

IN REVIEW

The Wonder of Modern Life

◆ REVIEW BY DAVID R. HENDERSON

Steven Pinker's *Enlightenment Now* is, quite simply, a fantastic book. In this fact-filled and incredibly well-footnoted tome, Pinker, a Harvard psychology professor, shows how the conditions of life for ordinary people have gotten much better, not just for those in wealthy countries, but also for most people around the world.

He shows that life expectancy has increased almost everywhere, health and nutrition have improved, and wealth and living standards have skyrocketed. The environment has improved. The destruction caused by war—and war itself—have decreased. Safety has increased and terrorism is a tiny problem. Literacy has increased. People have become generally more tolerant of others' differences and people are happier.

He attributes this progress to the Enlightenment, the four pillars of which—as the book's subtitle suggests—are reason, science, humanism, and progress. In laying out the facts and his argument, Pinker also shows a knack for the punchy, and often humorous, turn of phrase. Although he occasionally slips, as when he criticizes libertarianism, his slips are few and far between.

Longer lives, better lives / He opens his case by discussing why, despite the enormous improvement in human life, many people think conditions are regressing. He follows psychologists Amos Tversky and Daniel Kahneman in attributing this to the "availability heuristic." Most people estimate the probability of an event by how easily instances come to mind. A murder happens in your neighborhood? Murder must be on the rise. A horrible terrorist incident happens in an Orlando night club? Terrorism must be a huge

problem. As a result, writes Pinker, even though the "*world has made spectacular progress in every single measure of human well-being ... almost no one knows about it*" (his emphasis).

Is there a way around the availability heuristic? Yes, and Pinker gives it: "The answer is to *count*" (his emphasis). Check the data—which is what he does.

Start with life expectancy. Just 200 years ago, the average life expectancy in the world was 29 years; in Europe and the Americas it was around 35. Today the average for the world has more than doubled—71.4 years—and for Europe and the Americas the number is about 80. Even Africa, the most troubled of the world's continents, has done well. Pinker writes, "An African born today can expect to live as long as a person born in America in 1950."

What about the idea that for people in the richer countries, the added years of life in the last few decades aren't worth much because for most of them we are sick? Wrong. Pinker cites a study that finds that of the 4.7 years of life expectancy gained between 1990 and 2010 in the richer countries, 3.8 of them are healthy years.

In making this case, he points to doctor and public intellectual Leon Kass's claim that those added years aren't that worthwhile. In his 2004 book *Life, Liberty and the Defense of Dignity*, Kass asked, "Would professional tennis players really enjoy playing 25 percent more games of tennis?" This was presumably a rhetorical question, but my own answer would have been, "Obviously yes." And Kass is not just some unknown misanthrope; he was chairman of President George W.

Bush's Council on Bioethics. Today Kass is a ripe 79; I wonder if his view of old age has changed.

Not surprisingly, given that life expectancy has increased in the last two centuries, so has human health. Two of the biggest breakthroughs were vaccination and wide acceptance of the germ theory of disease. Much later, on April 12, 1955, when scientists announced that the Jonas Salk vaccine against polio was safe, there were moments of silent tribute. There were also the opposite: bells ringing, horns honking, and factory whistles blowing in celebration. I was just 4 at the time, but my sister had had polio three years earlier and my father 12 years earlier. I wouldn't be surprised if there had been much joy in the Henderson household.

Pinker highlights some scientists whose names most readers won't recognize but who saved tens of millions of lives—or more. One, Karl Landsteiner, discovered blood groups and thereby saved a billion lives.

Abundance / A major contributor to health and life expectancy has been developments in food production and distribution. The percentage of people in the world's poor countries who are undernourished fell from 35% in 1970 to 13% in 2015. Worldwide deaths from famine were above 600 per 100,000 people as recently as the 1920s, but they aren't even detectable on a graph for the years 2010–2016.

Pinker points out that this advancement spectacularly contradicts the prediction made by Stanford biologist Paul Ehrlich in his 1968 book *The Population Bomb*. Ehrlich claimed that between then and the 1980s, 65 million Americans and 4 billion non-Americans would starve to death. Now, many of us, including me, have the opposite problem: too many calories.

Ehrlich's type of thinking led to some abhorrent public policies. Pinker notes that Robert McNamara, while president of the World Bank, "discouraged financing of health care" not because it wouldn't work, but because of his fear that it would work

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too well, leading to greater population.

But *why* did the food supply grow so much? One main factor was fertilizer, invented and perfected by chemists Fritz Haber and Carl Bosch, respectively, in the early 20th century. Another was the Green Revolution, initiated in the 1950s and 1960s by Norman Borlaug. Borlaug, the most important practitioner of genetic modification of wheat, “turned Mexico and then India, Pakistan, and other famine-prone countries into grain exporters almost overnight.” Incidentally, Pinker points out, contra the anti-biotechnology movement, “there is no such thing as a genetically unmodified crop.” One result of this huge progress is that we may have already reached “Peak Farmland”—the amount of acreage needed to feed humanity. To produce a given amount of food now takes less than a third of the land it took before the Green Revolution.

Wealth and income inequality/

Sometimes you have to remind yourself that Pinker is not a bona fide economist because he certainly understands some of the basics of economics. In a chapter on wealth, he points out how moves toward freer markets in Eastern Europe, China, India, Indonesia, and other countries have increased wealth enormously and caused poverty to drop like a stone. He quotes a great line from Georgetown University economist Steven Radelet: “In 1976, [Chinese communist] Mao single-handedly and dramatically changed the direction of global poverty with one simple act: he died.” In 2000, Pinker notes, the United Nations was thought to be overly optimistic in vowing to cut the 1990 global poverty rate by 50% by 2015. They *were* off, but in the other direction: that goal was reached five years early.

What about income inequality? Hasn’t that increased? Actually, no. International

income inequality fell slightly from 1950 to 1990, and then fell a lot from 1990 on. Economic growth in poorer countries has been high, due in part to freer markets domestically and to increased international trade, part of which is the result of vastly lower shipping costs brought about by containerization.

Within America, notes Pinker, income inequality did grow between 1979 and 2004. But over that same time, the percentage of Americans with incomes (for a family of three) between \$0 and \$30,000 (in 2014 dollars) fell from 24% to 20%, the percentage with incomes between \$30,000 and \$50,000 fell from 24% to 17%, and the percentage in the middle class fell slightly from 32% to 30%. Where did those people go? There’s only one direction left: up. What he calls the upper middle class—families with an income of \$100,000 to \$350,000—rose from 13% to 30% of the population.

He also cites Brookings Institution economist Gary Burtless’s finding that between 1979 and 2010, real disposable incomes for the lowest four income quintiles grew by 49%, 37%, 36%, and 45% respectively. And it’s important to note that poverty and income inequality

are two separate things. Also, if we measure poverty by what people consume rather than by their income, Pinker notes, the U.S. poverty rate has fallen from 30% in 1960 to only 3% today.

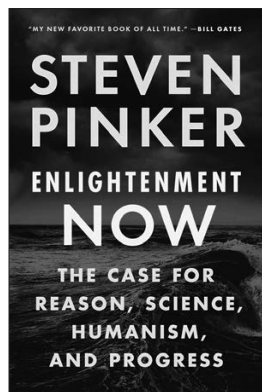
Greener world/ Surely the environment has suffered as higher population and higher living standards have caused more pollution, dirtier lakes, and fewer forests, right? Wrong. Pinker references an Environment Performance Index that measures the quality of air, water, forests, fisheries, farms, and natural habitats. Of 180 countries that the index has tracked for a decade or more, 178 show an improvement.

Why did this occur? It’s not *despite* higher incomes, but *because* of them. As people grow wealthier, they want more environmental quality, not less. They get it by either providing it themselves—donating land to a trust, for instance—or pushing for regulations to reduce pollution.

One area about which Pinker worries more than I do is climate change. He admits that there are “judicious climate skeptics,” such as Judith Curry, who accept mainstream science but are optimistic about outcomes. He worries that they are wrong and that warming could be catastrophic. To his credit, though, he doesn’t do what many climate change believers do: advocate a slowdown in growth in the poorest parts of the world in order to cut carbon emissions. Instead, he advocates a solution that has worked in pretty much every area of life: technological improvement. He advocates a carbon tax, which, if you need to do something now (I’m not convinced that we do), would certainly help reduce carbon usage. But he also advocates nuclear power, arguing that regulatory hurdles in the United States have kept us from enjoying the huge improvements in nuclear technology that have been successful elsewhere. Pinker is also open to geoengineering, such as adding alkali to clouds or the oceans to dissolve more carbon dioxide in water.

War/ Pinker, who has written extensively elsewhere about war, writes a brief chapter on it in this book. The bottom line is that the last “great-power war,” the Korean War between the United States and China, occurred over 60 years ago. Wars today are both smaller and much less bloody. That doesn’t mean there are no current tragedies of war, such as the misery of the 4 million refugees from Syria. But that is less than the 10 million displaced by Bangladesh’s war of independence in 1971.

Crime and terrorism/ One of his outstanding discussions is on public safety. Pinker provides data showing that homicides have fallen dramatically almost everywhere over the last few centuries. Also,



Enlightenment Now: The Case for Reason, Science, Humanism, and Progress

By Steven Pinker
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more recently, the U.S. murder rate—though it rose in the late 1960s and early 1970s—is now lower than it was before that increase.

He presents fascinating data showing how granular the homicide rate is. It makes no sense, he shows, to think in terms of a high homicide rate in a country or even a state or province. You need to drill down to cities and even, within cities, to neighborhoods. He cites, as one example among many, his hometown of Boston, where 70% of the shootings take place in 5% of the city. Pinker notes that effective policing, combined with improvements in technology that take away opportunities for crime (e.g., people carrying credit cards instead of large amounts of cash are not attractive targets), has made robbing people far less appealing.

Some other notes on crime: In the United States, violence against wives and girlfriends fell by about 75% between 1995 and 2014. Rape and sexual assault fell by over 70% during the same period.

What about deaths from terrorism? Surely those are a huge problem today. Not in America. In 2015, for example, an American was 350 times as likely to be killed in a standard homicide as in a terrorist attack, and 800 times as likely to be killed in a car crash. Pinker notes that, fortunately, terrorism virtually never works in achieving the terrorists' strategic goals, although, of course, it does terrify many of us. Surprisingly, while Pinker positively cites Ohio State University political scientist John Mueller in many other places in the book, he doesn't cite—where it would have seemed de rigueur—Mueller's Fall 2004 *Regulation* article "A False Sense of Insecurity," in which he makes the case that Pinker makes.

Safety / Motor vehicle fatalities per million miles driven have fallen almost steadily over time and were doing so long before 1960s regulations required safer cars. Ford, he notes, offered in 1956 a safety package that included seatbelts, a padded dashboard, a safer steering wheel, and other features that would become

mandatory a decade later. Deaths from airplane crashes, fire, drowning, and occupational hazards—and even from natural disasters—have fallen fairly steadily.

How did those advances in safety come about? Pinker attributes them to "grass-roots activists, paternalistic legislators, and an unsung cadre of inventors, engineers, policy wonks, and number-crunchers." While he's right about the inventors, engineers, and number crunchers, he misses the most important factor: economic growth. Safety, like environmental quality, is a normal good: the higher our income, the more safety we want. And the market responds. Safety in workplaces, for example, is not due mainly to government agencies like the Occupational Safety and Health Administration; it's due to workers becoming wealthier and demanding more safety. Employers who ignore this demand in their decisions about workplace safety will find themselves paying huge wage premiums to compensate for risk. Adam Smith, in *The Wealth of Nations*, recognized that fact 242 years ago.

Liberal society / Are you tired of all this good news? Pinker's not. He shows that there has been a rise in freedom of speech, the openness of the political process, and constraints on leaders' power in democracies since 1800. There was a big fall in the 1920s and 1930s (thanks to people like Lenin, Stalin, and Hitler), an increase after World War II, and then a fall in the 1960s and 1970s. Since then, the index measuring these liberal protections has climbed dramatically.


If I had more space, I could elaborate even more on the ways Pinker shows that life has improved.

Are there downsides? Yes. Pinker worries that one small mistake could lead to nuclear war and the devastation it would entail. Even here, though, he notes the decline in nuclear weapons since they reached their peak in the late 1980s. Pinker's thoughts on how to avoid nuclear war are terse and well worth reading. One way is to announce a policy of No First Use.

Criticizing libertarians / In his last few chapters, Pinker makes a nuanced and largely persuasive case for reason, science, and humanism that is well worth reading but difficult to summarize. One discordant note, though, is his attack on "radical libertarianism." Radical libertarians—I count myself as one—would seem to be Pinker's strongest allies. He often positively quotes, for example, Cato Institute senior fellow Johan Norberg's 2016 book *Progress*. But Pinker goes out of his way to attack them without giving sufficient citations to help the reader evaluate his criticisms.

In the conflict over climate policy during the Obama administration, for example, he writes that evangelicals opted for "radical libertarianism over stewardship of the Creation." His cited source doesn't even mention libertarianism; instead it discusses religious liberty. Elsewhere he writes that "right-wing libertarians" in "their 21st-century Republican Party version" have claimed that "raising the marginal tax rate for income above \$400,000 from 35 to 39.6 percent means turning the country over to jackbooted storm troopers." Although I, like virtually all of the hundreds of libertarians I know (right-wing or otherwise), opposed that tax hike, I don't recall any libertarian making that claim. Moreover, in a book with 1,288 endnotes, Pinker gives no citation for it. One might think he is exaggerating to make a point. That's possible, but one of the many virtues of his book is how he eschews exaggeration.

Conclusion / I mentioned earlier that Pinker has a knack for the pithy quote. One example is his response to Henry David Thoreau's famous claim that "the mass of men lead lives of quiet desperation." Pinker writes, "How a recluse living in a cabin on a pond could know this was never made clear, and the mass of men beg to differ."

I'll close with this. A friend recently asked me why I'm optimistic in the face of recent bad political news. I told him that I had just finished reading every page of *Enlightenment Now*. 

Financial Crisis, Blame, Reform (Repeat)

◆ REVIEW BY VERN MCKINLEY

Economist Allan H. Meltzer passed away in 2017. Beyond his role as a reliable critic of the Federal Reserve, one of his greatest contributions to his profession was his multi-volume history of the Fed.

Recently a number of histories of the Federal Reserve have appeared with dispersed focus on various discrete aspects of its operations. I recently reviewed Peter Conti-Brown's *The Power and Independence of the Federal Reserve* ("The Ulysses/Punch Bowl View of the Fed," Winter 2016–2017). This review focuses on *The Myth of Independence* by Sarah Binder and Mark Spindel. Both books cite Meltzer's work liberally.

Binder is a professor of political science at George Washington University and is affiliated with the Brookings Institution, while Spindel works at his own hedge fund, Potomac River Capital. The two bring to the book differing perspectives, representing both the academic world and the practitioner world.

It is useful to compare and contrast Binder and Spindel's book with Conti-Brown's, as both focus on the issues at the core of the Fed's independence: its interactions with Congress, its underlying enabling legislation, and its evolving governance. Notwithstanding these areas of overlap, the two books are very different in their approach to the topic of independence. Whereas Conti-Brown spends a great deal of time on the broad range of functions housed within the Fed, Binder and Spindel concentrate almost entirely on monetary policy. Conti-Brown also focuses much more on the individual chairmen and staff who have stood out over time and influenced the Fed's development, allowing his somewhat stronger storytelling skills to show through. In contrast, Binder and Spindel spend much of their time diving into the minutiae of the politics of the

Fed, as revealed through the recitation of vote counts on many of the 19 times that Congress chose to revisit the Federal Reserve Act after its enactment in 1913 through the Dodd–Frank Act in 2010.

