bit by bit to religious tolerance. However, religious tolerance has been tested recently by government policies that force some people, especially employers, to violate their religious beliefs.

One interesting recent case involved Hobby Lobby, the family-owned company that was unwilling to pay for certain kinds of contraceptives for its employees despite being required to do so under the 2010 Patient Protection and Affordable Care Act. The case went all the way to the Supreme Court, where Hobby Lobby’s rights were upheld. Where most believers in freedom would see a clear-cut gain for freedom, Schuck instead sees a tough tradeoff. Referring to work by Harvard law professor Mary Ann Glendon, Schuck writes, “The proliferation and assertion of religious-based rights by A necessarily reduces the rights-free space in which B, C, D ... can exercise their freedom to act with reducing A’s rights.” In short, Glendon and presumably Schuck see a conflict of rights.

I don’t. Hobby Lobby’s exercise of its right to provide only a certain bundle of health care coverage does not infringe on its employees’ rights, if rights are prop-

erly understood. Simply by being your employee, I don’t have the right to *require* that you provide me certain items. They are part of a voluntary contract arranged between you and me.

Unfortunately, as Schuck realizes, conflicts between the religiously devout and others whose beliefs and behaviors they find offensive are multiplied by “the vast

increase in the number and scope of government policies that regulate people’s behaviors.” If only there were a solution. Who knows? The Peter Schuck who wrote *Why Government Fails So Often* could be just the person who could come up with a solution. My proposal for his next book title: *How to Reduce Social Strife by Reducing Government Power*. R

Protectionism: How to Make America Grate

◆ REVIEW BY PIERRE LEMIEUX

In 2002, Princeton University Press released *Free Trade under Fire*, a careful discussion and defense of free trade by Dartmouth economist and economic historian Douglas Irwin. The book was a follow-up of sorts for his excellent 1996 book *Against the Tide*, a history of economic thought on free trade.

The most recent edition of *Free Trade under Fire* was released in 2015. Though it is a couple of years old, it is worth reviewing now, as an avowed protectionist presides over what was once a trade-friendly United States, while European socialists and even the Chinese government are positioning themselves as defenders of free trade. The world, it seems, has turned upside down.

Free trade is intimately related to the ideal of individual liberty. It is probably impossible to cogently favor liberty and oppose free trade. As antebellum slavery advocate and protectionist George Fitzhugh once explained, “Admit liberty to be a good, and you leave no room to argue that free trade is an evil—because liberty is free trade.” (See “A Coherent Authoritarian,” Winter 2015–2016).

Free Trade under Fire is not a philosophical tract or a radical plea, but a book explaining the mainstream economic theory and empirical evidence behind the notion that free trade is good. In the first

chapter alone the reader will learn useful and often surprising facts about foreign trade in America. For example, the proportion of American consumption expenditures devoted to Chinese goods is barely more than 1%, while some 90% of goods and services consumed in America are made here. This is easy to understand when one realizes that two-thirds of consumption expenditures go to nontradable services such as health care, education, and housing. But there is much more in *Free Trade under Fire*.

Trade theory / The book provides a good introduction to the theory of comparative advantage. Factories in poor countries like Vietnam or China can outcompete more efficient producers in rich countries because, in the areas where the poor country has a comparative advantage (say, clothing or labor-intensive manufacturing assembly), its low productivity is offset by even lower wages. Poor countries are not exploited by rich countries nor are rich countries exploited by poor; the two claims, which are often heard, could not both be true anyway. All countries—

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that is, most of their residents—benefit by producing whatever goods cost them less to produce relative to other things. By exchanging efficiently produced goods, the residents of each country end up with more total goods than they would otherwise have enjoyed—that is, their lives are materially improved.

Many other conclusions of trade theory are covered, including the crucial point that imports, not exports, are what benefits a country: “Exports are the goods a country must give up in order to acquire imports,” explains Irwin. Look at it from the other side: if a country exports more, it will normally also import more, at least over time—for what else can be done with the foreign currency earned from exports? The trade deficit is thus a non-problem.

Perhaps Irwin could have emphasized that when we speak of an exporting or importing country, we are speaking about individual exporters and importers in each country. This would not change his arguments, but would help opponents of free trade see through the collective metaphor.

Numerous empirical studies summarized by Irwin suggest that international trade increases a country’s level of income and its growth over time. This is not surprising. A country is rich to the extent that its labor productivity is high, and free trade increases labor productivity. Higher labor productivity brings higher wages. A graph that Irwin reproduces from a study by Kathryn Marshall of Oxford College of Business and California Polytechnic State University, San Luis Obispo vividly shows the tight correlation between labor productivity and wages in a sample of 33 countries.

It is true that a country’s international trade is not the only cause of high incomes. Property rights, the rule of law, and a general context of freedom of contract are also required. But, Irwin explains, international

trade certainly “plays an important contributing role.”

Given those facts, why are so many American politicians now opposed to free trade? The answer is that some special interests benefit from protectionism, and politicians benefit from special interests’ support. Domestic producers want tariffs and other trade barriers (such as quotas or threats) because they raise the domestic price of what they sell. In poor countries, protectionism also allows the ruling elites to maintain their corrupt privileges, for instance by allocating import licenses among their favorites.

Irwin acknowledges the fact that, despite the net benefits of free trade, some workers are displaced by foreign competition and suffer unemployment or lower wages. Should the government help them, he asks. He answers, “What is the reason for providing more generous compensation to the apparel worker in Georgia who loses a job to imports than to the typewriter assembler at SmithCorona displaced because of computers or the

Kellogg’s worker laid off because General Mills begins producing tastier cereals?”

Irwin observes that the current assistance program, Trade Adjustment Assistance, “has not worked as promised, and may even be an impediment to economic efficiency” because it reduces the incentives of displaced workers to find another job. He is not a radical libertarian and he is willing to consider the idea of wage insurance or other ideas, but he remains generally skeptical about the capacity of government to efficiently help displaced workers. There is, he writes, “no obvious government policy that can address all of the concerns of workers adversely affected by economic change.”

Free Trade under Fire provides multiple examples of the high cost of protectionism. During the 1980s, textile and clothing

tariffs and quotas raised prices on American consumers, costing them \$140,000 for each domestic textile job saved. The 2009 American tariff on car and truck tires cost \$900,000 per *gross* job saved, but it may have actually reduced the *net* number of jobs because consumers spent less on other goods and services.

We may add—and Irwin could have emphasized this point—that the number of jobs created or saved by protectionist measures is a bad metric for income and welfare. If it were a good metric, banning chainsaws and computers would be good because that would result in the employment of more workers to cut trees and handle data. Banning tires would recreate a whole labor-intensive industry of buggies and slow transportation. But those bans would reduce welfare and certainly make America grate.

History and institutions / *Free Trade under Fire* also provides a masterful review of the history and institutions of the current system of international trade. Patiently built over the last seven decades around the multilateral rules of the World Trade Organization (WTO, successor to the General Agreement on Tariffs and Trade) and around bilateral or regional free trade agreements (FTAs), this system has been under attack since the 1990s.

Irwin notes that the FTAs signed by the U.S. government (14 are currently in force, involving Israel, Canada, Mexico, Chile, Columbia, Singapore, South Korea, and others) have more often resulted in larger cuts in foreign than in American tariffs simply because the latter were already lower. Those who claim that American producers have “lost” from free-trade agreements have generally got their data wrong.

As Irwin admits, the current multilateral system (under WTO rules) is far from perfect. A major problem lies in the “antidumping” exception, which allows domestic producers to request, and generally obtain, a protective tariff by claiming that foreign competitors charge less in foreign markets than in their home markets. But there are many good economic reasons



Free Trade Under Fire,
4th ed.

By Douglas Irwin
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University Press, 2015

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to charge lower prices in one market than in another—for instance, charging less in more competitive markets or in markets where the elasticity of demand is higher—as happens all the time within a domestic market. “It is hard to avoid the conclusion,” Irwin writes, “that the antidumping laws are simply a popular means by which domestic firms can stifle foreign competition under the pretense of ‘fair trade.’”

Because of this and other exceptions, some industries have obtained “temporary” protection for decades. In the United States, “the steel industry has received nearly continuous protection for over thirty years and is still seeking limits on imports,” Irwin notes. Agriculture, clothing, and footwear remain heavily protected all over the world. And non-tariff barriers are not uncommon.

Yet, the current system is far preferable to the protectionism that reigned between the First World War and the end of the Second. A significant lowering of tariffs and non-tariff barriers has been achieved. WTO rules require that any specific protectionist measure be non-discriminatory among countries. Both WTO membership and specific FTAs keep special interests in check by offering general packages that contain something for everybody. Trade rules give governments legal reasons to resist protectionist pressures. Dispute settlement mechanisms—especially the opportunity for investors to sue national governments—have been pushed by the American government as a protection against rogue states. I would add that they have the benefit of constraining all national Leviathans.

With the liberalization of trade, global supply chains have developed. Irwin describes how a Boeing 787 assembled in Washington state gets its center fuselage from Italy, its engines from the United Kingdom, its wings from Japan, its passenger doors from France, its cargo doors from Sweden, its wing tips from South Korea, and its landing gear from Canada. A certain car model assembled in South Korea by an American manufacturer had 27% of its value originating in America when

it was imported by American consumers. Import statistics, which incorporate the whole value of an imported good, are thus often misleading.

Developing world / Over the past few decades, international trade has played a major role in the economic improvement of several poor countries. *Free Trade under Fire* includes a few striking graphs showing the growth of gross domestic product per capita in South Korea from the 1970s, in China since the 1980s, and in India since the 1990s. China’s share of world trade jumped from 1% in 1980 to more than 11% in 2013. There are many other examples. Honk Kong has followed “an almost pure free-market approach,” Irwin notes, and “greater trade openness ... has been a feature of virtually all rapid-growth developing country experiences in the past fifty years.”

In contrast, interventionism and protectionism have been a plague for underdeveloped countries. He writes,

According to one quip, India suffered under four hundred years of British imperialism and fifty years of the Fabian socialism of the London School of Economics [which was long dominated by that brand of socialism and where many Indian students went to study] and it is not clear which did the most damage.

Free trade, according to comparative advantage, leads to higher wages. For example, hourly compensation in manufacturing doubled in India from 2002 to 2010. A previously elusive economic take-off has benefited large groups of humankind. Extreme poverty dropped from 36% to 15% of the world population between 1990 and 2011. The liberalization of internal markets helped, but so did foreign trade.

Another effect has been declining economic inequality. Irwin cites the work of economist Branko Milanovic showing that the escape of so many individuals from dire poverty reduced inequality at the world level.