Independent or interdependent?

The title of the book makes clear that the Fed is actually not independent of its government creators, notwithstanding the lip service given to the concept both inside and outside the government. "We challenge the most widely held tenet about the modern Fed: central bankers independently craft monetary policy, free from short-term political interference," write Binder and Spindel. They convincingly make their case that the concept of the Fed's power is still evolving when they discuss the cycle that has characterized the Fed's century of existence: "Crisis begets blame and blame begets reform."

The authors go a step further when they repeatedly argue throughout the book that

Congress and the Fed are interdependent. From atop Capitol Hill, Congress depends on the Fed to both steer the economy and absorb public blame when the economy falters.... In turn, the Fed remains dependent on legislative support.... Fed power—and its capacity

and credibility to take unpopular but necessary policy steps—is contingent on securing as well as maintaining broad political and public support.

Three foundings/ Conti-Brown labeled the major sequential benchmarks in the Fed's early development as the "three foundings of the Federal Reserve": the Federal Reserve Act of 1913; the Banking Act of 1935; and the Fed–Treasury Accord of 1951. Three of Binder and Spindel's eight chapters of the book crosswalk nicely to these same three milestone periods.

The authors first focus on the Fed's enabling legislation, its decentralized system,

and the choice of the cities for the 12 individual reserve banks by the Reserve Bank Organization Committee (RBOC). Some of the choices by the RBOC were obvious financial centers (New York, Chicago, and Philadelphia), but at the time others were not (Dallas, Richmond, and Atlanta). Binder and Spindel conclude that thanks to President Woodrow Wilson's appointments to the RBOC, "Democrats exploited their delegated power to mold a politically optimal system—one that would simultaneously attract the support of the system's member banks and benefit the credit-poor, Democratic South."

According to the authors, this decentralized system was a contributing factor to the Depression within a few decades of its creation: "The signature achievement of Wilson's administration proved incapable of generating effective monetary policy in the 1920s, contributing directly to the onset and severity of the Great Depression in the early 1930s." The aftermath of the Depression is the initial instance of crisis/blame/reform that Binder and Spindel use as a case study for their political models, as they identify two major power struggles within the decentralized Federal Reserve



The Myth of Independence: How Congress Governs the Federal Reserve

By Sarah Binder and Mark Spindel

296 pp.; Princeton University Press, 2017

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System: disagreements over discount rates and open market operations.

Although there were multiple amendments to the Federal Reserve Act from 1933 to 1935, the power center for governance took a decidedly Washington-based turn:

The Fed emerged far more centralized and more powerful in 1935 than its 1913 design.... The regional reserve banks retained a role in making national monetary and credit policies. But enactment of the 1935 Banking Act diminished their ability to resist policy decisions made by a reconstituted, reinvigorated Board.

The focus of *The Myth of Independence* then turns to the third and final of the three foundings of the Federal Reserve, which had even greater implications for its independence. Binder and Spindel write:

Even as lawmakers moved to centralize monetary policy decisions in Washington, the Fed did not become measurably more independent.... The Fed found itself under the thumb of the Treasury throughout the subsequent war years.

The Fed-Treasury Accord of 1951 transformed the relationship between the two major government players in the financial markets. Binder and Spindel explain:

As the ultimate buyer of U.S. government bonds, the Fed had been compelled to effectively monetize U.S. debt at a low, fixed rate. The Accord ended this clear subordination of monetary policy to fiscal authorities and empowered the Fed to set interest rates unencumbered by the Treasury's postwar financing needs.

What they bring to light is Congress's involvement in developing the Accord:

Congress was at the center of the 1951 dispute [as] ... key lawmakers empowered the Fed to reassert its control over monetary policy.... In short, the Fed-Treasury divorce allowed Congress to rebalance legislative oversight over monetary and fiscal policy.

A few years earlier, the 1946 Employment Act laid the groundwork for a clearer man-

date and enhanced accountability for the Fed's operations.

Name, blame, and shame / A period of strong growth and modest inflation during the years of William McChesney Martin's Fed chairmanship came crashing to an end with the stagflation of the mid- and late-1970s. Under the crisis/blame/reform cycle, a heavy dose of blame was laid at the doorstep of the Federal Reserve. As a result, the now-familiar Humphrey-Hawkins "dual mandate" of maximum employment and stable prices (with moderate long-term interest rates) was formally imposed:

The public held the Fed responsible for the economic downturn.... Lawmakers blamed the Fed as well.... Unlike previous cycles that largely endowed the Fed with more centralized power, an emboldened Congress imposed an explicit macroeconomic mandate on the Fed, and required far more transparency and accountability—enduring reforms that continue to shape Congress and Fed interdependence.

During this timeframe, there was also what the authors call "The Original Audit the Fed" movement. This transparency mandate is now largely championed by Republicans, but during the 1970s it was promoted by the Democratic Party. Not surprisingly, there was pushback from the Fed in a defense of operational opaqueness: "The Burns Fed orchestrated an aggressive lobbying campaign against each of these legislative efforts." The smoking gun for this lobbying can be found in former chairman Arthur Burns's papers, which "detailed the Fed press office's efforts to place 'horror stories' about potential audits in the *Wall Street Journal*, *Washington Post*, and other prominent news and business papers."

Unfortunately, Burns's campaign worked to keep government auditors from reviewing the most sensitive of Fed policy issues. Binder and Spindel write:

Burns's efforts paid off.... With the [General Accounting Office, now known as the Government Accountability Office] banned from auditing monetary policy

decisions, the limited audit has survived nearly four decades since its creation in the wake of the Fed's 1970s failures.

Binder and Spindel devote the final historical chapter ("The Only Game in Town") to the Fed's response to the crisis in 2008 and 2009: "Starting in late 2008, the Fed's unconventional, untested and exigent central bank tools blurred the lines between monetary and fiscal policy, exacerbating the Fed's already-tense relationship with Congress at a time of severe economic stress." Congress in particular fought the Fed on its opaque implementation of propping up the financial system:

The Fed sparked public and elite outrage. First, critics demanded public disclosure of the recipients of the Fed's loans. Given the Fed's resistance to disclosure, it took legal and ultimately congressional action to force the Fed to reveal the recipients of its emergency loans.... Lawmakers from both parties rejected the Fed's position that disclosure would undermine the effectiveness of their emergency lending programs.

Typical of previous episodes of the crisis/blame/reform cycle, "in reopening the Federal Reserve Act, lawmakers gave the Fed more responsibility while imposing more transparency and clipping some of its powers," Binder and Spindel write. The increased transparency did not include the "Audit the Fed" efforts that have now become much more of a cause-célèbre for Republicans than Democrats.

Conclusion / *The Myth of Independence* puts in historical perspective the evolution of the Fed's powers and its imposed restrictions, making clear that politics more than any other factor drove its creation and maintains its continued existence. Based on my reading of Binder and Spindel, the Federal Reserve Act we are left with still concentrates far too much power to influence the economy in the hands of the Fed's management and only requires minimal transparency and restrictions on the Fed's underlying operations. R

From the Republic of Letters to the Great Enrichment

◆ REVIEW BY PIERRE LEMIEUX

Born with the 16th century, the modern era brought the Enlightenment, the Industrial Revolution, and economic growth at a rate that the world had never seen before. Northwestern University economic historian Joel Mokyr's *A Culture of Growth* traces this wondrous transformation as it occurred in the West's economy.

Mokyr leads the reader on a fascinating voyage that starts about the year 1500 and ends three centuries later. To trace the origins of the modern economy, he studies the culture that led to the Industrial Revolution, and the reciprocal influence of culture on social institutions and individual incentives.

For too many social scientists, "culture" is a sort of black box that they invoke to explain social and economic transformation, but in doing so they really say next to nothing. Recently, economists have become interested in this black box and Mokyr attempts to offer a look inside it.

He defines culture as "a set of beliefs, values, and preferences, capable of affecting behavior, that are socially (not genetically) transmitted and that are shared by some subset of society." He argues persuasively that cultural change is necessary to explain the 18th century Enlightenment and the unending flow of technological innovations that followed with the Industrial Revolution.

Modern growth / To appreciate what Mokyr sets out to explain, consider Figure 1, which I compiled from data by the late economist Angus Maddison. (No figure or table appears in Mokyr's book.) Note that I used linear interpolations to cover the long stretches of time for which Maddison's estimates are not available. These interpolations explain why a catastrophic

event like the Black Death of the 14th century doesn't make a blip in the line.

From Year 1 of the Common Era until the 18th century, human living standards scarcely changed. World gross domestic product per capita inched up slightly from less than \$500 per year during the first millennium, to \$616 in 1700, and \$712 in 1820. Then, production and income exploded. In less than two centuries, GDP per capita multiplied by more than 10, reaching \$7,814 in 2010 (the last year available in this series). These figures are averages over the whole world, estimated in constant 1990 dollars. In the United States, GDP per capita (again in constant 1990 dollars) reached \$30,491 in 2010.

This one dramatic transformation is the story of mankind from an economic standpoint. In comparison, the last century's Great Depression barely registered.

The resulting effect on living conditions has been dramatic. During the 17 centuries between Year 1 and 1700, the world population multiplied a paltry 2.7 times. In the following three centuries, it multiplied by more than 10. And recall that, since 1820, real GDP *per person* also multiplied by 10. Since the mid-19th century, life expectancy at birth has increased from 30 years (which is probably the maximum it had reached

over all of previous history) to more than 70 years today. Literacy jumped. These were only some of the consequences of the "Great Enrichment."

Starting in the late 18th century, "Smithian growth" was replaced by "Schumpeterian growth." The former refers to economic growth through more efficient markets, which Adam Smith observed and promoted; the latter works through inventions, entrepreneurial innovations, and "creative destruction," to use Joseph Schumpeter's term.

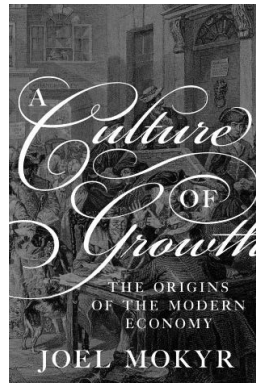
Mokyr argues that this stunning new growth cannot be explained by religion, which played an ambiguous role in the acceptance of new ideas, even factoring in the Reformation. Nor can it be explained by an increase in human capital—education and knowledge—because capital increases had occurred before but had failed to launch self-sustained, explosive growth.

Besides, he notes, "the great engineers and inventors who made the Industrial Revolution were rarely well educated." Instead, they were feeding on a whole infrastructure of new knowledge.

The crucial factor in the Great Divergence shown on the chart was a new belief in progress. It required "thinking outside the box" and a "willingness to rebel against accepted practices and norms." A new culture of growth developed that made explosive growth possible.

Culture / How can we explain the appearance of this culture of growth? Mokyr

adopts an "evolutionary approach to culture" borrowed from anthropology and evolutionary biology. Such an approach, he argues, helps understand the cultural change that created the institutions that made possible the Enlightenment and the Industrial Revolution. Cultural evolution selects the most efficient cultural elements or features, as opposed to select-



A Culture of Growth: The Origins of the Modern Economy

By Joel Mokyr

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ing individuals. This sort of evolution is rendered even more potent by the capacity of individuals to be persuaded and to consciously choose their beliefs. “Choice-based cultural evolution” leads to a more rapid spread of innovations.

Mokyr borrows from a large number of scholars in different fields. For example, he relates this culture of growth idea to Deirdre McCloskey’s “bourgeois values.” Surprisingly, however, nowhere in *A Culture of Growth* does Mokyr cite Friedrich Hayek. Many readers would like to know what, if anything, differs between Mokyr’s and Hayek’s evolutionary approach. Both authors warn against a too-servile use of the methods of biology in social analysis, but both find evolutionary theory useful. As I mentioned in a recent review of his final book, *The Fatal Conceit*, Hayek argued that an evolutionary approach to social science was actually pioneered by Adam Smith and Adam Ferguson in the 18th century, well before Charles Darwin used it in biology. (See “Against Tribal Instincts,” Spring 2018.)

Cultural entrepreneurs add to the menu of beliefs, values, and preferences among which individuals can choose. Mokyr devotes a chapter to each of two major cultural entrepreneurs who spread the ideas that would lead to the Enlightenment and the Industrial Revolution: philosopher Francis Bacon and scientist Isaac Newton. Bacon and Newton both emphasized observation and empirical verification as opposed to the mere exegesis of ancient texts. “Bacon’s heritage,” Mokyr writes, “was nothing less than the cultural acceptance of the growth of useful knowledge as a critical ingredient of economic growth.”

Useful knowledge is a crucial concept in *A Culture of Growth*. Exemplified by the French *Encyclopédie* and numerous technical textbooks published all over Europe, useful knowledge is scientific knowledge applied to production. It is related to the Enlightenment idea that “the human lot can be continuously improved by bettering our understanding of natural phenomena.” Newton thought that science could only

explain how things work—as opposed to their metaphysical nature—which implies that it could produce useful knowledge.

Why culture changed/ It is not totally clear what were the causal factors, as opposed to favorable circumstances, that led to the new cultural belief in progress. Perhaps the point is that the different factors co-evolved (in an evolutionary sense) to produce cultural change.

Mokyr seems to propose four major factors:

First, there are the cultural entrepreneurs such as Bacon and Newton, as well as many others who walked in their steps. They contributed to changing not only the scientific culture, but also the political culture. Perhaps Mokyr could have given more attention to the political evolution toward individual rights, the rule of law, and the division of power in the state.

A second factor is the shock of new knowledge. In the late 16th and the 17th centuries, countless scientific theories of the Ancients—from Antiquity to the Middle Ages, from Aristotle to Aquinas—were disproved by new observations with the help of instruments such as the telescope and microscope. Ptolemy’s vision of the universe yielded to the new observations and theories of Nicolaus Copernicus and Johannes Kepler. Long-distance voyages and geographic discoveries also changed the image of the world.

Third, governments were unable to stop the spread of new knowledge. As David Hume noted, the political fragmentation of Europe prevented governments from suppressing the new ideas they deemed destabilizing and dangerous. “In the political environment of a politically fragmented world,” Mokyr observes, “progress cannot be blocked by the coercion of a few reactionary powers.” Not only was Europe fractured among multiple states, but even monasteries and universities were “quasi-autonomous self-governing bodies.” “Members of the ‘creative classes’ ... moved all over the Continent.”

Tyranny thus suffered a “coordination failure.”

Republic of Letters/ A fourth factor—a major one—was the “Republic of Letters,” which emerged in the 16th and 17th centuries and stimulated the creation and spread of new ideas. As Mokyr puts it, the “unique combination of political fragmentation with the pan-European institution of the Republic of Letters holds the key to the dramatic intellectual changes after 1500.”

The Republic of Letters was perhaps the most extraordinary spontaneous development in Europe. It was an informal and transnational society of scholars—philosophers, scientists, and other intellectuals—who criticized, developed, and discussed ideas through correspondence and publications. Their correspondence, made publicly available, amounted to an ongoing peer-reviewed journal. The “citizens” of the Republic of Letters followed strict rules such as replying to all letters, giving due credit to the originators of ideas, and putting all knowledge in the public domain. They privately produced the public good of new knowledge.

The small elite constituting the Republic of Letters formed the backbone of a free market in ideas. This market was both competitive and cooperative, Mokyr notes:

There is no contradiction between the coexistence of such harmonious and competitive forces, as an analysis of any market demonstrates. Economists have understood since Adam Smith that the glory of the market system is this unique combination.