Is reciprocity necessary? / Are WTO-type

multilateral rules preferable to bilateral or regional free trade agreements? Irwin presents the arguments of both sides. The discriminatory benefits provided by bilateral or regional FTAs can generate trade diversions in favor of less efficient producers. Moreover, it is easier to burden FTAs with environmental and labor standards that not only shouldn’t be part of trade agreements but can also serve protectionism, for example, by protecting rich countries from the competition of poor, low-cost labor.

As I have argued elsewhere, some “free trade” agreements have a high content of managed trade. What passes for “free trade” is far from totally free trade.

Irwin does raise the question of whether multilateral, bilateral, or regional trade agreements—that is, reciprocity—are necessary at all for free trade. Can’t unilateral moves—one country dropping protectionist measures unconditioned on what other countries do—reap the benefits of free trade? Irwin reiterates mainstream economic theory when he writes:

Countries are better off pursuing a policy of free trade regardless of the trade policies pursued by others. ... The case for free trade is a unilateral one: as economist Joan Robinson once put it, a country should not throw rocks in its harbors simply because other countries have rocks in theirs. The mercantilist language of international trade negotiations—that a reduction in one’s own trade barriers is a “concession” to others—is wrong from an economic standpoint.

The standard counterargument to unilateral free trade is that reciprocity forces governments to keep their commitments. It is easier for a government to cancel unilateral moves than to renege on an agreed system of rule-based trade. There is certainly something true in that. But interestingly, as data reported by Irwin suggest, much of the existing free trade appears to depend on unilateral moves to liberalize imports. The actual tariffs imposed are very often lower than the maximum

allowed under reciprocal agreements. He points out:

Two-thirds of the tariff reductions in developing countries during the period 1983 to 2003 were due to unilateral reforms; just 25 percent were due to multilateral agreements (the Uruguay Round) and 10 percent due to regional agreements.

We should go further than Irwin on the road to unilateral free trade. It is true that a general declaration of unilateral free trade by the U.S. government—or by any other government in the world—is currently just a dream. Such a declaration would require government leaders who understand trade theory and citizens who support economic freedom, both of which are in short supply. But couldn't the unilateral option become topical if the current wave of protectionism leads to the demise of the existing system, which could not be rapidly rebuilt? Economic stagnation would cry for the solution of unilateral free trade.

Any reader will have quibbles with such a wide-ranging book as *Free Trade under Fire*. I've mentioned my relatively minor ones on its substance. But I also have a grammatical grumble. I find very annoying the book's adoption of the current fad to close compound nouns rather than hyphenate them, resulting in such unreadable words as "governmenttogoovernment" and "timetested." As if to illustrate the problem (a sort of *reductio ad absurdum*) the latter word was end-of-line hyphenated as "tim-etested"!

But don't let this stop you from reading the book. *Free Trade under Fire* is a must-read for anybody interested in trade. It will teach a lot to the intelligent layman. The seasoned economist will also find it a useful overview. R

READINGS

■ *Against the Tide: An Intellectual History of Free Trade*, by Douglas A. Irwin. Princeton University Press, 1996.

■ "Free Trade and TPP," by Pierre Lemieux. Library of Economics and Liberty (www.econlib.com), February 1, 2016.

■ *The Logic of Collective Action: Public Goods and the Theory of Groups*, by Mancur Olson. Harvard University Press, 1966.

Bootleggers and Coffee-Haters

◆ REVIEW BY ART CARDEN

Not many academic books could credibly be called good night-stand reading. Harvard professor Calestous Juma's *Innovation and Its Enemies* can, in part because of its use of entertaining stories and anecdotes to illustrate ideas concerning innovation. These stories will prompt many readers to reflect on what they think they know about how innovation occurs and how the resulting advances are accepted. I didn't know, for example, that there had been such strong resistance to the introduction of coffee in the Middle East, North Africa, and Europe, or that that resistance was spurred by rent seeking. The book will be a useful source for scholars, students, policymakers, business leaders, entrepreneurs, and those who wish to understand the political steps that need to be taken to reduce the obstacles to innovation.

This book is especially timely given the emergence of "sharing economy" apps and websites such as Uber, Lyft, Airbnb, Waitr, and others. These innovations have not been welcomed with open arms by incumbent businesses, but surprisingly some consumers have also given the innovations a cold welcome beyond the consumer right to say, "No, thanks."

The book is also timely in light of perpetual controversies over genetic engineering, vaccination, and conventional versus organic farming. People tend to embrace science in some areas and reject it in others. Of course, we see this most clearly in political activism, where there is a curiously large overlap between the embrace of heavy-handed policies to curtail climate change in the name of science and the rejection of genetically modified

crops in spite of a scientific consensus that they are safe.

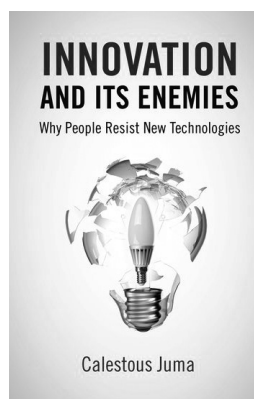
Opposing the new / Historically, innovations have often been killed in the crib by a combination of social and political forces. First, critics have subscribed to the notion that innovation is heretical; indeed, the term "innovation" originated to describe unorthodox interpretations of Scripture. Second, incumbents upset about the effect of innovative competitors on their

bottom lines have taken to political machinations. Juma gives us a series of tightly scripted tales about technologies that ran into problems that slowed their adoption, and he closes each chapter with a summary of the main lessons policymakers should draw from his analysis.

Stylistically, Juma has fun with his writing and readers will have fun with their reading. Almost every chapter title and heading, it seems, is a clever pun. At times, that gets to be a bit much, but it adds a pleasant lightness to the exposition. Juma is dealing with deep and impor-

tant topics in a serious way, but he's just irreverent enough to keep the narrative flowing. And he opens the book with a smart first line: "The quickest way to find out who your enemies are is to try doing something new."

Right from that start, he explicitly acknowledges that his analysis is Schumpe-



Innovation and Its Enemies: Why People Resist New Technologies

By Calestous Juma

432 pp.; Oxford University Press, 2016

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terian. He looks to go “under the hood” of the political economy and see how, exactly, the larger processes by which innovations are protested work, and the specific ways those protestations are overcome.

Many innovators who have tried something new have found they have a lot more enemies than they previously thought. Some innovations have been adopted with relatively little protest, e.g., cell phones, but others still have a long way to go before they are accepted widely, e.g., transgenic crops. This difference is central to our understanding of how technology changes over time. Different cultures and legal traditions have widely varying views about what constitutes an acceptable change and whether a new innovation is safe or risky. Navigating these differences is important to implement newly conceived technologies.

Bootleggers and coffee-haters / The book offers a series of case studies of the introductions of coffee, the printing press, margarine, farm mechanization, electricity, mechanical refrigeration, recorded music, transgenic crops, and transgenic salmon. It moves from areas where regulation seems most ridiculous to areas where it seems at first glance to have a semi-plausible rationale.

Some examples of regulation are understandable but off-putting. Others are more amusing. It is easy, from our 21st century vantage point, to chuckle at the protracted debates of early-modern Europe and the Middle East about the spiritual qualities of coffee. Naturally, the industries that sought government protection from the innovations did so in the name of protecting wholesome ways of life or advancing national security. The discussion of the dairy industry’s response to margarine makes sense in light of the rents that were at stake, but the way the industry pressured the president of Iowa State College to suppress a pamphlet on margarine’s safety written by future

Nobel laureate Theodore Schultz and colleagues illustrates the lengths people will go to when their comfortable status quo is threatened.

I was reminded of the importance of the rule of law when Juma offered this quote from Alaska congressman Don Young (R) about a salmon company: “You keep those damn fish out of my waters.... If I can keep this up long enough, I can

Different cultures and legal traditions have widely varying views about what constitutes an acceptable change and whether a new innovation is safe or risky.

break that company.... I admit that’s what I’m trying to do.” That an elected official can work to ruin a particular company underscores the importance of having a nation be ruled by laws and not by men.

It is easy to read a book and play a game of “citation bingo” in which one looks for all the thinkers the reviewer thinks the author should have engaged but didn’t. Forgive me for giving in to this temptation. I like Juma’s explicitly Schumpeterian framework, but it could have benefited by engaging with work by Ronald Coase, Mancur Olson, and Elinor Ostrom, among others. Some of Juma’s points about how regulators confront changing knowledge would have been stronger had they been expressed in the context of Hayek’s work on the knowledge problem, and a lot of Juma’s recommendations for policymakers could be better understood with reference to Douglass North, John Joseph Wallis, and Barry Weingast’s work on the differences between limited- and open-access orders.

I would like to see Juma and others work out the implicit political theory in greater detail when discussing how people seek to protect the status quo. On what grounds are people asserting that their comfortable ways of life should be maintained at others’ expense? Perhaps more particularly, why are observers and

other members of the polity inclined to agree with them? The economic reasons why incumbents oppose innovation are clear enough: they stand to see the value of their physical and human capital fall if the status quo does change. Consider the plight of the steelworker who has a skillset that becomes worthless as a result of automation and international trade. But it would be useful to see why so many others—including those who benefit from the technological changes—also oppose innovation. Enthusiasts for innovation such as, I suspect, most of the readers of this journal should take more seriously objections that incumbents have to challenges to the status quo. Juma points out how incumbents and others resist novelty even in seemingly uncontroversial cases such as the adoption of coffee and movable type and the mechanization of agriculture.

Juma at least gets us part of the way to an answer. Scary “what-if” scenarios about innovations have a lot of emotional and cultural currency. As we have learned from psychology and behavioral economics, the way a proposal is framed is of supreme importance to how it is received. Near the end of the book, Juma upbraids the scientific community for a failure to communicate: “Members of the scientific and engineering community often communicate in ways that alienate the general public.... Learning how to communicate to the general public is an important aspect of reducing distrust.” His point is implicitly McCloskeyan: Rhetoric matters. Persuasion is important. How we talk is essential to whether we adopt or reject innovation.

At the end of each chapter, the author offers a set of policy suggestions that should be of great value to those charged with making science and technology policy in the face of stiff opposition from beneficiaries of the status quo. Given that we don’t yet live in an anarchist paradise, I suspect that many libertarian readers will see the book’s proposals as steps in the right direction. *Innovation and Its Enemies* will be a valuable addition to the bookshelves of academics, students, policymakers, and entrepreneurs the world over. R

The Grand Tour of Financial Policy

◆ REVIEW BY SAM BATKINS

If you want to know everything about the financial history of civilization, Yale finance professor William Goetzmann's *Money Changes Everything* won't completely satisfy that desire, but it will fulfill most of it. The book delivers on its promise to trace the foundational elements of finance from Sumerian culture to the great economies of Athens and Rome, to Fibonacci and Marco Polo, to the complex financial instruments of today. This substantial tome is Goetzmann's love letter to finance.

Of course, no one book can capture all there is to know about financial history. But *Money Changes Everything* comes awfully close to a comprehensive review of financial infrastructure. It tracks the development of finance's "hardware" (contracts, corporations, and banks) to its "software" (recording, calculation, algorithms, and probability theory). Beyond any critique, the book is fascinating. Who knew Louis Bachelier's work on option pricing, stock prediction, and the development of Brownian motion (the random movement of particles) were developed before Albert Einstein's work on motion? The intersection of war, nation-building, finance, mathematics, and even art is given an exhaustive analysis in this book.

Ancient and medieval finance / For many who follow history and the regulatory state, there are familiar trends that echo through our financial past. Typically, past is prologue. As early as 1,900 BCE, Rim-Sin, ruler of the Sumerian city-state of Ur, responded to a financial crisis by declaring all loans null and void. Later, he banned interest payments. Some scholars speculate that those interventions were responsible for capital and population shifts from Ur to nearby Lara. That's just one regulatory folly—and perhaps not the first—out of

many that have occurred in history.

Fast-forward to 396 BCE and the Athenian empire. Despite its prestige, grain dealers who "hoarded" their product faced the death penalty, making the modest punishment in *Wickard v. Filburn* seem like an afterthought. Beyond capital punishment, Athens set specific limitations on countless enterprises. Two-thirds of imported grain had to go to Athens. Athenian citizens were forbidden to ship to any other port. And, once grain was brought to the city, there were laws limiting profit margins. Regulators in ancient times evidently took their grain seriously.

Government power also extended to some of the novel financial and technological instruments that arose. Just as the internet, drones, and new financial products are regulated almost as soon as they are devised, throughout history the ruling class has often viewed innovation as a threat that must be micro-managed.

Consider the medieval Knights Templar, who were among the first international bankers. As they were trained

soldiers who took a vow of poverty and were financially backed by the church, they were perhaps ideally suited to handle other people's gold and land. Kings and nobles often deposited valuables with the Knights; at one point, the English Crown

Jewels were kept with the Knights Templar rather than in the Tower of London. Kings would also borrow from the Knights to finance military operations. Pensions and annuities were funded from this nascent bank.

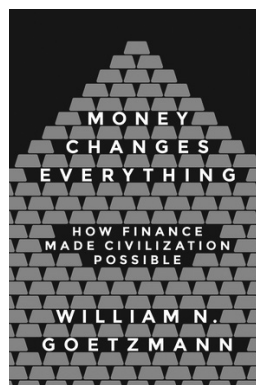
Government ultimately couldn't abide the power of the Knights. Early in the 14th century, King Philip IV of France became incensed that they wouldn't cancel the debt he was accruing in his War with the English. So he ordered his troops to seize the Knights' vaults and land, and imprison, torture, and execute all the Knights they could find.

China / Beyond war, betrayal, and frequent discussions of financially based artwork, a main theme of the book centers on China. Namely, how could a nation that invented metal coinage, paper money, and securitized lending not lead the world in finance? Why were all of the early corporate powers—e.g., the Dutch East India Company and the Honor del Bazacle (the oldest known corporation)—all formed in Europe? And why did China, of all places, adopt communism in the 20th century?

According to Goetzmann, the answer is that "when financial innovations occurred in China, they were often appropriated for the benefit of the government, not the individual." New private ventures were crowded out by state-run monopolies. This set the nation back compared to its early competitors, despite its innovative financial history.

Goetzmann does have a particular academic focus on China, so prepare for numer-

ous discussions on language, art, culture, and economics. (Curiously he fails to mention a major financial innovation by one of China's neighbors: one of the first futures markets in the world, the Dojima Rice Exchange in Japan.) The comparisons



Money Changes Everything: How Finance Made Civilization Possible

By William Goetzmann
600 pp.; Princeton University Press, 2016

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between Europe and China constitute a considerable chunk of the book, arguably to the exclusion of other notable developments in finance.

Today's finance / Naturally, most of the second half of the book centers on the American experiment and the somewhat surprising divergence of thought between U.S. and British investors.

Some argue that finance is more about avoiding risk than taking risks. Accordingly, Great Britain's Henry Lowenfeld attempted to manage risk by heavily investing in bonds. National bonds currently have a zero risk-weighting, so it might make sense to arrange a portfolio largely of safe investments.

As John Maynard Keynes observed, however, Americans are more risk-tolerant; they have a fascination with stocks, dividends, and greater returns. It was American Edgar Lawrence Smith in the 1920s who discovered the "equity premium": over the long-term, stocks beat bonds. Later, Harry Markowitz and Bill Sharpe proved that a diverse portfolio of stocks and bonds could be just as safe as all bonds and return a far greater profit. The technology of finance extends not just to instruments like stock puts and calls, but to the new math and theory that prove there are better ways of making money and advancing progress.

According to Goetzmann, the first element of finance is the reallocation of economic value through time. Whether it's charging interest, the modern mortgage, the concept of net present value, or a complex derivative, how economic actors value and discount money over time is a central tenet in both finance and regulation. Today, regulators struggle with the value to place on emitting a ton of carbon dioxide and how much to discount the potential benefit of an avoided emission centuries into the future. At a 3% discount rate, a particular rule may move forward. However, considering some rules forecast benefits generations into the future, a 7% rate can reduce the monetized gains to practically zero.

As the author notes, mathematics aids

in the calculation of how money changes over time or the acceptable level of risk, but many decisions are moral and political regardless of the arithmetic. In the past, banning interest used to be *de rigueur* even though that meant the lender lost money on virtually every deal. Today, political considerations often masquerade as moral imperatives, obscuring the rational decisions that should be guided by economics and mathematics. Doubling the minimum wage and the overtime threshold are sold on moral grounds, with specious economic arguments floundering in the background. Despite the litany of rigorous research, many decisions by those in today's governments

don't revolve around established financial or economic literature.

In sum, Goetzmann's work is a fascinating tour through the history of currency, finance, probability, and risk. Regardless of the reader, there will doubtless be several surprises in each chapter. From the libertarian perspective, the common theme through this historical journey is the innovative brilliance of our species to devise new technology to solve intricate problems—and how those innovations are often banned or curtailed by monarchs, dictators, and politicians acting in their own self-interest. From Ur to Wall Street and Silicon Valley, past is prologue in regulation. R

Crusader for Liberty

◆ REVIEW BY DAVID R. HENDERSON

The late Milton Friedman was arguably America's most prominent defender of freedom in the last half of the 20th century. Although his expertise was in empirical economics, especially in the area of monetary history and policy, he was an articulate advocate of liberty. His first major contribution to this cause, written with his wife and fellow economist Rose Director Friedman, was his 1962 classic *Capitalism and Freedom*. Together, the Friedmans co-authored the 1980 book *Free to Choose*, which was based on his PBS television series.

In *Milton Friedman on Freedom*, editors Robert Leeson and Charles Palm, both of the Hoover Institution, have assembled many of his most important articles and chapters that make his case for freedom. (Disclosure: I was a friend of both Milton and Rose Friedman and am a research fellow with the Hoover Institution, where Friedman was a senior fellow from 1977 to his death in 2006.)

The book is well worth reading. There is often overlap between sections so that you

will read the same data or important facts three or four times in working through the chapters. Some might find this annoying; others might find that the repetition reinforces the message. In this book, you will see Friedman making mainly a consequentialist case for freedom—it works so well, giving us prosperity—even though he takes pains to point out that his case is a philosophical one based on moral relativism. He is at his strongest when he draws on his economic and statistical skills. He is at his weakest in making his philosophical case.

Disparate voices / One of his strongest cases for freedom is that the typically impersonal forces in the market cause harmonious interaction between people who will never meet each other and who, if they did, might dislike each other. In a 1955 article in the volume, Friedman writes,

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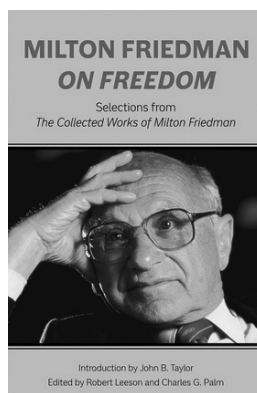
"The purchasers of the wheat do not know whether it has been produced by a Communist or a Fascist, a white man or a Negro; they could hardly discriminate if they wanted to."

In that same article, he contrasts the relative ease with which socialists and communists in the United States can put together newspapers and magazines with the difficulty that proponents of capitalism would have publishing a pro-capitalist magazine in a socialist society. He writes:

Suppose a change to a collectivist economic society with government control of the bulk of economic activity. How could the proponents of a return to capitalism secure the resources with which to publish a magazine urging their point of view? Through a government fund for dissidents? Through the collection of small sums from millions of government employees? If they had the resources in the form of funds, what guarantee could they have that the government would sell them paper on the same terms as it does to others?

He points out that in a free market, by contrast, "The sellers of paper do not know whether the paper is going to the *Daily Worker* or the Foundation for Economic Education." Strikingly, he points out, no proponent of socialism has "even faced this problem squarely." Recall that he wrote this in 1955; 62 years later, I still don't know of any socialist who has faced this problem squarely. Sadly, I can think of some socialists, such as the late philosopher Herbert Marcuse, who didn't (and don't) consider it a problem that advocates of capitalism wouldn't be able to publish their ideas.

Always the empiricist, Friedman, in a chapter reprinted from *Capitalism and Freedom*, discusses how free market



Milton Friedman on Freedom: Selections from The Collected Works of Milton Friedman

Edited by Robert Leeson and Charles G. Palm
246 pp.; Hoover Institution Press, 2017

forces undercut the Hollywood blacklist that was used against writers who were communists or alleged communists. Throughout his telling, his passion for and delight in freedom of speech—even for those whose message he detests—shines through.

Free markets / One of his biggest contributions to freedom was his active participation in President Nixon's Commission on the All-Volunteer Force. In 1970 that commission came out 14-0, with one abstention, in favor of ending the draft, and the draft was officially ended in June 1973.

I would have liked to have seen in this volume Friedman's "Why Not a Voluntary Army?" his cogent case against the draft on economic and philosophical grounds that was published in the *New Individualist Review* in 1967. Instead, the editors chose a speech that he gave at West Point in 1985. (In it, he mistakenly says that the commission had 12 members, initially split evenly for and against the draft, and that in the end all 12 favored ending the draft.) The speech is good, but not as good as his 1967 article.