The Republic of Letters included most of the great scholars of the time: men such as Erasmus, Bacon, Voltaire, Hume, Smith, Newton, Descartes, Condorcet, and Spinoza, along with numerous lesser-known figures. It covered many European countries, including Great Britain, France, Italy, the Low Countries, Germany, and Spain. Its transnational character was essential: “At least in theory,” Mokyr observes, “a citizen of the Republic of Letters was supposed to be a person without a fatherland.”

The Republic of Letters was critical and antidoctrinaire. According to Mokyr, “The liberal ideas of religious tolerance,

free entry into the market for ideas, and belief in the transnational character of the intellectual community were essential to Enlightenment thought.”

It is true that many if not most scholars depended on the patronage of kings and nobles. But the Republic of Letters served as an informal accrediting process, assuring that the subsidized scholars were not impostors or puppets. The selfish competition between patrons for the best scholars contributed to freedom of thought and speech, which was basically established by the end of the 17th century.

The market for ideas remained largely private. The printing press, invented in the 15th century, played a big role. Printing houses spread all over Europe. Besides producing periodicals and books, they “were ‘international houses’ where dissident foreigners could find shelter and a meeting place.” Mokyr notes that “in Europe, by and large, encyclopedias and reference books were the product of private enterprise, sometimes published very much against the will of authorities powerless to stop them.”

The Republic of Letters “turned out eventually to be an institution unique in human history and a key to understanding where the long road that led to modern economic growth began.” Ideas matter. Free markets too.

Reactionary forces/ Reactionary forces were represented by such figures as Thomas Hobbes and Jean-Jacques Rousseau, but they were more and more isolated as modern times rolled on. Here again, the reader would have appreciated a reference to Hayek—in this case, the latter’s distinction between “true” and “false” individualism and between British and continental liberalism.

Many of Hayek’s false individualists were associated with the Enlightenment and thus

with Mokyr’s culture of growth. To what extent did both “true” and “false” individualism play a role in creating the modern economy? Did these two strands of individualism have more in common than Hayek led us to believe?

The “battle of the books,” or *querelle des Anciens et des Modernes*, that agitated Europe was emblematic of the clash between old and new ideas. By the end of the 17th century, the moderns had won. The cultural change that had brought scientific contestability, useful knowledge, human progress, and Lockean rights bloomed in the 18th-century Enlightenment and the Industrial Revolution that started toward the end of that century. The entanglement of the Enlightenment and the Industrial Revolution is a major thread in *A Culture of Growth*.

The book ties together many components of our understanding of modernity. For example, the victory of the moderns would end “the folly of mercantilist notions that placed the state (and not the individual) as the ultimate object of society.” Today’s reader cannot but reflect that Enlightenment values are now under siege.

Why not in China? Mokyr raises the peren-

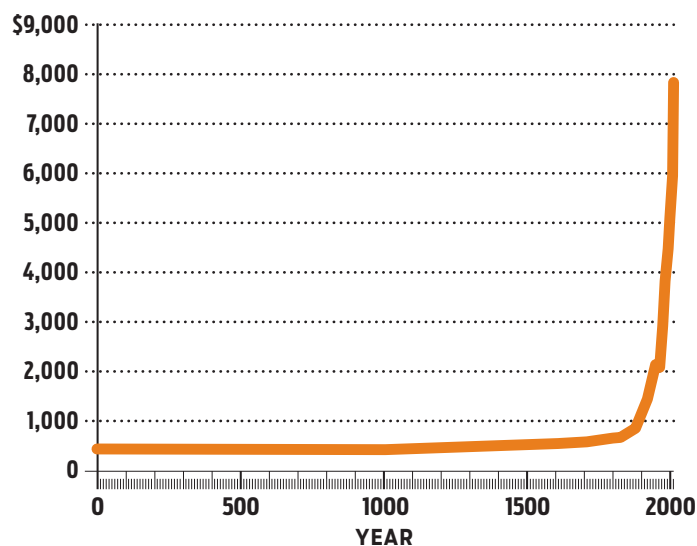
nial question of why the Enlightenment and the Industrial Revolution happened in Europe but not in Asia, particularly in China. He takes much care not to assign the blame for this to an inferior Asian culture compared to Europe. Is this partly a reflection of the political correctness that seems required today when discussing such issues, or is it just scholarly prudence? In any event, we should not forget that the citizens of the Republic of Letters were skeptical of conventional wisdom and were not very politically correct in their own times.

The Industrial Revolution that happened in Europe, Mokyr argues, was a rare and unexpected event. Like evolutionary surprises, it could have not happened, or it could have happened elsewhere. “The advantage of models of cultural evolution,” he writes, “is that they are contingent and concern ex ante probabilities rather than deterministic causal models.” An industrial revolution required progress that—instead of fizzling out as had happened in previous examples, including in the East—would start a “positive-feedback self-reinforcing explosive technological trajectory.”

“What was missing in China,” Mokyr explains, “was a high level of competitiveness, both in the market for ideas and at the level of political power.” Despite a vibrant intellectual life and many technological discoveries (including in shipbuilding and clock-making), China’s centralized government and its conservative bureaucracy—maintained by a stifling examination system—choked progress. Barriers to entry in the market for ideas were high. Another scholar quoted by Mokyr, Eric Baark of the Hong Kong University of Science and Technology, observed that scientific knowledge was hampered by “political correctness.”

Because it did not have the necessary culture and institutions, China missed both an industrial revolution and an

FIGURE 1
REAL WORLD GDP PER CAPITA, YEAR 1 TO 2010
(in 1990 dollars)



Sources: Angus Maddison, *Contours of the World Economy, 1–2030AD: Essays in Macro-Economic History* (Oxford: Oxford University Press, 2007), and the Maddison Project, <http://www.ggdc.net/maddison/maddison-project/home.htm> (accessed March 11, 2018). Note: Data have been linearly interpolated by the author for the years data points are missing.

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enlightenment à la European:

The importance of the Enlightenment for Europe's subsequent economic development goes beyond its impact on the exploitation of useful knowledge for material progress, the essence of the Industrial Enlightenment. It also codified and formalized the kind of institutions any society needed to maintain its technological momentum: the rule of law, checks and balances on the executive, and severe sanctions on more blatant and harmful forms of rent-seeking. ... The historical irony is that prosperity as it was experienced after 1750 required creative destruction, the very opposite of social and economic stability.

After it discovered China, the West eagerly borrowed Eastern ideas and imported goods. For example, "chinaware" was exotic and much in demand, and did not disguise its foreign origins. On their side, the Chinese elite were not interested in "cultural appropriation" from the West, so the country remained insular and mired in the past. It was soon lagging far behind the West in economic growth.

Culture in Mokyr's sense includes philosophical beliefs. *A Culture of Growth* shows that philosophical beliefs in China, despite some diversity, lacked several ingredients of Western philosophy. Perhaps we can go further and say that China lacked the individualistic philosophy that was necessary for intellectual enlightenment and economic progress. (See "Confucius, Autonomy, and Capitalism," Winter 2017–2018.)

If one values individual flourishing, all this looks to me like saying that Chinese culture and institutions were inferior to European culture, even if Mokyr does not cross that bridge. It might be worth crossing if we want to draw lessons for our times. The death of Mao Zedong in 1976 was followed by an explosion of economic and cultural entrepreneurship in China. Economic competition soared. Production and the standard of living there started growing somewhat like in 19th-century Europe.

After three decades of this regime, many observers thought that a Chinese Enlight-

enment and Industrial Revolution were under way, although serious analysts like Ronald Coase and Ning Wang realized that this movement would soon require a liberation of the market for ideas. (See "Getting Rich Is Glorious," Winter 2012–2013.) As the Chinese government has veered back toward authoritarianism, the prospects for continuing growth have dimmed considerably, even if this does not yet show in economic statistics. Those who, often for invalid protectionist reasons, fear the economic growth of China can relax.

Role of freedom / Mokyr paraphrases the late science historian Reijer Hooykaas in saying that, at the time of the Republic of Letters, "commercial and industrial cities were intellectually dynamic, far more so than university towns." The coevolution of ideas, commerce, and industry up to the explosion of economic growth in the 18th and 19th centuries reminds us of how intellectual freedom, economic free-

dom, wealth, and individual autonomy are interrelated.

A related fact is how "in the North American colonies and the United States, the odd mixture of Puritan values with elements of the French and Scottish Enlightenment were decisive in setting the culture of the young republic in the 1780s." Thomas Jefferson and Benjamin Franklin were two emblematic figures of the Enlightenment.

If cultural change explains the Enlightenment and Industrial Revolution, has cultural change really been explained? Or have we once again credited the black box? I am not sure. But this complex and rich book certainly provides many keys to the answer. It strongly suggests that limits on government and a free market in ideas created the conditions necessary for the Enlightenment, the Industrial Revolution, and the Great Enrichment. After reading this book, chances are that you won't look at the economic, social, and political world in quite the same way as before. R

Grim Tales of Small-Town America

◆ REVIEW BY DWIGHT R. LEE

Robert Wuthnow, a sociologist and the Gerhard R. Andlinger '52 Professor of Social Sciences at Princeton University, along with his team of research assistants, has "conducted well over a thousand in-depth qualitative interviews" in hundreds of small communities. He outlines his findings in *The Left Behind*, describing "what people in these communities think—what their lives are like, what they value, and how they arrive at their opinions about political candidates and government."

Wuthnow emphasizes that he tried to keep his personal views out of the narrative, just as he and his assistants tried to do in the interviews. From my reading, he

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is credible when he writes, "We've tried as best we could to set aside our disagreements with some of the things we heard, seeking instead to listen and understand."

It is not until his epilogue that he clearly acknowledges, "I'm part of the liberal elite, ... and ... opposed nearly everything about the Reagan and Bush administrations, favored much of President Obama's efforts and voted for Hillary Clinton." Despite his political views, he conveys a genuine respect for those he and his team interviewed. That said, he is not entirely successful at keeping

his political views out of the narrative, as will become clear in this review.

Moral communities / Wuthnow states early in the book that “understanding rural America requires seeing the places in which its residents live as *moral communities*” (his emphasis). I found his use of this term interesting because James Buchanan employed the same term in his 1981 monograph “Moral Community, Moral Order, or Moral Anarchy” to describe a situation in which a set of individuals identify “with a collective unit, a community, rather than conceive themselves to be independent, isolated individuals.” Buchanan recognized that people will “identify simultaneously and with various degrees of loyalty with several [such] communities.”

Wuthnow doesn’t cite Buchanan but sees a moral community in much the same way. He, along with Buchanan, doesn’t make any claims as to whether moral communities are good or bad. According to Wuthnow, such a

community draws our attention to the fact that people interact with one another and form loyalties to one another....

Understanding communities this way differs from the notion that people are independent individuals who form opinions based strictly on their economic interests and their psychological needs.

Both Buchanan and Wuthnow recognize that the loyalties within moral communities can generate hostility between communities. Wuthnow sees

a darker side to the togetherness townspeople experience, [with there being] a strong sense of “us” and “them.” The result “ranges from negative stereotypes to overt discrimination.

While he points out that not all small-

town residents engage in such exclusionary behavior, he follows up with:

It was one of the ways the subjects I interviewed maintained their sense of identity. They probably revealed more than they realized when they said the people they knew were all the same.

Another similarity in Buchanan’s and Wuthnow’s understanding of moral communities is that those communities are not confined to geographically small areas. Buchanan is clear on this when he extends such communities from those of nuclear families to the nation state, with ethnic, racial, and religious groupings included, with each of us generally being in several moral communities at the same time, along with people outside our small geographic area.

Given Wuthnow’s focus on small, rural towns, it would be easy to assume he limits his understanding of moral communities to geographically small communities. But much of what he sees as characteristics of these communities—such as shared views and ideologies that create common understanding and a sense of “us vs. them”—don’t depend on physical proximity. Consider his comment on a moral community and those who share such a community:

They know the norms of the community well enough to abide by them without having to give them much thought. A common identity is publicly affirmed in the stories they tell.... [The community includes] people who rarely [interact] with [each other].... The norms they espouse pertain to a large share of the population.... [This moral code] is enabling in terms of the expectations its members reliably take for granted and at the same time is constraining in terms of the beliefs and activities it encourages and the ones it discourages.

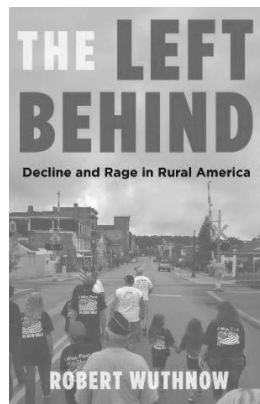
I believe he agrees with Buchanan that we can identify with, and be influenced by, the views of widely dispersed people in several moral communities, including those pertaining to political ideology.

Does voting reflect morality? / Wuthnow does not include voting in his index. Yet much, though not all, of what he discusses influences the voting decisions of people in rural settings.

The book opens with six paragraphs discussing the role of the rural vote in Donald Trump’s 2016 election as president. This discussion includes such topics as racism and misogyny, grievance and resentment at Washington and being left behind economically, and “backward” voters whose conservative ideological beliefs ostensibly motivated them to vote against their interests as Wuthnow interprets them. These voters were also affected by the view that morality in American is declining, a perception that is discussed in Chapters 5 and 6.

Wuthnow notes that both rural and urban voters see the votes of the other as clear evidence of their moral deficiency. He is cautious about making moral judgments about rural voters. But his urge to do so, at least subtly, is there, as I discuss below. In his defense, it is a common urge.

Many of us are far too quick to see those who vote differently than we do as morally flawed, if not evil. In fact, research indicates that people’s voting decisions are not very good indicators of their moral behavior. Voting decisions are overwhelmingly influenced by emotional attachment to particular issues and political ideology, which are generally more the accident of people’s backgrounds than thoughtful moral deliberation. We are identifying with members of our moral political community when we vote the way we know they are voting. We’ve all heard some updated version of the Pauline Kael tale where a Blue State voter says, “I can’t believe Trump won; I don’t know anyone who voted for him.” That voter may be mythical, but her political moral community probably includes millions of Americans. If Wuthnow had interviewed her, he could have written that



The Left Behind:
Decline and Rage in
Rural America

By Robert Wuthnow
200 pp.; Princeton
University Press, 2018

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she probably revealed more than she realized with that statement.

With the growing emphasis on identity politics, how people's votes are seen to reflect their views of others has taken on increased moral significance. When voting for policies to allegedly help a group suffering from discrimination, the measure of a voter's morality is his intentions, which for many are automatically considered good if he votes for the policy and bad if he votes against it. Good intentions are not irrelevant to moral decisions, of course, but they are hardly the whole story.

This is not to deny that members of some groups have been deprived of the basic freedoms and legal opportunities available to others (African Americans, Native Americans and homosexuals come to mind), and that the moral thing to do is give them those freedoms and opportunities. A policy doing this would generate positive-sum benefits, leaving us all better off materially as well as morally.

Unfortunately, the policies motivated by identity politics often exempt the mistreated from the responsibilities that have historically been associated with the successful instead of providing them with more freedom and opportunity. Furthermore, identity politics has created a political dynamic in which increasing numbers of groups have benefited from claiming that they have been treated unjustly. The result is an increasing number of people identified as members of unjustly treated groups are being pitted against each other in a negative-sum process of political transfers in which they compete over who is suffering most from social injustice. This is hardly an effective way to bring us together by promoting social justice or harmony.