However, the speech has the virtue of recounting his famous dialogue with Gen. William Westmoreland during the commission hearings. Here's Friedman's account of their exchange:

One person who testified was General Westmoreland. He was then, I believe, chief of staff of the army, and he was testifying in that capacity. Like almost all military men who testified, he testified against a volunteer armed force. In the course of his testimony, he made the statement that he did not want to command an army of mercenaries. I stopped him and said, "General, would you rather command an army of slaves?" He drew himself back and said, "I don't like

to hear our patriotic draftees referred to as slaves." I replied, "General, I don't like to hear our patriotic volunteers referred to as mercenaries." But I went on to say, "If they are mercenaries, then I, sir, am a mercenary professor, and you, sir, are a mercenary general; we are served by a mercenary physician, we use a mercenary lawyer, and we get our meat from a mercenary butcher."

One of his most impressive abilities was his empirical sense. He was rarely swayed by the more-visible to ignore the less-visible. This shows clearly in a 1962 article, "Is a Free Society Stable?" originally published in the *New Individualist Review*. In it, Friedman points out that when he asks people to list the major industries in the United States, they always list those in which there are few firms. He writes, "They list the automobile industry, never the garment industry, although the garment industry is far larger by any economic measure than the automobile industry." He continues, "I have never had anybody list the industry of providing domestic service, although it employs many more people than the steel industry." His point is that the higher visibility of concentrated industries leads people to exaggerate the degree of industrial concentration and, because they tend to equate concentration and monopoly power, to exaggerate the degree of monopoly.

On monopoly, though, even Friedman got a little confused. In a chapter from *Capitalism and Freedom* he writes that monopoly "inhibits effective freedom by denying individuals alternatives to the particular exchange." If the monopoly came about because of a government preventing competition, then he would be roughly right, although even in that case it's the government that inhibits freedom, not the monopolist per se. But he is discussing monopoly more generally and he is making his argument even if the source of the monopoly is not government restrictions. Friedman argues that what's great about competition is that "the consumer is protected from coercion by the seller because

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of the presence of other sellers with whom he can deal.” It’s true that it’s great to have other sellers so that a buyer is not at the mercy of one seller, but if there is only one seller, there is nothing inherently coercive about that. In a free market, even the most extreme monopoly can’t coerce me into buying from it.

I remember sitting at dinner with the Friedmans at the somewhat legendary first Austrian economics conference in South Royalton, Vt. in June 1974. I made a putdown of John Kenneth Galbraith, who, I knew, was one of their neighbors in Vermont where they had their summer home. Rose quickly upbraided me, quite correctly, pointing out that Ken was a friend and that they simply disagreed about economics. That was an important lesson for me at the age of 23. Milton deals with Galbraith the right way, by going after his ideas. In a 1976 article reprinted in this book, he writes:

Some years ago, in an article published in the *New York Times Magazine*, John Kenneth Galbraith said that there was no problem in New York City that would not be solved if the city government’s budget was doubled. In the interim the city government’s budget has been quadrupled and so have the problems.

Morality and freedom / What is Friedman’s basic argument for freedom? One might think that, given his emphasis on freedom’s consequences, his case is a combination of consequentialism—free markets do so well for us—and the standard libertarian moral arguments against the initiation of force. But at various points in the book, Friedman takes pains to say that his case for freedom is not about consequences at all but, rather, is based on our ignorance about what *is* moral.

In a 1974 *Reason* interview reprinted in the book he states that if we knew for sure what sin is, then if we saw someone sinning, we ourselves would be sinners if we didn’t forcibly prevent him from sinning. He asks, “How can you allow a man the freedom to sin?” He answers his own question: “The only answer I can give is that I

cannot be absolutely certain that I know what is sin.” In a 1991 article, “Say ‘No’ to Intolerance,” he repeats that argument.

I thought I knew Friedman’s thinking very well, but I confess I hadn’t known how strongly he believed this argument. I’m not a professional philosopher, but I suspect that philosophers could find large weaknesses in his argument. One is that if we can’t know what sin is, then we don’t

know what constitutes right and wrong. And if we don’t know that, how can we say that it’s wrong for government to use force to prevent people from doing what some people regard as sinning?

But Friedman did not make his living as a philosopher. He made it as an economist and, increasingly in his last 30 years, as an articulate, passionate, and effective crusader for liberty. Thank goodness he did. R

Diminishing the Case Against Empathy

◆ REVIEW BY DWIGHT R. LEE

Many economists will find Yale psychology professor Paul Bloom’s new book very appealing. In *Against Empathy*, he frequently and favorably quotes Adam Smith, has nice things to say about economists, defends rationality, sees the importance of a utilitarian perspective, makes use of insights from public choice, and recognizes that the problem he sees with empathy is typically found in political settings. Yet I believe his case against empathy is seriously diminished in light of public choice considerations. Further, much of what he dislikes about empathy can be effectively dealt with by markets.

Empathy explained / Bloom spends much of his opening chapter distinguishing kindness, concern, compassion, love, and sympathy from empathy. These distinctions are appropriate; empathy—sharing in another person’s feelings—is not the same as other caring emotions. However, many of the problems that he blames primary on empathy also apply to other caring emotions, especially in the setting where he argues those problems are most pronounced—a setting that he calls “spotlighting,” which I discuss below.

Bloom points out that he agrees with Smith’s understanding of empathy, but

place ourselves in his situation ... and become in some measure the same person with him, and thence form some idea of his sensations, and even feel something which, though weaker in degree, is not altogether unlike them.

That, says Bloom, is “how I am thinking about empathy.” In other words, if “your suffering makes me suffer, if I feel what you feel, that is empathy in the sense I’m interested in here.” This is often called “emotional empathy” and it “can occur automatically, even involuntarily.” This is to be distinguished from what is known as cognitive empathy, which is understanding that another is in pain without feeling the pain yourself. Unless specified otherwise, when Bloom uses the word “empathy” he is referring to emotional empathy.

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Problems with empathy / Bloom accepts the perspective of most economists that “when it comes to morality ... nobody can doubt that consequences matter.” While he recognizes that intentions are important, he focuses on what he sees as the consequentialist moral problems created by empathy. Among them is what he calls the “spotlight” effect: empathy focuses moral attention on

the one over the many. This perverse moral mathematics is part of the reason why governments and individuals care more about little girls stuck in wells than about events that affect millions or billions.

Consider three of Bloom’s examples of the spotlight effect. In 1949, the country’s attention was riveted on a 52-hour attempt to rescue 3-year-old Kathy Fiscus after she fell down a well in San Marino, Calif. The country later mourned when the rescue effort failed. In 1987, the country’s anxiety focused on another child who had fallen down a well: 18-month-old Jessica McClure of Midland, Texas. Nationwide rejoicing followed her successful 55-hour rescue. Bloom’s third example comes from ethicist Peter Singer, who argues against donating to the Make-A-Wish Foundation, which finances short-lived “experiences of a lifetime” for very ill children. Singer points out that the money spent on one of these “dream days” would save more lives if given to the Against Malaria Foundation to be spent on mosquito-repellent bed nets in malaria-prone areas. Similarly, the money spent on the rescue attempts of little Kathy and Jessica could plausibly have saved more lives if spent in other, less dramatic ways.

In fairness to Bloom, he acknowledges that “empathy is not the only facet of our moral lives that has a spotlight nature. Emotions such as anger, guilt, shame, and

gratitude are similar.” But this is his only mention of those emotions.

Instead of empathy, he counsels that people should act on compassion, as indicated by the book’s subtitle. He describes compassion as not

sharing the suffering of the other: rather, it is characterized by feelings of warmth, concern and care for the other, as well as a strong motivation to improve the other’s well-being. Compassion is feeling for and not feeling with the other.

The implication is that compassion is under our rational control to a greater degree than is empathy. He briefly acknowledges that when making some decisions, “many of my arguments against empathy apply to compassion as well.” Yet this comes after he tells us that when “struggling with a moral decision,” rather than relying on empathy when deciding “how to improve things,” it is “much better to use reason and cost-benefit analysis, drawing on a more distant compassion and kindness.” Leaving no doubt about how he feels about empathy, he tells us that “the capacity for emotional empathy, ... defended by so many scholars, theologians, educators, and politicians, is actually morally corrosive.”

Critical to Bloom’s argument is his discussion of the connection of reason and rationality to morality. He mentions the late ethicist James Rachels, “who sees reason as an essential part of morality.” Bloom then considers the claim that “most people are incapable of rational deliberation.” In doing so he observes that those emphasizing irrationality suggest that “they themselves—and those they are writing for, you and me—are the exceptions” because they make rational cases for irrationality.

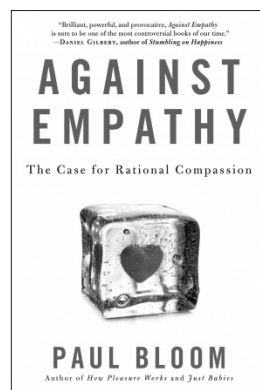
Bloom acknowledges human irrationality and accepts himself as being “only

human” when stating that his book no doubt “contains weak arguments, cherry-picked data, sneaky rhetorical moves, and unfair representations of those I disagree with.” In other words, he is subject to confirmation bias (he doesn’t use that term) like everyone else. Yet he makes the convincing claim that (hard) “science provides an excellent example of a community that establishes conditions where rational argument is able to flourish.” I am somewhat less convinced with his follow-up statement that “the same holds, to various extents, in other domains, such as philosophy, the humanities, and even some sorts of political discourse.”

Emotions and political decisions / But can the spotlighting of an emotion—whether empathy, compassion, sympathy, etc.—on identifiable people be expanded to include a much broader set of people, so that help can be directed to where it does the most good?

Bloom is clearly aware of the difficulties in achieving such an expansion. He quotes Mother Teresa: “If I look at the mass, I will never act. If I look at the one, I will.” In his prologue he states that “we will never live in a world without empathy—or without anger, shame or hate, for that matter.” But he holds out hope that “we can create a culture where these emotions are put in their proper place, and this book is a step in that direction.” Yet he never indicates how that culture might emerge or be created, or what the proper place for the various emotions might be, other than that we should moderate the influence of empathy on political decisions.

In his closing chapter, “The Age of Reason,” he tries to make a hopeful argument that the political influence of empathy can be moderated. Bloom recognizes the difficulty of achieving such moderation, using some general arguments from public choice economics. These are arguments he admits “I am unhappy making,” possibly because he recognizes how they overwhelm his more hopeful suggestions on the potential for moral reasoning, as well as those by Steven Pinker, Robert Wright,



**Against Empathy:
The Case for Rational
Compassion**

By Paul Bloom

304 pp.; Ecco, 2016

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Singer, and (yes) Smith, at least when applied to the political arena.

Bloom's concern over moderating the political influence of empathy begins with his comment that "there are areas of life where we certainly seem stupid. Take politics." His explanation for this "stupidity" is that unless we are members of a powerful interest group with a special interest in a political issue, our views on issues "don't have to be grounded in truth, because the truth value doesn't have any effect on [our lives]." He could have added that even when an issue does affect voters' lives, human emotions will exert the dominant influence on how we vote because the probability of one vote decisively determining an election's outcome is effectively zero.

It is difficult to see how he can maintain hope that political decisions can be influenced by fine distinctions between emotions. For example, a voter can realize personal satisfaction by voting for a policy she favors emotionally, while she can ignore with impunity any undesirable personal consequence of the policy because of the minuscule probability that her vote would determine whether it passes or not. Indeed, because the probability of a vote having a decisive effect on an election is effectively zero, the satisfaction from emotional expression is the primary driver of most voting decisions.

There can be little hope that a voter will make her decision only after determining whether her emotional satisfaction from voting a certain way is based on empathy, compassion, or some combination of those and other emotions, and then applying Bloom's analysis. In the political process, differences in how particular emotions affect our decisions effectively disappear, which seriously diminishes Bloom's case against empathy. The qualification that some political decisions can be decisively influenced with direct lobbying by organized interests does nothing to help his case because caring emotions such as empathy, compassion, and kindness have generally had little effect on decisions by organized interest groups to use their political influ-

ence to profit at public expense.

Considering markets / Many of the problems Bloom associates with empathy are addressed effectively by market information and incentives. Consider the following two examples of how markets overcome the spotlight effect and how they limit the negative effects of confirmation bias on rationality.

Markets are immune to the spotlight effect when appropriate to be so, although this is a virtue that often enrages many people. For example, those who work for or own stock in drug companies are no less sympathetic than the rest of us to the relatively few victims of rare diseases. However, market prices provide drug companies with the best information available on the tremendous human costs of developing drugs to benefit a few by diverting research away from developing drugs that benefit many. Politicians and journalists find advantage in spotlighting the heart-breaking stories of the identifiable few and excoriating the drug companies for ignoring or "overcharging" them. Yet far more human grief from illness is alleviated and more drugs to help the relatively few are developed in economies made more productive by the broad illumination that only market prices provide.

Next, consider the problem of confirmation bias. It is surely a less serious problem than behavioral economists and many psychologists would have us believe because of their own confirmation bias. No one would deny, however, that it is a serious problem in academics and politics, where feedback that could correct erroneous views is either absent or easily ignored. In markets, though, prices regularly make short work of even the strongest-held confirmation bias. For example, confirmation bias is seldom stronger than in the beliefs of entrepreneurs regarding the commercial value of their products. Yet when entrepreneurs confront market prices informing them that those products are worth less to consumers than they cost to produce, their confirmation biases quickly turn to dust and they begin to consider alternatives to their former

convictions. If the confirmation biases of university professors and politicians were confronted with information as accurate and compelling as that communicated by markets, scholarship and public policies would improve as absurd ideas and policies are promptly discarded.

Conclusion / As an economist, I am sympathetic to logical arguments against popular policies and beliefs that are based almost entirely on their emotional appeal. Such beliefs as "Import restrictions increase domestic employment" and "Higher minimum wages reduce poverty" come to mind. But Bloom is arguing against a specific emotion (empathy) that he believes is particularly harmful because it misdirects benevolent efforts away from where they would do the most good.

There may be some truth to his argument that empathy is more likely to cause such misdirection with spotlight effects, and that it poses a greater threat to rationality and morality than other emotions such as compassion. Even so, given the exaggerated influence of all emotions in political decisions, particularly by voters, any additional destructive power of empathy over other caring emotions is hardly worth worrying about.

The problem is that all caring emotions, when exercised in the political process, are exercised without the relevant information and sense of responsibility necessary to avoid spotlighting, the irrationality of confirmation bias, and other unfortunate outcomes. In sharp contrast, when decisions can be made through markets (which admittedly is not always practical), spotlighting, confirmation bias, and irresponsible emotional influences are strikingly reduced and outcomes are more rational and broadly beneficial.

The most important conclusion to be taken from Bloom's book is that the best hope for more rational and less emotional decisions is stronger constitutional limits—both procedural and substantive—on government. Those limits would make it more difficult for activities best left to markets to be shifted to the political process. **R**

The Discontented Animal

◆ REVIEW BY PIERRE LEMIEUX

If anybody thought that democracy is an unmixed blessing, he should have been disillusioned by the last U.S. election. At least Donald Trump's victory can be interpreted as public opposition to the rule of government bureaucrats, which Hillary Clinton would likely have strengthened. But are we condemned to have either the Charybdis of "totalitarian democracy" (to use an expression from Bertrand de Jouvenel) or the Scylla of the tyranny of experts?

Two recent books help us to think through these issues: *Democracy for Realists* by political scientists Christopher Achen of Princeton and Larry Bartels of Vanderbilt, and *Escape from Democracy* by economists David Levy of George Mason and Sandra Peart of the University of Richmond.

Achen and Bartels remind us that the Founders were suspicious of democracy and instituted a republic with many checks on democratic controls, such as a Constitution including a Bill of Rights, the Electoral College, and two houses of Congress. Divided and limited government were features of the republic, not bugs.

Unfortunately, those institutions have proven less hearty than the Founders had envisioned. James Madison, one of the major proponents of divided and limited government, would be distressed at how the U.S. government and popular ideology have become democratic. He would not be alone. "Even Thomas Jefferson, often remembered as a dedicated democrat in a republican age, was anxious to limit the influence of the urban masses," note Achen and Bartels.

Danger of experts / Federal bureaucratic power has grown, especially since the Progressive Era. The power of experts in and on government is the topic of Levy and Peart's *Escape from Democracy*. It will be

convenient to review this book first.

Levy and Peart argue that we should not escape democracy by accepting the rule of experts. They focus on economic experts, but their arguments apply to all experts who advise government. Following Chicago economist Frank Knight, they think of democracy as "government by discussion." In this tradition, exemplified by such economists as Adam Smith, John Stuart Mill, Lionel Robbins, and Milton Friedman, "the good society is one that governs itself by means of an emergent consensus among points of view."

Escape from Democracy claims that the discussion tradition "largely disappeared from the economics literature with the advent of new welfare economics" in the 1930s and its offshoot of cost-benefit analysis. Under this new school of thought, the goals of public policy are considered to be exogenously set by the citizens, while the experts analytically decide the means to accomplish those goals. Levy and Peart reject this notion. Discussion should continue about the means as well as about possible modifications of the goals. They reproduce a beautiful sentence from Knight:

In contrast with natural objects—even the higher animals—man is unique in that he is dissatisfied with himself; he is the discontented animal, the romantic, argumentative, aspiring animal.

The two economists insist that popular knowledge incorporates more wisdom than it is credited with. Their stance is contrary to that of Georgetown political philosopher Jason Brennan in his *Against Democracy* (Princeton University Press,

2016; see "Power to the Knowers!" Spring 2017), as well as in many ways to that of Achen and Bartels, as we will see. While the experts' input is required, it should not be blindly deferred to because it is biased: the experts have their own private motivations, self-interest, and incentives.

Two chapters of *Escape from Democracy* analyze two episodes where experts seriously erred: eugenics in the first part of the 20th century (see "Progressivism's Tainted Label," Summer 2016), and the gross overestimation of Soviet economic growth by economists—including Nobel prizewinner Paul Samuelson—from the 1960s to the 1980s. For several years, Samuelson attributed to bad weather the languishing of the Soviet economy. During the Progressive Era, virtually all experts favored eugenics, and eugenic sterilization lasted until 1974 in North Carolina. We might add that today's public health movement shows a similar authoritarian bias. (See "The Dangers of 'Public Health,'" Fall 2015.)

Levy and Peart favor institutions that minimize the biases of experts. "The goal is to generate plenty of unbiased expert judgments, for instance, by making transparency incentive-compatible or, if that is unattainable, by making nontransparencies transparent." In other words, experts' incentives must be structured away from biases or at least their biases must be transparent, like they are in legal litigation. The authors emphasize the importance of codes of professional ethics and the disclosure of conflicting interests (in scholarly articles, for example). They also present one "radical proposal": to have regulations approved by juries, an institution the authors see as "the paradigm of democracy." With the help of a sophisticated statistical argument, they show that "something akin to jury trials might be a viable means to obtain the benefits of expertise in the regulatory setting."

Levy and Peart are (brilliant) experts in the history of economic thought and their book is replete with original insights. They admit that experts, including themselves, have their own incentives, which may con-

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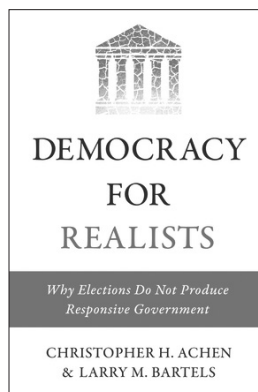
flict with the search for truth. Incentives are the bread and butter of economic analysis, and we should “*apply the tools of economics to the economists who use them*” (emphasis in original).

Escape from Democracy is a learned, fascinating, and wide-ranging book. It goes from alchemy to statistical analysis of jury-type decisions. It raises many deep questions and proposes original approaches.

Perhaps its arguments can be extended or improved in a few directions. Levy and Pert write about “group (societal) goals,” but it is unclear what those goals are. They also talk about “society’s goals,” and even slip into “we as a people,” but I will blame their editor for the latter. Are these group goals some sort of collective goals, or are they instead the “shared goals” of individuals? How can they be aggregated? The authors do suggest in passing that these “goals” are Hayekian-type conventions, but their thesis would benefit from hashing through these issues.

I think that by rejecting welfare economics, the authors of *Escape from Democracy* have deprived themselves of a useful way to think about these issues. The first theorists of the “new welfare economics” were no doubt mistaken in thinking that, with the so-called Kaldor-Hicks criterion, public policies could be proposed without making value judgments. In two 1950s articles, Samuelson himself demonstrated that it is generally impossible to make welfare evaluations (about all individuals) without bringing in normative, extra-economic judgments about distribution. In fact, Samuelson *supports* Levy and Peart’s claim that economic experts cannot prove the superiority of some public policies over others.