It is hard to believe that a rural voter who votes against such a policy because she believes it is socially divisive and harms the people it is supposed to help is less moral, or more bigoted, than a city voter who votes for it because he believes the opposite. Wuthnow almost seems sympathetic to this view, at least momentarily, when he writes, "Most people living in rural America are probably no more prone toward

bigotry than many people living in suburbs and cities." But in the very next paragraph he states that the

anger that prompts rural Americans to lash out at Washington is a source of bigotry as well. It can be a thin line from arguing that Washington is broken to saying that President Obama was illegal, stupid and untrustworthy because he was African American.

No one can deny that there are bigots in rural America, just as there are in urban America and everywhere else where humans live. We are instinctively and emotionally a tribal species. And when expressing ourselves through voting or political speech, we sometimes embrace ideas that we would never consciously

Our tribal instincts make expressing our moral anger at opposing voters far easier than considering the possibility that those voters are decent people.

espouse or exhibit—or even tolerate—in other contexts. The line between how we vote and how we act is not thin; indeed, it is quite thick.

Unfortunately, politicians are very effective at harnessing these tribal passions by demonizing political opponents and those opponent's voters in order to get their own voters to the polls. Hate is more effective politically, and divisive socially, when voting is depicted as having that same moral significance for good or evil as decisive actions. Our tribal instincts make expressing our moral anger at opposing voters far easier than considering the possibility that voters who disagree with us are decent people doing what we are doing: expressing their emotional attachment to what they genuinely believe is good for America. Yet doing the latter would be far more conducive to social harmony than judging the morality of others by whether they vote like us or against us. The former is far

too strong and evidence that too many of our differences have become politicized.

Getting to know you / The most effective way to moderate our "us vs. them" impulse is by interacting with "them" as individuals, as Wuthnow recognizes. He states, "Research on prejudice toward people unlike yourself shows that knowing someone personally usually has a significant effect in reducing prejudice." He follows up with some examples of this happening in small communities.

Before talking about prejudice, he emphasizes that "the limited opportunity for social interaction in small places force people to mingle on an equal footing" and he gives examples of people interacting socially across class lines. It doesn't eliminate

the "us vs. them" impulse, as he makes clear, but it surely helps reduce it more than identity politics. Wuthnow seems to accept, at least cautiously, the view of the small-town people he interviews when they

say that "when you live in a large place, ... you can isolate yourself from people unlike yourself if you want to, but in rural communities you can't."

He cites Harvard political scientist Robert Putman on the importance of social interaction within communities. Putman's 2000 book *Bowling Alone* worries that Americans' involvement in their communities (e.g., visiting neighbors, being members of civic organizations, doing volunteer work) has declined to troubling levels. According to Wuthnow, Putman observes that this disassociation has not been the case in small towns and rural areas. Wuthnow provides support for this notion by referring to a survey he did in the late 1990s in which he found "that residents of small towns or rural areas were significantly more likely than residents of cities or suburbs to feel they can count on the neighbors for help if someone in their family became seriously ill."

The observed politeness of people in

small towns relative to that of people in cities is, at least in part, a result of the greater social mingling in the former than in the latter. Wuthnow doesn't emphasize the politeness of small-town folks, if he mentions it at all, yet it is clearly reflected in the pattern of helping others that he does discuss in some detail as a strength of small towns. Yet, toward the end of his book, he reveals his bias by indicating that people's good acts do not reflect their moral status if those people do not vote the "right" way.

Do good intentions trump decisive action?

In addition to the greater social interaction between different social groupings in small towns than in cities, Wuthnow recognizes that religion "plays an important role in holding the community together [and] ... supports the family values that people hold dear and tells them that they should care for their neighbors." Yet he sees a contradiction in the clergy's and lay members' caring for neighbors. What they "usually missed seeing," according to Wuthnow, "was that how they voted also affected provisions for the needy." They voted for conservative Republicans who "opposed welfare spending, favored regressive tax policies."

Wuthnow sees this as a moral "blind spot" based on the "small-town view that local charity and volunteering were better than government programs." He doesn't consider the possibility that individuals taking decisive action with their own money to help the poor are engaged in an act that is both more moral and effective than is expressing good intentions with an indecisive vote that costs the individual voter effectively nothing for the purpose of having the government force everyone to contribute the same way. And speaking of blind spots, he doesn't consider how much more likely the small-town contributor is to follow up on his contribution to see if it is used effectively than is the voter to follow up on his vote to determine how much the policy he voted for (if enacted) benefits the poor after being processed through state or federal legislatures and bureaucracies.

Conclusion / I give Wuthnow credit for describing the concerns, resilience, virtues, and flaws found in small-town America. My biggest concern with his book is its tendency, in most cases implicit, to attribute too much moral significance to how people vote.

I recognize this tendency is not limited to him or to those embracing the same political views he does. He was more

explicit in describing how people in small American towns lived and interacted with each other as friends and neighbors. From those accounts I got the strong impression that Wuthnow would give small-town American higher marks for how they acted outside the voting booth than for how they voted in it. And he might agree with me that the former is a better measure of their decency than the latter. R

Manipulating the Levers of the Regulatory State?

◆ REVIEW BY SAM BATKINS

Does America have its current regulatory state because we're an industrious, wealthy society that decided we could afford more regulation? Or are we a productive, wealthy economy because of the regulatory state? Naturally, libertarians and progressives will have different answers to those questions.

In *Pricing Lives*, Vanderbilt law and economics professor Kip Viscusi doesn't directly answer either question, but he does hint that the current regulatory environment—and by some association, our tort system—is a result of America's willingness to pay for more environmental and workforce safety protections. Just as workers are willing to pay to reduce risk and gravitate toward higher paying, low-risk jobs, regulators are employing ever-higher figures for the Value of a Statistical Life (VSL) to justify more stringent regulations. In a sense, American prosperity has given regulators ample evidence to justify a myriad of new rules.

The crux of *Pricing Lives* rests on the belief that society, and corporate America specifically, should confront the tradeoffs of risk and think systematically about safety, striking a balance between it and possible profits. With a title like *Pricing Lives*, there is a robust discussion of VSL and its cousin in the regulatory world, the Value of a Statistical Life Year (VSLY). Pro-

gressives and some conservatives strongly denounce VSL and its corollaries as placing a monetary value on a human being, a task that they say is impossible and that they would not do directly with their children or loved ones.

In fact, Viscusi and other proponents of cost-benefit analysis note, we frequently place a value on lives, only in an indirect manner. We purchase life insurance with certain monetary values. We typically drive safe cars but not impregnable tanks that would lower the risk of a fatality to near-zero. Courts and juries have monetized the value of a life for centuries.

Lives are monetized frequently. The only question is whether government or corporations are rigorous in their methodology when doing this and transparent about their process. Viscusi devotes a great deal of the book to the auto industry, from the troublesome General Motors ignition switches that resulted in several recalls in 2014 to the infamous gas tank design of the 1970s Ford Pinto. The industry has had several other public gaffes that have resulted in hundreds of fatalities. Yet the

SAM BATKINS is director of strategy and research at Mastercard. The views expressed in this review are his own.

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book isn't a Naderesque screed against corporate America, but rather a plea for its wider adoption of cost-benefit analysis.

Surprisingly, corporate risk analysis was arguably more advanced decades ago than it was in the recent ignition switch fiasco. As Viscusi recounts, Ford engaged in a detailed risk analysis of the Pinto's design, but that analysis was flawed in a number of ways. Most notably, it valued lives based on the level of tort liability damages in wrongful death cases. That resulted in a value of just \$200,000 for each burn death. According to Ford's math, the cost of a design change to prevent ignition of the rear-mounted gas tank was triple the VSL for potential victims. When jurors learned that the cost to fix each car was just \$11, the way Ford undervalued each life was laid bare to the public. Eventually, it cost Ford \$3.1 million in compensatory damages for one victim, in addition to \$3.5 million in punitive damages. Despite the automaker's attempt to measure and monetize risk properly, Ford made the wrong decision, from which future businesses would learn. Viscusi argues this is to the detriment of both cost-benefit analysis and public health.

Transparency / Imagine if the U.S. Environmental Protection Agency instituted a \$20 billion regulation but, instead of releasing a detailed explanation of its cost-benefit analysis of the rule, it just said that Congress and the public should trust its decision. Assuming the regulation survived Office of Information and Regulatory Affairs (OIRA) scrutiny, which is unlikely, a court would probably strike it down in short order. During the regulatory process, industry expects high standards from agencies, at least for regulators in executive branch agencies whose work is subject to OIRA review. However, after the Pinto fiasco, corporations have been

more secretive in their risk analysis than government is.

With regulators, the public generally knows the estimate on potential lives saved and how government monetizes this figure for an apples-to-apples comparison with monetized costs. Contrary to progressive critics, VSL does not directly place a dollar value on a human life. Instead, VSL is, in the words of Viscusi, "a reflection of the monetary risk preferences of a particular population and the tradeoffs exhibited during an economic era."

For example, suppose you're a 45-year-old skier and you buy a \$200 helmet that can reduce your risk of death by 1:50,000. You have implicitly valued your life at \$10 million (i.e., $\$200 \times 50,000$). In contrast, a young skier fresh out of college, working internships to get by, may buy a \$100 helmet that reduces her risk of death by 1:25,000. This equates to a VSL of \$2.5

million. This doesn't mean her life is worth less than yours, but it does illustrate that the willingness to pay for risk reduction is measurable and quantifiable.

This begs the question about inequality and varying VSLs for different countries. For instance, the U.S. VSL, according to Viscusi, is roughly \$10 million; in Australia it's \$7.1 million. India and Pakistan report VSLs of \$4.9 million and \$12.3 million, respectively. Given what we know about willingness to pay, Viscusi notes these figures are "implausibly high."

It is fear over implausibly high or low VSL figures that has driven much of corporate risk analysis into the ground, or at least into the shadows. Public backlash against Ford's shoddy math has made corporations fearful of these calculations and weary of ever presenting them to a judge or jury.

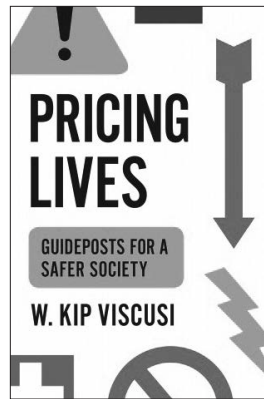
Viscusi argues this is a grave mistake; both corporations and the government should be rigorous in their risk analysis. Speaking directly to progressives weary of

VSL, he notes that a properly vetted cost-benefit analysis can produce more stringent regulatory outcomes. A good analysis can generate more protective regulatory standards even if there is a dollar value placed on each life at the outset. This may sound like music to the ears of some trial lawyers and progressive regulatory activists, even if they detest cost-benefit analysis.

Moving the regulatory levers / For libertarians, there are several notes of caution. As many have noted, the VSL has been crawling upward for several years. Now at roughly \$9-\$10 million across the federal government (although not uniform across all agencies), it was just \$3 million in 2005 according to a Department of Transportation final rule. Moreover, since 1995 there have been only 105 final rules that have cited a VSL, including 33 from the DOT and 21 from the EPA. This raises a series of questions: For regulators suddenly willing to embrace statistics and economics, can they manipulate the VSL to produce favorable regulatory outcomes? Why has the VSL tripled in roughly 10 years when U.S. household income has not made nearly the same gains?

Viscusi doesn't answer these questions directly and they are not the focus of the book. However, just as juries want to know how the sauce is made for corporate cost-benefit analysis, the public has every right to know if the VSL is used as a backdoor tool to justify additional regulatory standards. Rarely is the VSL challenged in court when confronting landmark regulations, and perhaps that should change. For corporations, the Ford Pinto disaster gave birth to a practice libertarians and progressives should both detest: fear of rigorous and transparent risk analysis.

GM's ignition switch controversy is an example of a company running from cost-benefit analysis. Mindful of the Pinto experience, GM apparently decided not to undertake a quantitative analysis of the risk it faced versus the cost of recalling the affected cars. The automaker even avoided the use of qualitative terms that described the real safety risk. The result was 124 lives



**Pricing Lives:
Guideposts for a
Safer Society**

**By W. Kip Viscusi
280 pp.; Princeton
University Press, 2018**

lost, resulting in part from a corporate culture fearful of quantifying the value of saving lives. Instead of showing the government and potential juries their work on an appropriate VSL and the risk of fatalities, the public learned of “judgment words” banned from corporate communications. These included: “you’re toast,” “powder keg,” “potentially disfiguring,” and “rolling sarcophagus.”

There should be general agreement across the ideological spectrum that GM’s time would have been better spent hiring economists and mathematicians to evaluate the tradeoffs of a potential recall. Courts, the public, and regulators rightly savaged the automaker for its decisions. Perhaps the silver lining to the catastrophe is that corporate America will begin to embrace cost-benefit analysis as a tool for better decision making and to guard against such brand-damaging episodes.

Viscusi does offer one idea that may provide a path for corporations interested in risk analysis but weary of formally publishing a VSL. He suggests the government grant “safe harbor” in legislation for VSL calculations. In other words, plaintiffs would not be permitted to introduce evidence on corporate risk analysis. Companies would, however, be allowed to introduce evidence of reasonable estimates of VSL and VSLY. This may be a practical solution for the wider adoption of cost-benefit analysis, but the trial bar would likely stand in the way of such a provision.

In conclusion, most rational followers of the regulatory state will cheer for more widespread use of risk analysis. If greater corporate adoption of the practice leads to fewer lives lost—and somehow, fewer lawsuits—all the better. However, there is a real fear that regulators and trial lawyers could wield an expanding VSL to push for their preferred regulatory standards, higher tort damages, and the aim of reducing inequality through regulation. American ingenuity has produced a great deal in the last 150 years, including one of the highest VSLs on the planet. Let’s hope regulators don’t wield the VSL to impede further progress.

Shaping Markets

◆ REVIEW BY PHIL R. MURRAY

Alvin Roth is the Craig and Susan McCaw Professor of Economics at Stanford University and co-winner of the 2012 Nobel Prize in Economics. In January of this year, at the close of his term as president of the American Economic Association, he offered his presidential address, “Marketplaces, Markets, and Market Design,”

which followed up on his 2016 book, *Who Gets What—And Why*. His address interested me enough to pick up the book and write this review.

In it, he proclaims, “The new economics of *market design* brings science to match-making, and to markets generally. That’s what this book is about” (Roth’s emphasis). “My hope,” he tells readers, “is that this book will help you see markets in new ways.”

If there is a shortage in the market for a commodity, economists predict that buyers will bid higher prices and sellers will accept the higher prices in return for increasing the quantity supplied. In this case, it doesn’t matter what commodity is being traded. “The price does all the work,” he explains, “bringing [buyer and seller] together at the price at which supply equals demand.”

However, in some cases, what is being traded does matter. For instance, consider a “matching market” such as a market for donor organs. In such a market, buyers must choose sellers and sellers must choose buyers in order for the exchange to be mutually beneficial. Roth puts it this way: “A market involves matching whenever price isn’t the only determinant of who gets what.” Or who gets whom, for that matter.

Market necessities / Some economists try to make the world a better place by recommending better public policy. Roth makes the world better by designing markets so that they work better. “Market design” is the set of rules according to which buyers

and sellers interact; it is also the making of those rules.

A market works well, in the jargon of market design, when it is “thick,” “uncongested,” and “safe.” A market is thick if there are many buyers and sellers. It is uncongested if buyers and sellers have enough time to evaluate offers. In general, if buyers and sellers feel comfortable participating, a market is safe. A matching market in particular is safe if buyers and sellers honestly share who they want to deal with. For example, school choice requires that parents “list their true preferences” for schools, which may differ from what they think they might get based on the school board’s assignment criteria.