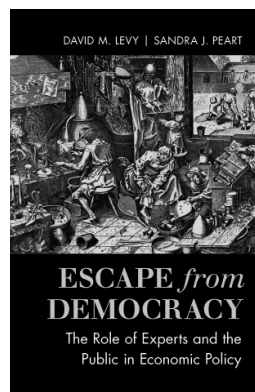
It is not only Kenneth Arrow who, as Levy and Peart write, “called into question the soundness of the new welfare enterprise.” With Samuelson, welfare economics itself finally proved what it had set out to disprove—that is, the methodological capacity of economic experts to dictate public policy. The fact that Levy and Peart mention Samuelson as part of the discussion tradition suggests that they are open



Democracy for Realists: Why Elections Do Not Produce Responsive Government

By Christopher H. Achen and Larry M. Bartels

408 pp.; Princeton University Press, 2016



Escape from Democracy: The Role of Experts and the Public in Economic Policy

By David M. Levy and Sandra J. Peart

288 pp.; Cambridge University Press, 2016

to putting some water in their anti-welfare-economics wine.

There is also a risk of exaggerating the import and justification of democratic discussion. Meaningful democratic discussion cannot cover everything and it should not try to. To the extent that it can result in coercive decisions, it should not encroach on private domains. (More on this later.)

I suspect that Levy and Peart would accept some of my objections—at least the last one, concerning the necessity to restrict the scope of democratic discussion. Achen and Bartels, on the other hand, would likely reject that objection.

Very different book / *Democracy for Realists* is a very different book, if only methodologically. It astutely marshals much empirical evidence and presents a host of interesting statistical analyses about what voters think and how democracy works. It is less rooted (if at all) in the school of rational choice and criticizes “economistic thinking.”

The two political scientists set out to “document the gap between democratic ideals and realities,” to show how the populist or folk theory of democracy is untenable and, in the second part of the book,

to propose a new justification for democracy.

According to the folk theory of democracy, the voters “have preferences about what their government should do,” and they “choose leaders who will do those things” or “enact their preferences directly in referendums.” In this perspective, voters really rule, as opposed to Madison’s “trustee model” where they elect a body of wise citizens to realize the public good.

Achen and Bartels deploy a trove of data and statistical analysis to show that the folk theory of democracy makes no sense. Elections don’t represent “the will of the people” because preferences cannot be aggregated in any coherent way. Voters are igno-

rant of facts pertaining to politics and they vote for or against parties and candidates, not on actual issues. At the end of 1996, for example, a majority of voters, both among Democrats and (even more) among Republican, thought that Bill Clinton had not significantly reduced the budget deficit, which had in fact been cut by 40% in three years—or 58% if we count the fiscal year at the end of which the survey was run. Politicians are not much constrained by voters’ opinions.

The least demanding version of folk democracy, “retrospective voting,” does not correspond to reality either. Retrospective voting occurs when voters at least know enough to “throw the bums out” when election time comes and they have not been served well. But in reality, voters engage in blind retrospection. Statistical analyses show that they punish the incumbents (of whichever party) only for the economic conditions obtaining in the last six months preceding the election, whether or not the politicians in power could have done anything to change those conditions. They punish incumbents for droughts and floods. In 1916, voters even punished Woodrow Wilson and his Democrats for shark attacks in New Jersey.

Despite such interesting analyses, Achen and Bartels suffer from their own blindness. They ignore the explanation of “rational ignorance,” the fact that a single voter has, for all practical purposes, a zero chance of changing the election result. Consequently, Achen and Bartels do not see how the rational voter votes his opinions, not his interests (except to the extent that he has rationalized his interests into his opinions or his whims).

More generally, the authors neglect the economic literature on voting. They cite George Mason law professor Ilya Somin’s *Democracy and Political Ignorance* (Stanford University Press, 2013), but not the work of his Mason economics colleague Bryan Caplan (*The Myth of the Rational Voter*, Princeton University Press, 2007) nor that of political philosophers Geoffrey Brennan and Loren Lomasky (*Democracy and Decision*, Cambridge University Press, 1997). Except for the old work of Brookings economist Anthony Downs, they neglect the whole public choice analysis of democracy. James Buchanan, who won the 1986 Nobel economics prize, is nowhere cited. They don’t mention and seem to ignore the economic analysis of collective action. They view the work of economists on democracy as “limited” and “naïve.”

Instead, they borrow from psychology and the soft field of sociology to develop a “group theory” of democracy. Individuals, they claim, are moved by “group loyalties and social identities.” Puppets of racial and other social groups, individuals just obey group norms. They don’t support political parties whose opinions match theirs, but instead take their opinions from the political parties (and other groups) they belong to.

There is something true in the idea that groups are important, and *Democracy for Realists* offers supporting statistics in the realm of politics. But standard economic theory explains most of that in terms of rational behavior; no need to invoke some soft-sociological theory of groups. Some of the gregarious behavior of individuals can also be explained by our tribal wiring inherited from evolution, but Achen and

Bartels don’t even cite Friedrich Hayek, another Nobel prizewinner, who has studied the implications of this fact for modern societies. Hayek also explained how methodological individualism is useful to study society.

Disappointing climax / Where the two political scientists are heading only becomes clear at the end of the book, although the attentive reader will not have missed the accumulating signs. Achen and Bartels want us to normatively embrace the power of groups over the individual and to accept that democracy is a contest among

Achen and Bartels do not see that the rational voter votes his opinions, not his interests (except to the extent that his interests shape his opinions and whims).

groups. It’s not just that individuals are inevitably group puppets; it is also good to empower groups, and this provides a new justification for democracy.

What is needed for democracy, they argue, is to enforce equality between the political groups, although perhaps it is between individuals—they’re not entirely clear. Campaign contributions must be controlled to make sure that some groups, such as the rich, don’t have more political influence than others, such as the poor. More than 300 pages (most of which admittedly are interesting) to come to this normative anticlimax!

But the authors have a problem. If groups are made equal irrespective of their sizes and other factors, individuals will be unequal. If, on the other hand, all individuals are valued equally, their groups—if freedom of association is protected—are unlikely to be equal. As usual, the mirage of material equality (equality of results) leads to absurdities.

Consider another instance. Achen and Bartels talk about “*economic and social equality*” (emphasis in original)—the whole package it seems. “The most powerful players

in the policy game are the educated, the wealthy, and the well-connected,” they write. They note that ideally “both corporate interests and college professors would get less weight in the democratic process.” Check your bright privilege, as it were. But if college professors have too much political influence, then *Democracy for Realists* is a book that should never have been. As an unrepentant sympathizer for old-fashioned classical liberalism (“antiquated in its ideas,” as Achen and Bartels would say), I still think that would have been a loss.

The scope of democracy / This drift of Achen and Bartels’ otherwise interesting book suggests that the fundamental problem of democracy as we know it is not ignorant voters, lurking bureaucrats, or people who get a bit more ink or electrons.

The fundamental problem is the *scope* of democracy. If democracy is “the rule of the people,” as Somin defines it in his 2013 book, the first problem is the rule. The second problem is identifying who “the people” are. Moreover, if everything is up for grabs, the volume, depth, and antagonism of discussion will exclude most people. Politics begets conflict and ultimately renders discussion impossible.

“Paradoxically,” writes Somin, “the best way to improve democratic deliberation may be to rely on it less. ... Democratic control of government works better when there is less government to control.” Going back to the problem of voters’ rational ignorance, “the problem of political ignorance may be more effectively addressed not by increasing knowledge but by trying to reduce the impact of ignorance.”

Or look at it from Buchanan’s constitutional perspective (as I understand it). We must distinguish between consumer tastes, which are a private matter, and political opinions, which—except in (most) libertarian opinions—imply imposing one’s preferred lifestyle on others. Democracy, even in its direct

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forms, may be good for issues relating to tastes for public goods. Think of national defense or even public land if you take John Locke's proviso seriously (private appropriation of land "at least where there is enough, and as good, left in common for others"). But no democracy, bureaucracy, or any other form of "cracy" (which is derived from the Greek

kratos, meaning "power") is good when tastes concerning nonpublic goods are concerned: Joe's preference for white chocolate and Alice's preference for dark chocolate are nobody's business.

Both *Escape from Democracy* and *Democracy for Realists* are interesting books. But the latter is not consistent with real limitation of state power. R

The Fed Just Does Not Have Sufficient Plenary Authority

REVIEW BY VERN MCKINLEY

In mid-March 2008, Bear Stearns took its place in history as the first of the major bailouts during the most recent financial crisis. The minutes of the March 14, 2008 meeting of the Federal Reserve's Board of Governors rationalized the bailout by highlighting the "expected contagion that would result from the immediate failure of Bear Stearns." A few weeks later, in an early April 2008 hearing on Bear Stearns, then-Fed chairman Ben Bernanke jettisoned the references to contagion and instead spoke of how "extremely complex and interconnected" the financial system was, spawning use of the phrase "too interconnected to fail." That became the phrase du jour to describe the risk of allowing Bear Stearns and, later, other institutions to fail.

What should we make of the use of such technical and ever-changing terminology as the response to the crisis evolved? In *Connectedness and Contagion*, Hal Scott brings to light what is meant by phrases like "connectedness" and "contagion," and applies these concepts to the context of the recent financial crisis as well as other historical financial crises.

Scott is a professor at Harvard Law School and director of the school's Program on International Financial Systems. He is also the director of the Committee on Capital Markets Regulation, a biparti-

san and nonprofit group whose objective is to enhance the competitiveness of U.S. capital markets and ensure the stability of the U.S. financial system via research and advocacy. Scott's publications include the Foundation Press textbooks *International Finance: Transactions, Policy, and Regulation* (with Anna Gelpern, now in its 20th edition) and *The Global Financial Crisis* (a new paperback edition comes out this year). Earlier this year, the Trump administration considered him for the position of vice chairman for supervision at the Board of Governors of the Federal Reserve, an important position that was created as part of the post-crisis Dodd-Frank reforms.

As the Trump administration, along with the House Financial Services and Senate Banking Committees, begins to consider banking reform, some have argued that the Dodd-Frank Act went too

far in retaining the tools for the Federal Reserve to intervene in large, weak institutions. Scott takes a different tack in *Connectedness and Contagion*, arguing that Dodd-Frank actually went too far in *trimming back* those powers.

Clarifying concepts / Scott wastes no time in providing a lucid set of definitions for "connectedness" ("concern that the failure of one bank will cause the failure of others"); "correlation" ("failure of multiple institutions due to a collapse in asset prices"); and "contagion" ("indiscriminate spread of run-like behavior throughout the financial system, including to healthy institutions"). He labels these the "three Cs of systemic risk." These concepts were widely used during the financial crisis by the financial authorities and repeated by the media, but rarely defined. He then launches into a summary of the academic literature for the "three Cs."