A market “fails” or “unravels” when it becomes thin, congested, or unsafe. Roth strives to repair those problems.

Thickening markets / Kidney exchange illustrates the features of a matching market as well as the benefits of market design. Roth first pondered kidney exchange in the early 1980s. He reports that in 2014, the shortage of kidneys exceeded 100,000. Given that shortage and the National Organ Transplant Act of 1984, which bans the sale of kidneys, market designers aimed to thicken the market by increasing the number of donors. After that, the author says, “making the market thick involved assembling databases of patient-donor pairs.” These pairs must match based on blood type and immune system. Roth and his colleagues devised an algorithm to determine matches.

To shed light on the possibilities, consider how a database enables “trading

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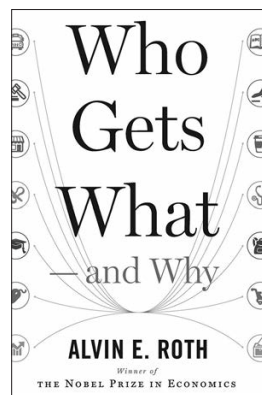
cycles.” Suppose Mr. Jones needs a kidney and Mrs. Jones is willing to donate one of hers, but they are incompatible. Likewise, Mrs. Smith needs a kidney and Mr. Smith is willing to donate one of his, but they too are incompatible. Roth’s algorithm determines that Mr. Jones and Mr. Smith are compatible, and Mrs. Jones and Mrs. Smith are compatible. Doctors perform one transplant from Mr. Smith to Mr. Jones and another from Mrs. Jones to Mrs. Smith. This “two-way cycle” saves two lives. Likewise, a “three-way cycle” saves three lives. Last year, doctors at Yale–New Haven Hospital performed a nine-way cycle.

Trading “chains” make the market thicker yet. In contrast to a trading cycle in which a donor expects a loved one to receive a kidney, a “non-directed donor” initiates a chain that will include “some patient–donor pairs, and end with a donation to someone on the waiting list.” Another significant benefit of a chain is that transplants may occur non-simultaneously. Note that Mr. Smith would hesitate to donate his kidney to Mr. Jones if he could not expect Mrs. Jones to give up hers at the same time and place to Mrs. Smith. Doctors perform the transplants in a kidney trading cycle simultaneously in order to prevent the possibility that a directed donor cannot or will not give up a kidney after his or her loved one has already received one.

The problem with simultaneous operations is that they bump into resource constraints because of the limited availability of doctors, nurses, and facilities. A non-directed donor relaxes those constraints; he or she donates to Mr. Jones, and even if Mrs. Jones fails for some reason to reciprocate, no one has donated without a loved one receiving a kidney. To paraphrase Roth, Mr. Smith may remain in the kidney exchange as a donor to benefit his wife at some point in time. The author shares the

story of a non-directed donor who initiated a chain that involved 16 operations over a period of years. More recently, since publication of this book, Roth described a chain involving 60 donors and recipients.

The aforementioned resource constraints that hindered simultaneous transplant operations congested the market for kidneys. Trading chains not only thicken the market; the non-simultaneous operations they make possible also decongest the market by relieving those resource constraints.



Who Gets What—and Why: The New Economics of Matchmaking and Market Design

By Alvin E. Roth
261 pp.; Mariner, 2016

Decongesting markets /

Another factor impedes trading. “Keep in mind,” Roth writes, “that hospitals earn revenue on their transplants; they’re commercial enterprises as well as caregivers.” Thus hospitals have an incentive to keep their “easy-to-match” pairs off the market and refer the “hard-to-match” pairs to the market. The problem is that “when transplant centers withhold easy-to-match pairs and transplant them internally, it reduces the number of people who can

be matched nationwide, because it’s easier to find matches for hard-to-match pairs if they don’t always have to be matched with other hard-to-match pairs.”

Roth and a colleague imagine that the problem can be fixed by rewarding hospitals with more matches based on the number of easy matches they refer to the market. Their idea is unlikely to be implemented, Roth laments, because health care providers refuse to admit that “hospitals are strategic players in competition with one another.” More lives are likely to be saved by integrating regional markets for kidneys into a national market and relying on trading chains.

At the time he was writing, Roth anticipated kidney exchange would go global. Since publication, that has become a reality. Transplants cost less than dialy-

sis; the cost savings finance travel, transplant operations, and other health care for patients and donors from poor countries to rich countries in what one of Roth’s medical colleagues calls “reverse-transplant tourism.”

Recall that the National Organ Transplant Act prohibits the buying and selling of organs. Why? Roth’s term for it is *repugnance*. “Let’s call a transaction *repugnant*,” he suggests, “if some people want to engage in it and other people don’t want them to.”

He begins his chapter on repugnance by noting that even though there would be willing producers and consumers of horsemeat, a majority of voters in California banned the market. What offends third parties, as they observe other people buying and selling, varies over time and from place to place. Roth gives several examples. Money lending used to be repugnant in the West; it remains so in Islamic society. On the other hand, indentured servitude was not repugnant in early America, but eventually became so. The French and the Germans continue to dine on horsemeat.

If anyone can think of a way to enable the buying and selling of kidneys without arousing repugnance, the gains from trade—in terms of lives saved—would be large. Roth presents a few ideas. Some people object to buyers compensating sellers because they expect the former to have high incomes and the latter to have low incomes. The objection fails to see that by allowing donors to be paid, the increase in the quantity supplied of kidneys will benefit low-income patients by reducing the time they spend on waiting lists. There is nevertheless a way to avoid this objection based on income inequality. Roth points out that the government could raise taxes and buy kidneys, which would then be assigned to patients on waiting lists based on criteria other than income.

Another objection is that allowing donor compensation could lead to undue influence. For example, creditors might pressure debtors into paying off their obligations by selling a kidney. To counter this objection, the author recommends donors

undergo a “cooling-off period” so that they are sure they are making the right decision.

At the time he was writing, Roth admitted that he was pessimistic about overturning repugnance in the buying and selling of kidneys. He refuses to give up, however. His latest tack advances a question put forth by Philip Cook and Kimberly Krawiec of Duke University: If society finds it acceptable for professional football players to put their health at risk for compensation, why not kidney donors? (“If We Pay Football Players, Why Not Kidney Donors?” Spring 2018.)

Although kidney exchange teaches many lessons about a matching market and market design, the book offers much more. Roth explains the intricacies of matching law students with judges, medical students with residencies, and students with schools. He describes the latest ideas of market designers who are trying to solve problems that arise when stock traders compete down to a fraction of a millisecond, or Federal Communication Commission officials auction “a package of licenses” to businesses that use a portion of the radio spectrum.

The book has an offbeat element reminiscent of *Freakonomics*, the 2005 bestseller from economist Steven Levitt and journalist Stephen Dubner. For example, Roth writes of his and colleague Xiaolin Xing’s discussion of an amazing case of early trading in which a polygynous Aboriginal Australian tribe matched newborn boys with *the future daughters* of newborn girls. Other colleagues discovered that delivering “virtual ‘roses’” on a dating website was as effective in generating mutual interest as good looks and a good job. The reader will encounter market maladies such as “sniping” (offering to buy just before the market closes) and “exploding offers” (those that expire rapidly). Sometimes market designers solve or attenuate these problems, sometimes not.

Readers of *Regulation* may be interested in how Roth handles this question: “How do we square market design with the notion of the ‘free market’ that so many people hold dear?” To him, a free market is “a mar-

ket with well-designed rules that make it work well.” Those who design the rules may be buyers and sellers in the market as well as government officials imposing mandatory regulations. Both the private actors and the government regulators, he lets us know, are capable of making mistakes.

He thinks of “economists as engineers.” Readers might balk at that because it sounds like dreaded social engineering. But

Roth points out that markets are “human artifacts” just like agriculture and the medical profession. Just as farmers tweak seeds and doctors prescribe medicine, economists may recommend modifications that help markets work better. Let’s hope that economists who think of themselves as engineers use persuasion in the marketplace of ideas and refrain from advocating coercive government intervention. R

Corruption and Government

◆ REVIEW BY GEORGE LEEF

What motivated the American colonists to rebel against the British crown? The reasons that immediately come to mind include unwanted taxes, trade interference, and disrespect for the colonists’ property rights. In his latest book, George Mason University law professor F.H. Buckley argues that we should add

corruption to this list. The patriots saw the monarchy and its officials as wallowing in corruption as they lived high on graft and doled out favors to friends and cronies at public expense.

While tensions grew in the 1770s, few Brits understood the fuss. “But what they missed,” Buckley writes, “was the colonists’ ire over corruption in the British government—the King’s Friends in Parliament, the showering of gifts on royal favorites, the patronage machines of prime ministers and of royal governors in the colonies.”

The patriots did not just want to throw off the yoke of King George III; they wanted to create a government that would be virtuous. They wanted a government run for the good of the people at large rather than for a few with money and influence. They wanted to prevent corrupt bargains and self-dealing.

Constitution vs. corruption / Once independence was won and the new nation’s leaders got together in Philadelphia to deal with the evident flaws of the Articles of Confederation, the need to keep cor-

ruption out of government was one of their paramount concerns. The government they envisioned, Buckley writes,

would accept the reality of our ordinary vices, but would make it harder for them to infect the body politic. By dividing powers and asking one branch to check another, the Framers sought to restrain those who would use the means of government to serve wasteful private ends.

From that goal sprang many of the Constitution’s features. The president would not be popularly elected but rather chosen by the Electoral College, which would presumably consist mostly of wise and virtuous men. Furthermore, the Electoral College would meet in the separate states rather than the nation’s capital, a provision meant to prevent unsavory deals among the electors.

The president would be subject to impeachment and it was originally proposed that only a majority vote in the Senate was needed to remove him. (Buckley notes that the change to a two-thirds vote was made late in the convention by a committee and never debated.) To keep the president from squandering money on his

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friends as English kings were wont to do, the Appropriations Clause stated that no money could be withdrawn from the Treasury except upon a vote of Congress. Nor could the president confer any title of nobility or accept any foreign emoluments. He could make appointments, but only with the advice and consent of the Senate. Those and other provisions were intended as barriers against corruption.

Buckley, who has studied the Constitutional Convention carefully, notes that Ben Franklin even suggested making the presidency an unpaid office to further reduce its attractiveness to grasping men. That idea, however, was too much for the rest of the assembly and his suggestion died quietly.

Turning to the legislative branch, each state's senators would be chosen by the state legislature rather than elected directly. (The 17th Amendment would change that.) Members of Congress were forbidden to hold any other federal office at the same time. The powers of Congress were carefully enumerated and did not include any authority to engage in what James Madison called "factionalism," meaning the promotion of legislation intended to benefit individuals or interest groups rather than advance the general good.

Slipping the constraints/ The Framers put a great deal of effort into devising a governmental structure that would ward off corruption. Alas, it has failed. The government today is riddled with the kind of influence peddling and hidden deals that drove the patriots to take up arms in 1775. Buckley writes,

From TARP, to the Export-Import Bank, to the tariff protections offered to favored industries, there is a growing concern that the federal government has become a necessary business partner, and that the (imagined but not necessarily imaginary) free market capitalism of the past has been transformed into a wasteful crony capitalism that favors well-connected special interests.

He provides a convincing analysis of the Constitution's inability to maintain

the envisioned "republic of virtue." The separation of powers proved no match for presidents who were determined to act as they wanted. He observes:

The president has slipped off many of the constraints that were meant to curb his authority. He makes laws by regulatory fiat and executive order, and unmakes them by refusing to enforce properly enacted legislation. He can reward friends and punish enemies in ways the Framers would not have imagined.

That's perfectly true, although Buckley doesn't mention that the presidents who were eager to slip those constitutional restraints were able to do so only with the complicity of Congress and the Supreme Court. The Framers' design worked for a while, but their words on

paper could not prevent corruption once the ruling elite decided that limited government was too old-fashioned.

And so we live with a level of corruption that makes that of King George's time seem quaint. Much of today's policymaking appears to have nothing to do with the merits of the proposed legislation, the political appointee, or the legal arguments, but instead is driven by money and connections.

Judicial corruption/ Consider, for instance, the way justice often depends on where a case is tried. Trial lawyers have worked out brazenly corrupt methods of shaking down out-of-state litigants in venues where they pretty much own the judges.

Buckley recounts an infamous Mississippi case involving a contract dispute between a Mississippi firm and one from Canada. The proceedings reeked of favoritism toward the former and hatred directed at the latter, even playing the

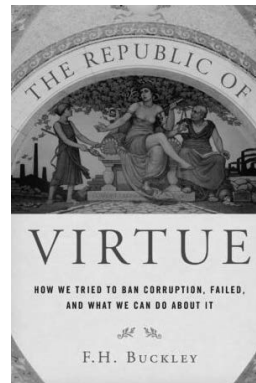
"race card" with the black jury. The judge, elected with plenty of support from the trial bar, allowed the plaintiff's legal team to get away with outrageous conduct (he was later given an appointment to the Fifth Circuit by President Barack Obama)

and the resulting damage award against the Canadian firm was staggering: \$100 million in compensatory damages (including \$75 million for "emotional distress") and \$400 million in punitive damages. Moreover, the defendant was not allowed to appeal under Mississippi rules unless it first posted a bond of \$625 million. The unfortunate Canadians finally settled the case, paying \$130 million over a dubious breach of contract.

There is a clear solution to the problem of state judicial corruption. Congress need only adopt the proposed Fairness in Interstate Litigation Act, amending the law

providing that in cases involving diversity of citizenship, federal and not state courts have jurisdiction. That is apparently what the First Congress had in mind when lawmakers passed the Judiciary Act of 1789, which provides for removal of "diversity" cases to federal court.

The problem is that in an 1806 case, Chief Justice John Marshall read the statute to mean *complete diversity*, so that if the plaintiff and at least one defendant were from the same state, the case must remain in state court. Ever since, lawyers have taken advantage of that decision, which Marshall later admitted was a mistake. They find some in-state company to plead in as co-defendant, which is why one small drugstore in Mississippi has been sued hundreds of times, to provide the in-state connection that defeats federal jurisdiction. If Congress would pass the proposed amendment, that would wipe out a great deal of judicial corruption. That's the book's most efficacious idea.



The Republic of Virtue: How We Tried to Ban Corruption, Failed, and What We Can Do about It

By F.H. Buckley

246 pp.; Encounter Books, 2017

Campaigns and corruption / But what about the big “money in politics” problem? Going back to the 1970s, America has had a fixation on trying to “clean up” politics through contribution limits and disclosure requirements. Buckley argues that it has all been futile. Such constraints do nothing to keep people and groups with money from finding ways to influence who gets elected and appointed, and what bills and regulations are adopted or defeated. All they accomplish is to create traps for the unwary that can be exploited by partisans who want to use the law as a sword to harm their opponents.

Buckley gives several jarring examples of that, including the prosecution, imprisonment, and mandatory psychiatric evaluation of conservative writer Dinesh D’Souza and the SWAT raid of the homes of Wisconsin Club for Growth members for having supposedly violated campaign finance laws in supporting Gov. Scott Walker. Zealots can and will hunt for petty violations of these complicated laws to take down people on the other side. Instead of making politics cleaner, they make it dirtier and more vicious.

We would be better off, Buckley argues, if we repealed the current campaign finance laws and put in their place three rules: that all political contributions be made anonymously, that we legislate specifically against “pay for play” operations, and that we stop the revolving door between government jobs and lobbying firms.