Scott lays out compelling examples from the crisis (particularly Lehman Brothers and AIG) to argue that the extent of interconnectedness was overstated and concludes that interconnectedness was not a major problem. He makes the further point that changes in the Dodd-Frank Act, such as imposition of central clearing, exposure limitations, and designation of Systemically Important Financial Institutions, were based on a false narrative: "Thus the Dodd-Frank Act has strong measures to combat connectedness despite the lack of evidence that this was a real problem in the crisis."

He argues, rather than the ongoing focus on interconnectedness, that contagion was actually at work during the crisis in the money market fund and investment bank industry, as well as the commercial paper, interbank lending, and repo markets after the failure of Lehman. On



CONNECTEDNESS AND CONTAGION

PROTECTING THE FINANCIAL SYSTEM FROM PANICS
HAL S. SCOTT

Connectedness and Contagion: Protecting the Financial System from Panics

By Hal S. Scott

440 pp.; MIT Press, 2016

money market funds, he states, “Clearly, investors were running as a result of general panic and not concern over a particular fund’s fundamentals.” As for the third C, correlation, Scott concludes, “Although correlation played an important role in the recent crisis, contagion is what transformed \$100–200 billion in losses on subprime mortgage products into the destruction of roughly \$8 trillion of equity market capitalization between October 2007 and October 2009.”

An open-ended power to lend / Scott dedicates nearly a quarter of the book to the Fed in its role as lender of last resort (LLR), arguing that LLR is a very effective means to fight contagion. He builds his case for a strong LLR with plenary authority, arguing that it “is even more important than a strong and independent manager of monetary policy.” He tips his hand from the start, describing the Fed’s LLR measures during the financial crisis as “heroic and creative,” which follows up on the book’s up-front dedication: “To all those who so successfully fought the panic created by the financial crisis of 2008.”

He traces the history of LLR back to the days of Walter Bagehot and the nation’s early central banks, the First and Second Banks of the United States. Throughout this section, he rants against “populist” sentiment, a phrase he applies with derision, which is also a tactic Bernanke deployed in his memoir of the financial crisis. Scott targets those who question the efficacy of concentrating such broad-based lending powers in the hands of the government:

It is important to understand this history not only because it explains why it took so long to create the Fed but also because the populist objections to any kind of government bank are still with us today and indeed are the main factor why the Fed is now such a weak lender of last resort.

As you might expect, he is not pleased with the provisions in the Dodd-Frank Act that reduce the extent of plenary authority

the Fed exercises as LLR. Among the provisions he dislikes:

- no loans to single institutions
- nonbank loans must be approved by the treasury secretary
- no loans to insolvent institutions
- no funding to nonbank affiliates
- tougher collateral requirements
- disclosure to the public and Congress

He claims that these provisions “have made our financial system much less stable” and argues for the elimination of most of the restrictions. In doing so, he ignores the whole line of argument—most articulately advanced by Anna Schwartz in her 1992 paper, “The Misuse of the Fed’s Discount Window”—that the Fed has abused its plenary authority by propping up weak (particularly large) institutions going back at least as far as the 1920s. This is in conflict with Bagehot’s dictum to only lend to “sound” institutions.

Scott rounds out this LLR discussion by laying out a side-by-side comparison of the powers of the Fed, Bank of England, European Central Bank, and Bank of Japan. He concludes that the United States “grants by far the weakest [LLR] powers to its central bank, particularly with respect to nonbanks.” He concludes that reversing some of the Dodd-Frank changes and granting further discretion to the Fed are the answers for stability.


Hooray for bailouts / The last major section of *Connectedness and Contagion* addresses bailouts, which Scott euphemistically calls “Public Capital Injections into Insolvent Financial Institutions.” He lays out what is probably the most full-throated defense of bailouts that has been published since the memoirs of Bernanke and Obama administration treasury secretary Timothy Geithner.

In the introduction to this section, he offers the oft-repeated argument in Chicken Little-style language that “bailouts are realistically the lesser of two evils, if economic collapse is the alternative.” As

with most commenters who take such an approach, he engages in speculation and, I believe, wildly overstates the likelihood of economic collapse.

Rather than defend bailouts head-on, most of his discussion is spent raising up various criticisms of bailouts and then, in straw man fashion, debunking them. For example, he admits that the moral hazard concerns are the “strongest argument against government bailouts.” But he does not really address the fact that in a market economy failing institutions should be subject to the same elements of market discipline as any other institution and that banks are simply not as “special” as bailout defenders make them out to be. Additionally, Scott does not offer any evidence that “bridge banks” do not work. This is a major oversight because a bridge bank is an available method for resolving large, complex, “too big to fail” institution (TBTF) and any complete analysis of resolving these mega institutions would have addressed it. He only mentions bridge banks in reference to the Japanese system, but he does not address bridge banks and their use to ease a TBTF bank through a marketing process by temporary nationalization.

The depth and level of detail in the endnotes for *Connectedness and Contagion* (which take up a full 100 pages of the book) are truly impressive. The notes reveal a deep level of analysis of the studies, speeches, testimony, legislative provisions, and media materials for the range of topics under scrutiny in the book. I expect to refer to them many times in the future as I do my own research on LLR and bailout-related topics.

Connectedness and Contagion is thus a useful reference guide and the views presented on connectedness and contagion are well-supported. However, the arguments regarding the issues of LLR and bailouts are the same tired arguments we have heard over the past decade, about how we should trust the financial authorities like the Federal Reserve to “do the right thing” when it comes to propping up our largest financial institutions. If you buy into that policy approach, then *Connectedness and Contagion* should be on your reading list. 

The Lost Contract Clause

◆ REVIEW BY GEORGE LEEF

The play *Sunset Boulevard* is enjoying a Broadway revival. Just as its central character, Norma Desmond, was once a beautiful star who has become a shriveled has-been, so has the U.S. Constitution's Contract Clause. Once a star in the Constitution's plan for liberty and limited state power, it now is almost completely forgotten.

Vanderbilt Law School professor James W. Ely Jr. tells that unhappy story in *The Contract Clause: A Constitutional History*. Explaining the clause's importance to the Framers, he writes:

Inserted into the Constitution without extensive debate, the Contract Clause was clearly prompted by the sour experience with state debt relief laws during the Post-Revolution Era. It was grounded in the premise that honoring contractual commitments served the public interest by encouraging commerce.

Unfortunately, like a number of other key constitutional provisions, the Contract Clause eventually fell victim to judicial interpretations that, by the latter stages of the New Deal, rendered it almost a dead letter. Ely's book gives the reader a fascinating account of the "roller-coaster ride" of this clause.

Need for commerce / The young American nation developed a commercial economy in which the enforceability of contracts for land, goods, and services was crucial. But, as John Marshall observed, state legislatures were inclined to "break in upon the ordinary intercourse of society, and destroy all confidence between man and man." In an attempt to stop that, the Constitution's drafters—probably at the urging of Alexander Hamilton, Ely notes—included in Article I, Section 10 the provision, "No state shall pass any law impairing the obligation of contracts." (In the same section, states were forbidden to issue paper money

or enact *ex post facto* laws.)

That language did not, however, stop state governments from attempting to meddle with contracts, usually to help struggling debtors. Much of our early constitutional litigation revolved around such laws. For example, the first federal court decision to invalidate a state law, *Champion and Dickason v. Casey* (1792), involved a Rhode Island law that gave a particular debtor, Silas Casey (a prominent merchant) an extended period of time to pay his creditors. When two British merchants sued him to collect on their contracts, Casey defended on the grounds that the state law—which he had lobbied for—barred their suit. The circuit court, with Chief Justice John Jay presiding, dismissed Casey's defense on the ground that the Rhode Island law violated Article I, Section 10. That decision was important both in the development of judicial review and in demonstrating the young nation's commitment to the security of contracts.

Another early case was *Fletcher v. Peck*, an 1810 decision of the Supreme Court. To greatly condense a convoluted factual situation, the Georgia legislature had attempted to rescind its sale of a large tract of land. Chief Justice Marshall ruled that act invalid, declaring that the Contract Clause applied to public as well as private contracts and was intended "to shield against the effects of sudden passions." Thus, the reach of the clause was extended and the reliability of contracts broadened.

Undoubtedly the most famous of Marshall's Contract Clause decisions is *Dartmouth College v. Woodward* (1819), which held that a corporate charter (albeit for

a nonprofit educational enterprise) was a contract that the state legislature could not change. While the corporate charter at issue in the case was for a charitable institution, the holding over time was extended to safeguard business corporations against subsequent legislative interference by changing their charters.

By the end of the Marshall era, the Contract Clause provided a firm defense against legislative interference for rights under public and private contracts. But that would be its high-water mark. Soon state and federal courts would begin to whittle away at it.

First slips / In the years following Marshall's death, the Contract Clause proved inadequate to prevent various kinds of state actions that impaired the obligation of contracts. Chief among them were abridgements of corporate charters on "police power" grounds. That is, legislatures altered or revoked business charters they had granted in order to protect "public health and morals." Such powers are nowhere conferred upon the states in the Constitution, but the courts began to regard them as inherent in state sovereignty and overrode the Contract Clause when the two clashed.

For example, beginning in the 1820s, a strong alcohol prohibition movement started to grow in many states and, as a consequence, state legislatures forced businesses that made or sold alcoholic beverages to close, despite their charters. Didn't that impair those contracts, making the legislative actions unconstitutional? No, answered most courts, state police power took precedence. Business charters to operate lotteries met the same fate. Eventually, the police power exception would mostly swallow up the rule against legislation impairing contracts.

On the whole, however, the Contract Clause held strong during the Taney Court period (1835–1864). The Court's decisions "harmonized with the widely shared desire to foster economic growth by honoring contractual arrangements," writes Ely. Moreover, state court decisions in the main reinforced the importance of contractual reliability.

After the Civil War, the importance of contracts was strengthened by the passage of the Civil Rights Act of 1866, which specifically included “the right to make and enforce contracts” among those accorded to former slaves. Ely quotes University of Chicago historian Amy Dru Stanley: “In postbellum America contract was above all a metaphor of freedom.”

Then, in one of the first major Supreme Court decisions following the war, *Hepburn v. Griswold*, Chief Justice Salmon P. Chase sought to extend the reach of the Contract Clause from state laws to federal enactments. That case involved the federal government’s mandate that paper “greenback” currency be accepted in contracts that had called for payment in gold. Chase’s opinion held that the Contract Clause applied to federal statutes and not just state laws because it would be inconsistent with “the spirit of the Constitution” to allow the federal government to do what the states could not. This was, one might say, an early “living Constitution” decision, but with the twist that it was meant to further restrict government power, not to justify its expansion.