Regarding the first, Buckley argues, “There’s bound to be less corruption attached to the money when the gift is anonymous.” Moreover, a rule of anonymity would prevent the “outing” of donors like former Mozilla president Brendan Eich, who was forced to resign after left-wing political forces discovered his contribution to the campaign in California against same-sex marriage. (See “Should Campaign Donors Be Identified?” Summer 2001; “Answering Ayres,” Winter 2001.)

Regarding the second rule, what Buckley has in mind is a ban on political contributions from government contractors and municipal bond dealers. Both groups

have a strong temptation to engage in rent-extraction by supporting candidates who will channel business their way.

Concerning the third rule, he points out that “on leaving elective office, many congressmen and senior staffers become lobbyists and cash in on the contacts they have made. The Center for Responsive Politics reported in 2011 that at least 285 of an estimated 1,000 former members of Congress were registered as lobbyists, and another 85 provided ‘strategic advice’ for clients.” Because of this well-lubricated revolving door between legislating and lobbying, we probably have a lot of laws and regulations that wouldn’t otherwise come into existence.

In my view, those reforms have merit, but they would only make a small dent in

America’s political corruption problem. We have corruption because, like the British monarchy, today’s government has too much power to tax, spend, and regulate—powers that inevitably attract the dishonest and seduce the once-honest. So long as that power remains, we will have corruption.

Buckley knows there’s no silver bullet to kill corruption, but he hopes to offer a bit of relief. He concludes:

Rather than rely upon people’s intrinsic goodness, we should look more modestly for feasible ways to guard against particular kinds of corruption where we find them. That’s what the Framers did in aiming to design an anticorruption covenant, and the best we can do is keep tinkering with the machinery they gave us. R

A Radical Restructuring and Redistribution of Wealth

◆ REVIEW BY DAVID R. HENDERSON

In *Radical Markets*, University of Chicago law professor Eric Posner and Microsoft senior researcher Glen Weyl propose a radical restructuring of property rights, immigration policy, and voting, as well as a substantial change in corporate law. Their most radical proposal is to completely overturn property rights so that people would need to continuously “bid” for property they already own. They want to alter immigration policy to allow about 100 million more immigrants into the United States, but change who decides whether or not to allow particular prospective immigrants to enter. They want to switch to “quadratic” voting as opposed to the current one citizen–one vote method. They also want a major change in how investors can hold shares in corporations.

For all of these positions, they make clever and sometimes compelling argu-

ments. The most compelling one is on voting. The least compelling, and also absolutely horrific, one is on property.

Worse off? / Posner and Weyl begin by making the case that the current political and economic situation in the United States is well short of ideal. Who could disagree? But in making their case, they claim that the U.S. economy has been stagnating for many years for most of its residents. They base this strong conclusion on thin evidence.

The closest they come to making their case is to cite a study by Stanford University economist Raj Chetty and co-authors, who found that only 50% of American children born in 1980 had a higher liv-

DAVID R. HENDERSON is a research fellow with the Hoover Institution and emeritus professor of economics at the Graduate School of Business and Public Policy at the Naval Postgraduate School in Monterey, CA. He was a senior economist with President Ronald Reagan’s Council of Economic Advisers. He is the editor of *The Concise Encyclopedia of Economics* (Liberty Fund, 2008).

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ing standard at age 30 than their parents had at the same age. They don't mention three huge problems with the study, all of which, if corrected for, would undercut that result.

First, as Chetty admits, the study measured income not for the individual, but for the household. Are 30-year-olds' households systematically different today than they were in 1980? Yes. Today, 30-year-olds are less likely to be married and living with a spouse who earns income.

Second and related, today's 30-year-olds are typically not quite as far along in their careers as their parents were in 1980. One reason for this is that many of them were in school longer than their parents were, getting undergraduate and even graduate degrees.

Third, to adjust for inflation so that they could compare incomes over time, Chetty and his co-authors used the U.S. Consumer Price Index. The CPI systematically overstates inflation by about 0.8 percentage points per year. Over a generation of 25 years, that's an overstatement of 22%. Had they taken that into account, they would have found that well over half—I would wager over 60%—of today's 30-year-olds earn more than their parents earned when they were 30.

Undercutting property rights / Posner and Weyl's argument for overturning property rights is that private property inherently confers market power. Indeed, the title they choose for their chapter on this topic is "Property Is Monopoly."

They are right in some instances. My home, for example, is the only house on the piece of property that I also own. Because there is no perfect substitute for that piece of property or that house, I have a small amount of market power. But there are close substitutes for my home. And there are even closer substitutes for my stocks, bonds, and car. So "Property Is Monopoly" is a highly exaggerated title.

They go from that idea—I'm skipping their fairly good exposition of 19th century economist Henry George's idea for taxing land—to their proposal for a com-

mon ownership self-assessed tax (COST) on wealth. They would have the federal government impose a stiff 7% annual tax on people's wealth. People would assess their own wealth, estimating, say, the value of their house.

What would prevent people from underestimating the value of their assets?

This is where Posner and Weyl's proposal is horrific. Once a homeowner, say, has stated the estimated value publicly, he would have to sell his house to anyone who offers more than that value. So, for example, suppose my aforementioned house is worth about \$900,000 on the open market. If I estimated the value at \$900,000, my annual tax under their proposal would be a whopping \$63,000. If I estimate the value below that, I would risk losing the house to anyone who bids more than my estimate. To be safe, I would probably estimate the value at \$1 million because I like living there. But then I would pay \$70,000 in taxes on my home annually. (Notice that a 7% annual tax on an asset would amount to an implicit tax of over 100% on the income from many assets.)

In short, Posner and Weyl would fundamentally undercut property rights, making them conditional. If you've lived in your home for 32 years, as my wife and I have, and put a lot of sentimental value on the place where you raised your children, then you would have to put a number on that value. And in case you think you can handle that, you must remember that they want to do the same with virtually all of your net worth.

Toward the end of the book, they even toy with having people pay taxes on their human capital. They give an example of a surgeon who announces that she would perform gallbladder surgery for \$2,000 and pay a tax accordingly. She would be

obligated to provide that surgery to anyone willing to pay \$2,000. So if the surgeon was thinking of retiring, forget it. The only satisfactory solution for her would be to estimate the value of her services at a number that really would make her indifferent between working and retiring.

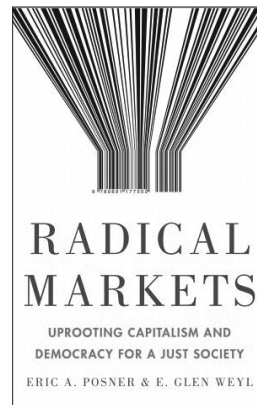
The authors are aware that they're tread-

ing on sensitive ground here, writing, "A COST on human capital might be perceived as a kind of slavery." *Might be?* They claim that such a perception is incorrect, but the reasoning behind their claim is weak.

They implicitly admit that their proposal is coercive when they write that it would be a mistake "to think that the current system is not coercive." How is the current system coercive? Here's how: "Those with fewer marketable skills are given a stark choice: undergo harsh labor conditions for low pay, starve, or submit to the many indignities of life on welfare." In short, to Posner and Weyl,

being relatively poor is akin to being coerced. I would bet that a newly freed slave in 1865, though almost certainly poor, would understand the difference between poverty and coercion better than Posner and Weyl seem to.

And let's not forget the huge transfer of wealth that COST would imply, a transfer that they claim is a virtue of their proposal. A family with a net worth of, say, \$2 million would pay \$140,000 a year. They estimate that a COST would raise 20% of GDP annually, half of which would replace "all existing taxes on capital, corporations, property, and inheritance" and wipe out the deficit. The other half would be given to each U.S. resident, which would mean a per capita annual payment of about \$5,300. Elsewhere ("A Philosophical Economist's Case Against a Government-Guaranteed Basic Income," *Independent Review*, Spring 2015), I have



Radical Markets:
Uprooting Capitalism
and Democracy for a
Just Society

By Eric A. Posner and
E. Glen Weyl

316 pp.; Princeton
University Press, 2018

described the huge problems with such a universal basic income. In short, Posner and Weyl advocate a huge wealth transfer.

Notice, also, that the biggest revenue sources for the feds—the individual income tax and the payroll tax—would be left in place. This means that Posner and Weyl are calling for a gigantic increase in the size of the federal government.

Making immigration benefit natives / Their other major economic proposal is on immigration. They would take away U.S. corporations' power to hire immigrants and would instead give each of 250 million American adults the power to hire one immigrant. Then, the American doing the hiring could employ the immigrant or hire the immigrant out to someone else.

What's the American's incentive? Each would make an offer to an immigrant—they use the number \$12,000 per year for illustrative purposes—that would be attractive to someone from a low-income country, and each native would then pocket the difference between that \$12,000 and the value of what the immigrant produces.

Posner and Weyl estimate that only 100 million Americans would take advantage of this opportunity, but it's hard to imagine 150 million other American adults all leaving thousands of dollars of annual value untapped. Although my first instinct was to find their proposal wacky, after I thought about it I found it more reasonable than I had thought at first.

Their immigration idea does, though, sound *politically* undoable. It's hard to imagine Americans going along with at least 100 million new immigrants entering the country in a short time. I hasten to add that I would love it, even if I didn't take advantage of the system (which I probably would). Posner and Weyl claim that their system is better than the late economist Gary Becker's proposal to auction immigration slots, but it's hard to see why.

An important argument for their proposal is that it would offer the average American a benefit that's much greater than he receives from immigration today. That's true, but Becker's proposal would

also do so if the proceeds from the auction were used to fund an equal grant to each American. They also claim that a pure Becker-type auction would ignore important factors such as the immigrant's cultural fit to local communities or people's willingness to welcome migrants. But a migrant bidding tens of thousands of dollars for the right to immigrate would surely take such factors into account in deciding how much to bid and where to settle.

Voting and corporate control / One of Posner and Weyl's most promising ideas is for quadratic voting. The idea is that each voter could save up votes in order to cast more than one vote on a given issue that he or she feels strongly about. But under this proposal a voter who has accumulated, say, 64 votes would, by using up all those votes on one issue, be able to cast only the square root of 64, which is eight votes. They have a fairly good explanation for why they advocate the square root rather than the straight number, but it's too complicated to explain in a short space. Suffice it to say that their proposal would do what the current system doesn't: allow voters to back the intensity of their preferences and constrain voters to make tradeoffs among issues.

The other main issue that the authors discuss is the ownership of corporations. They point to the tension between the interests of stockholders and the interests of high-level corporate managers. Economists who have addressed this issue, they note, believe that a market for takeovers “where another firm or group of investors buys an underperforming firm and fires the CEO” will discipline the management. It's true that many economists believe that; the pioneering scholar in this area was the late law and economics scholar Henry Manne. But Posner and Weyl say nothing about one of the main impediments to a well-functioning market for corporate control: Section 13D of the 1968 Williams Act.

Under Section 13D, when someone acquires more than 5% of the voting shares of a corporation, he must report it within

10 days of the acquisition. The problem is that all the relevant players will suspect that the acquirer wants to purchase even more shares in order to have more control. Many shareholders will hold out for the higher expected price, making the takeover less likely and making it less attractive for firms to attempt to get control of other firms in the first place.

Here's how Duke finance professor Michael Bradley put it to me years ago. Imagine that you make a living hunting for and reselling rare books. In a used-book store, you find an autographed first edition of a rare book, priced at \$2. You know that you can sell it for \$1,000. But what if a well-enforced federal law requires that you inform the seller of the book's value. Then the seller will hold out for much more than \$2. The consequence to you is that you are less able to make a living; the consequence to the rest of society is that fewer people will be out there moving books to higher-valued uses. Similarly, the statement that a firm has newly acquired more than 5% of the voting shares of a corporation is a signal to potential future sellers of shares that their shares are worth more than they had thought, and they will be less likely to sell. The result: a substantially hampered market for corporate control and more running room for top managers to ignore the wishes of shareholders.

Posner and Weyl do make a somewhat persuasive argument on cross-ownership of shares. They argue that when large mutual fund companies such as Vanguard, Fidelity, and BlackRock own a substantial amount of stock in multiple firms in a concentrated industry, the mutual fund companies have an incentive to motivate the firms not to compete against each other as aggressively as they otherwise would. The authors offer evidence that this happens. They propose changing the law to prohibit a given mutual fund from owning a large percentage of shares in more than one company. That way, there would be less incentive for the funds to discourage competition.


Posner and Weyl point out that the funds could still get the advantages of

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diversification because they would have many concentrated industries in which they could own substantial shares of one company. I couldn't find any holes in that argument.

Interestingly, one of the concentrated industries that the authors worry about is U.S. domestic air travel, but they don't mention an obvious solution to counteract monopolistic behavior: changing the law to allow foreign airlines to compete on routes between U.S. cities. Laws keeping out foreign airlines, which are called "cabotage" laws, are the main impediment to foreign competition in the U.S. airline market.

In their chapter on corporations, the authors blame "monopolistic conspiracies" for an industry practice, resale price maintenance (RPM), that has a far more cogent pro-competitive explanation. Suppliers engage in RPM when they require retailers to charge a minimum price on certain items. In a classic article more than 50 years ago, University of Chicago economist Lester Telser pointed out the problem with the monopoly explanation for RPM: suppliers would be facilitating retail monopoly, which would result in fewer items sold, hurting the supplier. A supplier with monopoly power would be better advised to simply charge a high price to retailers. So the monopoly explanation doesn't make sense. Telser proposed an alternate explanation for RPM: encouraging retailers to compete not on price, but on demonstrating and exhibiting the product. This explanation seems to have stood the test of time, and I'm surprised that Posner, a law professor at Telser's school, does not discuss this explanation.

Conclusion / I hope that policymakers and others will outright reject—with prejudice, as the lawyers say—Posner and Weyl's drastic proposal for undercutting property rights and substantially redistributing wealth. On the other hand, I hope they implement the quadratic voting proposal and increase individual Americans' ability—while not taking away corporations' ability—to hire immigrants. 

A Captivating, Frustrating 'Grand Bargain'?

◆ REVIEW BY ART CARDEN

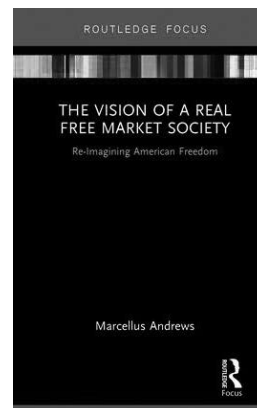
Bucknell University economist Marcellus Andrews has written a self-consciously pugnacious book proposing a radical change to the structure of American welfare funded by a radical change to the structure of American capitalism. No matter your ideological persuasion, you will find something in his *Vision of a Real Free Market Society* to inspire you and something in the book to infuriate you. That's quite an achievement for 106 sparsely footnoted pages.

Andrews explores the kinds of issues that readers of *Regulation* and its sister publications in the broader classical liberal academic and think tank universe should take very seriously.

Andrews's venture is inspired by Milton Friedman's 1962 book *Capitalism and Freedom*, though Andrews proposes "a better form of capitalism." It really is a *re-imagining* of capitalism, thinking not in terms of piecemeal reforms but in terms of a new structure—and this makes the book at once fascinating, stimulating, and frustrating. As a matter of pure policy, I can't help but wonder if it offers a grand political bargain that would be acceptable to both the right, which would get freer markets, and the left, which would get something akin to a Basic Income Guarantee. Theoretically, *everyone* would get richer faster in the long run. As I tell my students, I would be a very happy economist if I woke up one morning and this change had been made.