Losing the clause / But Chase’s attempt to expand the Contract Clause was quickly crushed. The next year, after President Ulysses S. Grant had filled two vacancies on the Court, the Legal Tender Act was back before the justices and this time it was upheld in a decision (*Knox v. Lee*) that overruled *Hepburn*. Ominously, Justice William Strong’s concurring opinion stated, “No obligation of a contract can extend to the defeat of a legitimate governmental authority.”

During Reconstruction, state courts, especially in the South, became increasingly sympathetic to pro-debtor laws on the grounds that because of “policy and humanity,” such laws did not impair con-

tracts but were “paramount to debts.” And the erosion of the Contract Clause continued during the Gilded Age as the courts upheld laws that imposed rate regulation on railroads despite charter provisions stating that the individual railroads were not subject to such controls. Also during this period, “police power” justifications for laws impairing contracts grew more frequent.

By the late 1800s, with Progressivism gaining ground, private contracts were looked upon with disdain and, as Ely puts it, the Contract Clause was “viewed in a new and diminished light.”

Evidence for that included the fact that the challenge in *Lochner v. New York* (1905) to New York’s law placing limits on the number of hours bakers worked did not include a Contract Clause claim. Instead, it relied upon the rather vague idea that the law was unconstitutional as a violation of due process under the 14th Amendment. Evidently, the defenders of contractual freedom thought it better to fight this “police power” expansion on a different ground than that it ran afoul of the Contract Clause.

During the New Deal, the battered and weakened Contract Clause suffered body blows. Once again, poor economic circumstances provoked legislatures to pass laws favoring debtors, such as mortgage moratorium laws. A few state courts bravely struck them down as Contract Clause violations, but in 1934 the Supreme Court shredded that defense in *Home Building and Loan v. Blaisdell*. In a tortured majority opinion upholding the law, Chief Justice Charles Evans Hughes wrote that economic emergencies do not create new power under the Constitution, but then proceeded to expatiate on a five-part test for circumstances when it did. In dissent, Justice George Sutherland warned that the decision would mean “ever-advancing encroachments upon the sanctity of pri-

vate and public contracts.” Exactly so.

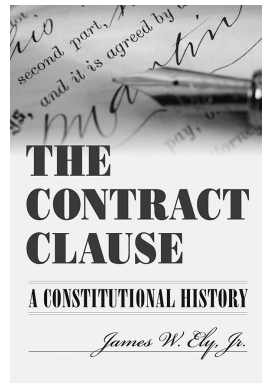
Further undermining the Contract Clause during and after the New Deal was the advancing idea that courts should defer to legislative authority in almost every case where it could be argued that a measure was intended to protect the public. In a 1945 case, Justice Felix Frankfurter wrote that the police power should be regarded as an implied term of every contract so that when the state acts, it cannot possibly impair a contract, and that courts should respect political judgments about whatever is necessary to protect the public. The Contract Clause, therefore, falls before any political whim.

Zombie clause / So, is it now dead? In a 1978 case, *Allied Structural Steel v. Spannaus*, Justice Potter Stewart said that it “is not a dead letter” but then proceeded to drive more nails into its coffin.

The case involved a Minnesota law that retroactively imposed substantial new financial obligations on firms by forcing them to pay pension benefits to employees who had not vested for them under their voluntary plans. The Court came up with an ambiguous balancing test of the kind many jurists love, pitting the “social interest” against the importance of contractual stability. Ely comments, “Much depends on the weight assigned by courts to the various factors to be balanced. How severe is a contractual impairment? What constitutes a broad societal interest? ... The various criteria are so malleable that a court could justify almost any decision.”

Thus, state governments now have nearly unlimited power to tamper with contractual obligations and the reliability of a contract depends upon how judges might weigh several vague factors. Where the Founders wanted certainty, we now have a great deal of uncertainty.

Ely concludes by taking us into recent cases where the clause has been resurrected in efforts by public employee unions to prevent legislatures from whittling away any of their promised benefits by legislative efforts to lower budget deficits. Some have gone in favor of the legislatures, some in



The Contract Clause: A Constitutional History

By James W. Ely Jr.

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IN REVIEW

favor of the unions. In the latter cases, that bespeaks the Norma Desmond-like metamorphosis of the Contract Clause. Language put into the Constitution to protect

the growth of commerce has been turned into a way of protecting special interest gains wrung from one legislative session against any future reduction.

This illuminating book will appeal not only to lawyers, but to anyone who has an interest in the way our laws can change over time without the altering of a single word. **R**

Working Papers BY PETER VAN DOREN

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

Bank Subsidies

"Are Larger Banks Valued More Highly?" by Bernadette A. Minton, Rene M. Stulz, and Alvaro G. Taboada. March 2017. NBER #23212.

Everyone asserts that large banks have an implicit subsidy from being "too big to fail" (TBTF)—that is, the banks affect so many people that federal officials would come to the banks' rescue if they were to get into financial trouble. Is this belief supported by bank share prices? Does the market value banks more highly if they are larger?

One way to measure this is to use Tobin's q , the market value of assets divided by the book value of assets. If TBTF is right, then Tobin's q will be larger for larger banks.

The authors find that Tobin's q for large banks are smaller than for small banks. And once a bank exceeds the Dodd-Frank regulatory threshold for large banks, Tobin's q decreases with size. Within banks over time, the relation between size and valuation is negative over the period 1987–2006. So the market does not value banks more if they are larger.

Strictly speaking, the paper does not show that TBTF does not add value to large banks. But if TBTF does add value, it is not enough to overcome other negatives that make large banks worth less than small banks.

Water Pollution

"Consequences of the Clean Water Act and the Demand for Water Quality," by David A. Keiser and Joseph S. Shapiro. January 2017. NBER #23070.

Since 1972 the United States has spent \$1 trillion on water pollution abatement, which amounts to over \$100 per person per year. What have we gained from this expenditure?

The authors study data from 170,000 pollution monitoring sites from 1962 to 2001. Dissolved oxygen increased by 5 percentage points and the share of waters that met fishing standards increased by 11 percentage points after 1972. But the time series shows no visually obvious evidence of a mean-shift or trend-break in water pollution after the start of the grant program in 1972. In fact, the rate of decrease in pollution levels actually *slowed* after 1972. The declining rate of reduction suggests decreasing returns to pollution

abatement or increases in non-point sources (agricultural land runoff) canceling whatever positive effects point-source control had.

To estimate benefits of the water treatment grants, the authors examine housing values within 25 miles of treated rivers and conclude that for the average grant of \$35 million (2014 dollars), housing values downstream increased by \$9 million in the aggregate relative to housing values upstream that were unaffected by the sewerage treatment.

The authors put a positive spin on these estimates, arguing, "The benefits of these Clean Water Act grants exceed their costs if [the] unmeasured components of willingness to pay exceed the components of willingness to pay that we measure by a factor of three or more." In other words, if there are \$27 million in benefits that do not factor into increased willingness to pay for housing near cleaner rivers, then the \$35 million expenditure results in \$36 million in benefits and is cost effective.

Building Codes

"Economic Effectiveness of Implementing a Statewide Building Code: The Case of Florida," by Kevin M. Simmons, Jeffrey Czajkowski, and James M. Done. May 2017. SSRN #2963244.

Hurricane Andrew in 1992 destroyed 25,000 homes, damaged 100,000 others, and resulted in \$26 billion in damages in South Florida. Homes built before 1960 suffered less damage than those built later. Analysts concluded from this that Florida building code quality and enforcement had deteriorated over time.

In response, Florida enacted one of the strictest building codes in the country in 2001. (See "Do Coastal Building Codes Make Homes Stronger?" Summer 2014.) Since then, Florida has experienced 18 large wind events. This paper examines how damages were affected by the new building code using loss data from 2001 through 2010 on about a million homes.

The paper concludes that houses built since 2000 suffered losses that were 72% less than homes built prior to 2000. Many of the newer homes suffered no damage. For those homes that suffered some damage, losses were 47% less.

The authors then ask whether the additional construction costs were cost effective. The additional building costs from the codes were approximately \$1.66 per square foot, or \$3,254 for the average 1,960 square-foot structure. The average annual loss for homes built prior to the building code change was \$466 per house

for a present value of \$21,474 over the 50-year life of a house. The 47% decrease in losses from the new building codes would equal \$10,093 present-value over the 50 years. So \$3,254 in costs prevents \$10,093 in damages. The building code is very cost effective.

Plastic Bag Bans

"Bag 'Leakage': The Effect of Disposable Carryout Bag Regulations on Unregulated Bags," by Rebecca Taylor. May 2017. SSRN #2964036.

Many people criticize retail stores' use of thin plastic bags to package purchases because many shoppers do not dispose of the bags properly. As a result, the bags clutter roadsides, yards, trees, and waterways, where they are unsightly and can be a hazard for wildlife.

Some local jurisdictions have responded to this with plastic bag taxes and prohibitions. Consumers often respond to such policies by finding close substitutes that undermine some of the effects of the policy. To determine if this is happening with plastic bag policies and if this results in net harm, this paper studies the effect of plastic bag bans in California over the period 2008–2015 using scanner data from 201 food stores.

Bans on plastic bags resulted in an immediate and large

increase in the purchase of small (67%) and medium (50%) garbage bags relative to jurisdictions in California with no bag controls. (Other categories of plastic and paper bags exhibited no change in sales.) The author concludes that people were reusing the shopping bags as trash bags at home, and after the bags were banned they purchased other bags for trash. The ban thus resulted in a 40.3 million-pound reduction in plastic shopping bag use but an *increase* in plastic garbage bag use of 16 million pounds and in paper bag use of 68.7 million pounds.

Is this change better or worse for the environment? To answer that the author considers the bags' effects on carbon emissions. Manufacturing a plastic bag results in fewer emissions than substitutes like paper, trash, or cloth bags. However, the latter bags can be reused, so multiple uses can offset the emissions difference. To have fewer carbon emissions, a paper bag would have to be reused three times, a plastic trash bag four times, a polypropylene bag 11 times, and a cotton bag 131 times. Those reuse rates seem unlikely.

If such reuse does not occur, the simple carbon footprint of the ban may be adverse. But many people would argue there is a large, unmeasured benefit from not having plastic bags hanging in trees and floating on waterways. The author responds to this point with a question: "Do the benefits of reduced litter and marine debris outweigh the costs of greater greenhouse gas emissions and thicker plastics going into landfills?" R

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