Better than a dog's breakfast / Andrews's language is strident in places, but to get lost in this is to misinterpret the kind of

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The Vision of a Real Free Market Society: Re-Imagining American Freedom

By Marcellus Andrews
106 pp.; Routledge, 2017

book it is. *The Vision of a Real Free Market Society* isn't the discussion that happens in the seminar room. It's the (usually better

and more insightful) discussion during the post-seminar visit to the bar. That makes it a lot more fun to read than most academic books.

Brevity requires him to economize on nuance, but I was still surprised to read his claim that capitalism *obviously* tends toward monopoly, inequality, and crushed hopes and dreams for the poor. He tells us that markets are sources of "unemployment, unnecessary suffering, and environmental degradation." But I think the preponderance of the evidence suggests that unemployment and "unnecessary suffering" are not market phenomena per

se. I think these claims are empirically false and I would suggest that the problem with modern "capitalism" is that there's not enough of it—or, rather, too much of the market is captured by special interests that are able to profit not from innovation, lower prices, and greater output, but from higher prices and lower output made possible by barriers to entry.

The novelty comes from Andrews's realistic approach to policy. While I don't share his skepticism about untrammelled markets, he acknowledges the problems of a lot of government policies on poverty, noting that they come with a whole host of

pathologies, inefficiencies, and failures. Is his proposal what most libertarians would see as an ideal social policy for an anarcho-capitalist paradise? Clearly not. Is it better than the dog's breakfast of "welfare" as it is currently structured? Probably so.

Andrews proposes a novel twist on what we would normally think of as a Basic Income Guarantee or Universal Basic Income. It is, as he puts it, a shot at "exploring how to combine markets with public ownership—but not management—of a large share of the nation's private capital stock, which is the antithesis of socialism as usually understood." He proposes moderate social ownership of some of the means of production but not ownership *with control*. Instead, he proposes that the government own shares in mutual funds that would be privately managed with, presumably, the income from these funds being distributed to the people.

This would have the virtue, I think, of a more equitable distribution of the returns to capital without the distortionary effects of taxes on capital. The requirement that government own shares in privately managed mutual funds also means that the profit-and-loss system is minimally compromised. Given how much money the government spends every year on war, farm subsidies, and so on, it's difficult to claim "We can't afford this!" with a straight face.

But I'm not sure how "minimal" this distortion would remain in the long run. I'm not terribly optimistic about our ability to insulate such funds from political control. First, there is the rent-seeking bonanza that will accompany the struggle to become one of the chosen few firms managing the state's multitrillion-dollar portfolio. Second, I agree with Milton Friedman's critique of "Social Security Socialism," namely that government stock purchases would "threaten our freedom" by encouraging large-scale government ownership of private enterprise, even via shares in mutual funds. I doubt that the current Congress—or any Congress—could be trusted to design rules that would insulate the system from overwhelming political pressure. Consider calls for college endowments, state pensions, and

TIAA-CREF to divest from oil companies and gun manufacturers. The pressure to direct funds away from politically unpopular and toward politically popular causes would be enormous.

That said, there are examples of at least minimally competent government management of resources. Oil in Alaska and Norway comes to mind, and Andrews's proposal is especially interesting in light of economists Damon Jones and Ioana Marinescu's recent finding that distribu-

It offers a grand political bargain where the right would get freer markets and the left would get something akin to a Basic Income Guarantee.

tions from Alaskan oil revenues apparently didn't reduce Alaskan labor force participation, but also in light of Finland's recent decision to cancel its Universal Basic Income experiment. As returns on investment in the social trust fund improve, Andrews argues, we can begin phasing out welfare as we know it. I'm less optimistic of this policy change given the enormous stakes some people have in the continued expansion of programs like the Children's Health Insurance Program, and we need to take very seriously the possibility that this would simply become another add-on for a very inefficient system.

Misfortunes, deserved and undeserved

Andrews makes an interesting point in his discussion of the ways in which one's choices have downstream consequences, but I think he goes too far. He writes, "A middle-aged adult who is poor, or even destitute, because of bad choices made when they were young is, in a very real sense, a prisoner to another person: their former, frivolous, reckless self." Yes, and I've said before that if I could punch one person in history it would be my teenage self. But I don't think this is a sound justification for redistribution at all. Why, I wonder, should my children and I be held

"prisoner" by your "former, frivolous, reckless self"? Andrews doesn't provide a good answer to this question or acknowledge the ways in which this creates an ultimate problem of concentrated benefits and dispersed costs. Here, the right's criticisms about virtue and incentives and so on need to be taken more seriously.

Andrews does confront two of the knottiest problems facing the left and right in thinking about the structure of the welfare state. For the left, there's the inconvenient

problem that people respond to incentives, and badly structured welfare infrastructure punishes labor and capital accumulation, subsidizes dissipation, and leaves us all worse off in the long run. We're worse

off financially in that we can't produce as many goods and services, but we're also worse off morally in that we make poor use of our gifts.

The problem for the right is that people's endowments are largely arbitrary. I have worked hard to get where I am in life, certainly, but I also had the good fortune to be born into a two-parent household where my parents loved my sisters and me, stuck together through thick and thin, and made (mostly) good choices. Less fortunate people experience struggles that I simply cannot identify with or empathize. To pretend that what I have is purely the result of my own merit when a lot of it is the result of my hitting the genetic and geographic lottery is unseemly. Justice seems to demand that others' undeserved misfortunes somehow be corrected.

Interventions or markets? / Here's a point, though, on which Deirdre McCloskey, the philosopher David Schmidtz, and I would agree: other people are not poor *because* I am rich. I am not rich *because* they are poor. Only in a zero-sum world is my good fortune *causing* another's misery. Here, Andrews's claim that the free market *obviously* leads to crushed dreams rings hollow. Moreover, even if we grant his claim about "the free

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market's tendency to lock poor and working people into society's basement," economic growth means that from year to year it becomes a much nicer, well-appointed basement with carpeting, a big screen TV, air conditioning, and other amenities.

It's hardly the case, furthermore, that free markets are guilty of "denying [the unfortunate] access to the keys to survival, mobility, and development: adequate schooling, health care, housing, safety, nutrition, and other vital goods and services." Last I checked, schooling was dominated by government ownership and provision, municipalities are served by government-owned security monopolies (police departments), and government intervention in markets for health care, food, housing, and all sorts of other "keys to survival" is extensive. Perhaps the free market would do a poor job of providing those goods, but it can certainly be argued in many cases that government doesn't do a particularly good job.

I'm also less sanguine about the idea that redistribution will lead to meaningful changes in the dynamics of class and status. Gregory Clark's 2014 book *The Son Also Rises* shows how we see similar patterns of social mobility across institutional types and time periods. (See "Do Good Names Bring Great Riches?" Spring 2015.) There's another problem that F.A. Hayek pointed out: dynastic wealth might be the least-bad way for parents to transfer to their heirs. If we get rid of transmitted privilege via financial inheritance, people will look for other ways to secure power and influence for their kids, perhaps by over-investing in or competing wastefully to get into influential social networks.

In this respect, Andrews's rhetoric sometimes gets the best of him. For instance, he writes, "The sin of the Right, from a left-libertarian point of view, is that the poverty and underdevelopment of some is seen as the necessary price for the wealth and freedom of others." I don't know anyone who actually believes that. "Trickle-down" economics is a caricature. He criticizes textbook models of competitive markets by invoking textbook models of incomplete information, monopoly, and monopsony, and he doesn't grapple with the fact that

in all sorts of markets (like health insurance) people are rebelling against efficiency enhancements on the grounds that insurance companies know *too much* about us.

He writes of the "unavoidable brutality and unfairness of private enterprise economies," but I think there's a lot of evidence to suggest that private enterprise economies are the best solution we've found to the "unavoidable brutality and unfairness" of a fallen world constrained by limited knowledge and bound by scarcity. And yet I say "Amen!" when he writes, "A capitalist road to economic justice is readily available to the Left once we get over our aversion to markets in general, and find a way around the problems with the labor market," and "Private property is ... an essential precondition for the existence of substantive liberty because it provides each person with the means to carry out their plans."

Conclusion / This is a captivating and at times frustrating book, hence the embarrassingly long gap between its release and when I submitted this review. It is captivating because it sets aside too-simple ideological narratives. It is frustrating in some of the ways Andrews gets carried away rhetorically. (I've been guilty of that myself and as a result of reading Andrews I've been looking for the planks in my own eyes.)

In broad outline, I'm onboard with a project like this, but I think the constitutional details are crucial. However, the point of the Routledge Focus series, of which this book is a volume, is not to present exhaustive accounts of every nuanced detail, but to summarize and provoke. *The Vision of a Real Free Market Society* does exactly that. As welfare reform proposals go, Andrews's vision of a real free market society deserves a place at the public policy table. R

Government Fixation Is the Problem

◆ REVIEW BY PIERRE LEMIEUX

It is easy to attack quantitative analysis in general and statistical methods in particular. It is also easy to call "tyranny" anything that appears to have an exaggerated and unfavorable influence.

Such hyperbole is part of Jerry Muller's *The Tyranny of Metrics*. Speaking of finance, the Catholic University of America historian criticizes

the idea that "numerical acumen (premised upon probability formulas rather than empirical research) can substitute for practical knowledge about the underlying assets." But how can "probability formulas" be excluded from empirical research? How can portfolios of complex, diversified, and abstract assets be evaluated without numbers and statistical analysis?

Muller's case is not boosted by Oxford historian Niall Ferguson's line that "those whom the gods want to destroy they first

teach math." Mathematics and probability theory are certainly among the tastier fruits of the Tree of Knowledge.

Yet *The Tyranny of Metrics* is not an attack on quantitative methods. Altogether, it is a moderate book. It only criticizes inappropriate use of metrics, metrics being defined as "numerical indicators of comparative performance based upon standardized data." They become problematic only when "the marginal costs of assembling and analyzing the metrics exceed the marginal benefits." Muller reminds us of the continuous importance of local knowledge à la Hayek and individual judgment.

Muller's main argument is that inap-

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appropriate metrics corrupt the goals of public policy and incite individuals to game the system. He documents many examples of “metric fixation.” For instance, police departments classify serious crimes as minor ones in order to show better numbers on the reports they must submit to federal officials. Schools “teach to the test” in order to increase the student scores on which government largesse depends. Under then-secretary of defense Robert McNamara during the Vietnam War, body count proved largely useless as a metric of performance. Another perverse incentive is “creaming,” an example of which is surgeons declining to operate on difficult cases for fear of reducing their performance scores. And so forth.

An important aspect of Muller’s criticism relates to pay-for-performance systems in schools, hospitals, and even private companies. These systems often do not succeed in improving performance, he argues. Another aspect of metric fixation lies in the publication of such metrics in the name of transparency. The measurement of performance fails when its costs—including the opportunity cost of collecting and tabulating data—are greater than its benefits. Individuals work to increase their scores, not to do the jobs they have been hired to do.

The market and government / Muller uses theoretical insights and evidence from several fields, including economics. His command of economics is often surprising for a non-economist.

For example, he shows how the fixation on metrics can be seen as an instance of the principal-agent problem. In case of a listed corporation, the principal—the shareholders—need to make sure that the agents—the executives—maximize profits. One way to align incentives is to tie the executives’ remuneration to the metric of

stock prices. The danger is that the executives will take maximizing short-run stock prices as their goal instead of the firm’s long-run discounted profits. But note how the stock market still tends to reflect the long-term value of the firm, because it is in each investor’s interest to buy a stock only if its price is lower than its expected discounted return. Market prices are not arbitrary metrics.

The problem is very different in the public sector, a difference that Muller tends to overlook. Consider a simple market—say, the market for haircuts. The barber wants to earn as much as he can in order to buy the consumption goods and services he likes. He does this by satisfying his customers. The happier they are, the more he can charge them if he offers a differentiated service, or the more customers he will get. He may—especially if he employs many

people or owns a haircut chain—use metrics to measure his performance, but the real and ultimate measure lies in his profit. Moreover, he may be more entrepreneurial and rely on his intuition. At any rate, his metrics are likely to be of the sort that Muller would find reasonable.

Now consider government. If it supplies only what the market cannot efficiently supply—what economists call “public goods”—then the link between profits and consumer satisfaction is broken. People may be very happy with the national defense they get, but a large number of consumers will not voluntarily pay for it, by the very nature of a public good. Once national defense is provided, everybody can consume it equally. In this case, some metrics are required to (imperfectly) measure if taxpayers get more value than what they are forced to pay in taxes. Moreover, the process through which defense expenditures are determined and allocated must be transparent for the very reason that taxpayers are forced to finance them. Muller’s arguments against metrics and transparency become moot. As far as

public goods are concerned, government inputs and outputs must be measured and transparent.

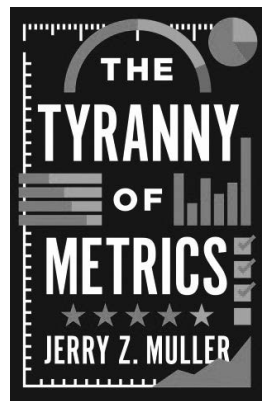
Perhaps one underlying problem in Muller’s economics is that he does not seem to believe in, or understand, consumer sovereignty. He blames “the ideology of consumer choice,” stating that “in some domains choice is particularly fraught.” But how can we assume that politicians and bureaucrats choose better? Will they have to use imperfect metrics to do this?

Government metrics / The problem is that government supplies or subsidizes a lot of services that are not public goods or, at least, not pure public goods. Instead, governments spend on education and health care, not to mention electricity, public transportation, and garbage collection. In fact, the largest part of government expenditures goes to redistribution. But the taxpayers are still forced to pay for all of this.

It is easy to understand that those taxpayers want at least to know what is spent and what the spending achieves. In these conditions, the proliferation of metrics is not surprising because it is a direct function of the extent of government intervention. This, and not metrics per se, is the problem. Shouldn’t these considerations influence Muller’s conclusions?

A related problem involves government agents, who—as James Madison noted in Federalist 51—are not angels. They will be tempted to loot the public treasury, legally or not. Even virtuous motivations are dangerous in the case of government agents because they may impose on people their own conception of the good. Government bureaucrats and politicians are paid with, and redistribute, taxpayers’ money, so they should indeed be submitted to performance metrics. Their activities should be as transparent as feasible, and they should be held accountable for what they do.

In brief, it can be argued that governments should be subject to metrics, transparency constraints, and accountability standards—and the more of them, the better—while people should be free to run their private activities as they want. It is



The Tyranny of Metrics

By Jerry Z. Muller
240 pp.; Princeton
University Press, 2018

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true, as Muller conclusively demonstrates, that government-devised metrics tend to be especially inefficient, but this is in direct proportion to what the government should not be doing. He provides us with some keys to these conclusions.

Mounting regulation and metrics / There is yet another problem of government activities outside the field of public goods: mounting regulations carry benefits for some individuals and impose costs on others. One can argue that an attempt to measure these costs and benefits must be made, however difficult it is both in theory and practice. (See “The War on Consumer Surplus,” Spring 2017.) Voters must have at least the possibility of evaluating what their agents are doing. To the extent that a tyranny of metrics does exist, it is mainly caused by government interventionism, which brings us back to the real meaning of “tyranny.”

Last decade’s recession provides a good example of regulation and metrics gone wild, but Muller does not see this clearly. He blames the financial crisis on the quantification and abstraction of finance, strangely ignoring the role of government.

Mortgage-based securities were pioneered in 1970 by Ginnie Mae, a federal government agency, in order to encourage the sale of residential mortgages. The Community Reinvestment Act of 1977, reinforced in the 1990s, established ratings to force banks into offering more loans and mortgages to the poor. Before the recession, financial institutions were probably the most metric-regulated businesses in America. The recession was in large part, if not ultimately, a consequence of these government-imposed requirements and metrics. (See my book *Somebody in Charge: A Solution to Recessions?* Palgrave Macmillan, 2011.)

Muller criticizes “short-termism” in business management, suggesting that it is partly the result of the use of performance measures in quarterly reports. But the Securities Exchange Act of 1934 forces listed companies to produce those reports. The criminalization of insider trading (using one’s private information to trade on exchanges) further encourages the use of public and transparent metrics. Government promotes short-termism in business decisions.

Nothing’s perfect, but... / Nothing is perfect of course, but government dirigisme

is certainly not the least imperfect phenomenon under the sun. Muller’s case studies include the production of culture and the transmission of knowledge, from K–12 schools to colleges and universities. He rightly notes that “it is an impoverished conception of college education that regards it purely in terms of its ability to enhance earnings.”

He observes how government-imposed performance metrics damage education: “Among the stronghold of metrics in the United States has been the Department of Education, under a succession of presidents, Republican and Democratic.” Such observations should raise alerts about government’s subsidization and regulation of education.

The Tyranny of Metrics could have better analyzed the role of unbridled government in what the author calls “metrics fixation.” The problem is not metrics per se, but the fact that they are imposed by governments that should not be doing what they are doing. Government fixation is the problem. Yet Muller’s book remains an interesting one: short, unpretentious, scholarly, and full of insights. And it provokes the reader into asking further questions. R

Working Papers ⇨ BY PETER VAN DOREN AND IKE BRANNON

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

Conservation Easements

“Charitable Contributions of Conservation Easements,” by Adam Looney. *Economic Studies at Brookings*, May 2017.

In Michael Lewis’s 1998 book *Losers* about the 1996 Republican presidential primary, he remarks that upon hearing candidate and orator par excellence Alan Keyes speak for the first time, he was torn between being outraged by Keyes’ message and feeling compelled by Keyes’ arguments to quit his job and work for Keyes’ campaign.

Likewise, the treatise on conservation tax easements by Adam Looney—a fellow at the Brookings Institution and a former economist for the Council of Economic Advisers—filled me in equal measures with anger over the existence of a costly and unproductive

tax break and visions of exploiting the break to bilk the Treasury and make millions for my family.

A conservation tax easement essentially awards property owners a tax benefit in exchange for the owners permanently extinguishing the right to develop a property. The intent of the deduction is to provide an incentive for landholders to preserve pristine land that they might acquire. For instance, the hills surrounding the childhood home and presidential library of Calvin Coolidge in rural Vermont all have conservation easements applied to them, precluding future development and maintaining the area just as it was in the late 19th century.

However, an easement can also be granted to a golf course or a backyard, which illustrates the rub with this tax provision: most of the time it is used to stop development in places where development was unlikely to ever occur.

For instance, many homes in Georgetown have been granted a

type of conservation easement that precludes owners from altering or removing the façades of their houses. The easement affords the owner a charitable deduction—ostensibly worth the reduced value of the home that results from the easement—of as much as \$100,000, which represents a substantial savings for the homeowner.

Of course, the notion that someone who owns a stately townhome in this wealthy enclave could ever get the local Area Neighborhood Council, city government, housing commission, and pitchfork mobs to allow any sort of change to its façade is laughable. It's unlikely that a single façade was "preserved" by this conservation easement. I suppose it can be argued that the easement is just compensation for all these political bodies usurping the development right, but most if not all affected property owners were aware that the development right was lost long before they purchased their properties.

In the case of the conservation easement Looney describes, the property owner must donate the right to develop the land to a nonprofit. Many of these properties are small: backyards instead of open land.

The conservation easement is not terribly common: only about 2,000 taxpayers claimed it in 2016, Looney determined. But it is becoming increasingly costly: the Treasury lost \$5–\$7 billion to it in 2016.

Looney reached the latter estimate by going through Internal Revenue Service forms 8283 and 990, although the latter documents—a standard for all nonprofits—were not terribly useful for this purpose. Of the top 21 organizations in terms of the amount of easements received, only six actually bothered to report them on their 990s. He suggests that this omission may obscure the fact that some of these charities are not, in fact, charities in any real sense of the word but instead act more or less as private foundations, and that closer scrutiny by the IRS would force them to conclude as much. This is now among the IRS's most litigated tax issues, despite the low number of taxpayers who claim the deduction.

This lack of transparency may persist indefinitely, Looney laments. An entity called Partners for Conservation lobbies to prevent any sort of mandated disclosure of such transactions. A provision that would prevent such reporting was included in a draft of an appropriations bill in 2016.

Greater transparency on such transactions is important because the tax revenue losses from conservation easements have been accelerating over the last few years. What's more, such easements occur most often in a few select geographic areas, most notably Georgia. Looney attributes this mainly to the fact that a small legal community there has figured out how to game the system, rather than any surfeit of land in need of conservation in the Peach State. In contrast, the states we commonly think of as being leaders in acres conserved—Wyoming, New Mexico, Maine,

Montana, New Hampshire, Washington, and Arizona—have virtually no conservation tax easements.

These benefits from the easement are also highly concentrated. The top 2% of all transactions amounted to 43% of the cost of all easement tax breaks, and the top 10% amounted to fully 70% of the cost. The valuation of the land in these easements ranged from \$10,000 an acre to over \$100,000. Prospectuses published by lawyers hoping to earn fees for creating new easements suggest an investor can obtain \$6–\$9 of tax deductions for every \$1 invested in an easement.

Our tax code has many such dubious tax breaks ostensibly designed to promote conservation of some sort that accomplishes little in this regard. For instance, a great number of summer lake homes in Wisconsin come attached to relatively large

lots, the preponderance of which are just over 17 acres. This is because 17 acres once was the minimum size for a property to be considered a tree farm in the state. Being a "tree farmer" was a great tax dodge because tree farmers had to show a profit from the activity only once every 17 years, instead of every three years for other businesses. The thousands of "tree farmers" in the state could deduct a variety of expenses related to the upkeep of their cabins, and every so often they would have someone harvest a few trees that paid them enough to show a profit for the year.

Wisconsin now has a Managed Forest Law that was crafted to avoid the abuses of the tree farm law. The new law greatly reduces the property tax on land that's at least 40 acres, available for recreation, and undeveloped. But, unsurprisingly, there are easy ways to still put a house on the land, deny access to hunters and hikers, and get the low tax rate just the same.

Many people still have a perception that giving a tax break to induce behavior is somehow inherently different and less expensive than a government expenditure. However, the distinction is meaningless, and when most of a tax break fails to affect any salutary behavior at all while costing the public fisc billions a year, it is an abomination. We should all be outraged by the results of Looney's research.

—Ike Brannon

It can be argued the easements are just compensation for lost development rights, but the property owners know those rights were lost long ago.

Investment Advice

"The Misguided Beliefs of Financial Advisors," by Juhani T. Linnainmaa, Brian T. Melzer, and Alessandro Previtero. December 2017. SSRN #3101426.

In 1934 Congress created the Securities and Exchange Commission, which regulated brokers who bought and sold stocks and bonds for investors. In 1940 Congress enacted the Investment Advisers Act, which implemented different legal standards for those who provided financial advice for a fee but do not sell finan-

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cial products. Interestingly, the 1940 law holds financial advisers to a stricter fiduciary standard, requiring them to recommend the “best” financial product to clients, while brokers under the 1934 law are only required to recommend “suitable” financial products if their advice is “solely incidental” to their service as a broker.

This has produced a legal and political wrestling match over the different regulatory treatment of brokers and financial advisers. The perception is that brokers operating under the looser standard have incentives to steer clients to purchase investments that yield fees and commissions for the brokers rather than investments whose net returns to the brokers’ customers would be higher, and that regulation is required to eliminate those incentives and the resulting financial malpractice.

After the 2008 financial crisis, the original Senate version of financial reform legislation authored by Sen. Chris Dodd would have eliminated the broker exemption from the fiduciary standard. But as enacted, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 only requires the SEC to study the issue and report to Congress on the problems created by the differential regulatory treatment of financial advisers and brokers.

Given congressional inaction, President Barack Obama

The investment advisers traded more, had less diversified portfolios, and paid more in fees for their own accounts relative to their clients’ accounts.

instructed the Department of Labor to impose the stricter fiduciary rule on Individual Retirement Account advisers using the DOL’s regulatory authority over company-provided retirement plans under the Employee Retirement Income Security Act of 1974 (better known as ERISA). The DOL did so in 2016, but advisers have not had to comply with this requirement thanks in part to the Trump administration pushing back the compliance deadline to July 1, 2019. This past March, the Fifth Circuit Court of Appeals vacated the Fiduciary Rule, stating that the DOL had overstepped its statutory authority.

The authors of this paper argue that the “conflict-of-interest” view of financial advice that is the rationale for the fiduciary rule is not consistent with the data studied in the paper. The authors had access to trading and portfolio information on more than 4,000 advisers and almost 500,000 clients between 1999 and 2013 provided by two large Canadian financial institutions. These advisers were not subject to fiduciary duty under Canadian law. A comparison of advisers’ trades for their own accounts and their clients would reveal any systematic differences. If the conflict-of-interest theory is right, advisers’ personal accounts would hold lower-cost, more diversified investments.

The authors conclude that misguided beliefs are the problem

rather than conflicts of interest. The advisers trade more, have less diversified portfolios, and pay more in fees for their own accounts relative to their clients’ accounts. And both have net returns that are about 3% less than the market.

The authors present four additional types of evidence to support their argument. First, advisers continue to trade similarly after they quit the industry. Second, the correlation between their behavior and their clients’ increases with the size of the advisers’ personal portfolios. Third, advisers would have been better off had they held exact copies of their clients’ portfolios. Finally, advisers’ trading behavior is stable over their career.

—Peter Van Doren

Environmental Regulation

“Is Pollution Value-Maximizing? The DuPont Case,” by Roy Shapira and Luigi Zingales. September 2017. NBER #23866.

Gary Becker introduced the economic conception of crime deterrence in 1968. According to Becker, prospective criminals compare the expected costs and benefits of crime. That is, they compare the benefits of the criminal conduct to the probability of being caught multiplied by the monetized cost of conviction. If the expected costs of the crime are greater than the benefits, then the crime is deterred. If the expected costs are less than the expected benefits, then the crime occurs.

This paper explores rational deterrence in the context of environmental law. DuPont emitted C8, a precursor to Teflon, into the environment even though it knew as early as 1984 that the substance is toxic. DuPont had the option to incinerate the C8 and thus avoid the emissions, but the firm chose not to. In fact, production doubled after 1984.

The option of abating C8 was relatively cheap and could have prevented the health damages as well as the legal (\$617 million in 2017) and reputational damages paid by DuPont. Why did the company choose the option that seems worse for the company and certainly worse for society?

By comparing the present value of DuPont’s actual legal liabilities with the present value of the abatement costs, the authors estimate that it was value-maximizing to pollute if the probability of getting caught was less than 19%. According to the authors:

For decades only DuPont and other chemical companies knew the adverse effects of C8 emissions. Yet, DuPont had powerful incentives to hide that information, or selectively release parts of it to the outside world. By controlling information, DuPont was able to co-opt regulators, delay enforcement, and limit the ability of academics or journalists to chime in.

Because DuPont controlled the information that would have increased the expected costs of pollution, it was reasonable for DuPont’s executives to take the risk. In other words, the decision to pollute was ex-ante optimal for DuPont’s shareholders. —P.V.D.

Market Power

“Is Aggregate Market Power Increasing? Production Trends Using Financial Statements,” by James Traina. February 2018. SSRN #3120849.

Concerns about corporate power and antitrust policy remedies are once again in the news and the pages of *Regulation*. (See “Debunking the ‘Network Effects’ Bogeyman,” Winter 2017–2018, “The Return of Antitrust?” Spring 2018.) This paper examines the specific question of whether business markups above the marginal costs of production are also increasing over time.

Traina argues that in 1950 markups were about 15% over marginal cost. Over the next 30 years, they decreased approximately linearly, falling to just under 10% over marginal cost at the beginning of the 1980s. From then until today, however, they have increased approximately linearly, returning to the 1950 level.

His estimates of this markup differ from others because of two methodological differences. First, public firms make up only about a third of U.S. sales and employment. Because these firms are often larger than private firms, markup estimates using only public-firm data bias an aggregate estimate upward. Second, neglecting indirect costs of production such as marketing and management, which are an increasing share of variable costs for firms, overstates both the level and growth in markups. As a share of variable costs for firms, these components have increased from roughly 12% in 1950 to 22% today. A significant part of the incorrect markup estimation is misattribution of selling and general administrative expenses to markups rather than variable costs, and this omission has increased over time.

—P.V.D.

Employer Credit Checks

“The Unintended Consequences of Employer Credit Check Bans on Labor and Credit Markets,” by Kristle Cortes, Andrew Glover, and Murat Tasci. January 2018. SSRN #3103294.

Regulations are often enacted with the best of intentions, but they sometimes produce counterintuitive results. In my Fall 2016 Working Papers column, I described laws that “ban the box,” prohibiting employers from asking about criminal history on initial job applications. The intent of such policies is to increase employment among black males, who have disproportionately more criminal convictions than other applicant groups. Most black men, however, do not have criminal convictions. Under ban-the-box policies, they are not allowed to signal that fact to employers. As a result, they lose work opportunities because employers, deprived of the crimi-

nal history information, become less likely to hire black men.

Something similar appears to be happening with credit history information. In the aftermath of the Great Recession, many people lost their jobs and fell behind on their debts. When these people subsequently applied for jobs, some were denied employment when prospective employers became aware of the applicants’ low credit scores. Legislators responded by describing this situation as a “poverty trap” because the applicants need employment in order to repair their credit scores, but they need better credit scores in order to gain employment. In response, 11 states banned employer credit checks as of January 2018.

This paper compares employment vacancy creation in states that enacted bans relative to states that did not and relative to exempt occupations in which credit score checks were still allowed (e.g., jobs involving handling cash or access to payroll and Social Security information). When a state bans employer credit checks, the average county experiences a 12% reduction in vacancy creation relative to trend. This decline in job creation is likely caused by the bans because vacancies are unaffected in occupations in which credit checks are still allowed.

—P.V.D.

Disability Insurance

“Intergenerational Spillovers in Disability Insurance,” by Gordon B. Dahl and Anne C. Gielen. February 2018. NBER #24296.

University of California, San Diego economist Gordon Dahl has devoted much of his career to examining the efficiency and distributional effects of social welfare policies. In my Summer 2014 Working Papers column, I summarized his analysis of expansion of maternal leave benefits in Norway. Dahl and his co-authors concluded that the program had no effect on a wide variety of desired outcomes and instead redistributed income to the affluent.

This paper evaluates the long-term effects of reductions in disability benefits in the Netherlands between 1993 and 1996. The reductions applied to younger cohorts, while older cohorts were exempted from the new rules. Younger workers who were pushed out of disability insurance or had their benefits reduced are now, a generation later, 11% less likely to receive disability benefits than their parents’ generation (with no increased use of other government safety net programs). Further, they earn 2% more in the labor market as adults.

The combination of reduced government transfers and increased tax revenue from lower use of disability benefits resulted in a fiscal gain of €5,900 per treated parent from child spillovers by 2014. Moreover, children of treated parents complete an extra 0.12 years of schooling on average, an investment consistent with an anticipated future with less reliance on disability insurance. Ignoring the beneficial parent-to-child spillovers understates the long-run benefits of the Dutch reform by 21%–40% in present discounted value terms.

—P.V.D. 