IN REVIEW

Freeing Agricultural Trade

REVIEW BY A. FORD RAMSEY

Agriculture in the developed world has historically benefited from government support in the form of subsidies, price controls, trade protection, and other policies. These result from a political process that balances both domestic and international concerns. Since the creation of the World Trade Organization (WTO), agricultural policy in WTO-member countries has been subject to discipline by WTO regulation. Domestic agricultural policies can and do come into conflict with the WTO's goal of open trade for the benefit of all. This conflict and the resulting interaction between WTO rules and domestic support in agriculture are the topic of Lars Brink and David Orden's recent book, *Agricultural Domestic Support Under the WTO*.

Proponents of open trade have been on the back foot in recent years. The WTO has gained mistaken notoriety as either a US-directed interest or, alternatively, a supranational organization that undermines US sovereignty. Although Brink and Orden do not intend to address those beliefs directly, the book makes obvious that neither belief is accurate. Readers unfamiliar with the details of WTO regulation may find it surprising just how flexible are the WTO rules for agriculture and how limited it is in settling disputes or enforcing rulings. Equally remarkable is the lack of progress in making substantive changes to WTO regulations for agriculture over the past 20 years.

The authors suggest that "the changing landscape of applied domestic support … contributes to poor public understanding, even in specialized media and academia." Public understanding of WTO regulation is not helped by the poorly defined legalese that pervades many regulatory documents. And while the book's content is often of a technical nature, Brink and Orden precisely explain technical material and present it in a carefully considered way.

In their first chapter, they identify nine key questions that motivate the book. Readers willing to stick through the technical material are rewarded with a comprehensive assessment of the WTO with respect to domestic agricultural policy. But perhaps more importantly, *Agricultural Domestic Support Under the WTO* provides a better understanding of the functioning of the WTO in reality—an understanding that is sorely lacking in the current discourse.

Agreement on Agriculture / Brink and Orden begin by describing the rules and regulations of the WTO's Agreement on Agriculture. This agreement, which came into force with the WTO's creation in 1995, places limits on the types of agricultural policies that WTO members can use domestically. The agreement focuses on three broad classes of policies: export subsidies, market access, and domestic support. As the title suggests, the last category is the focus of the book. Domestic support refers to support for agricultural producers inside a country's border; this contrasts with policies like tariffs or export subsidies that are applied at the border.

Any domestic support measure in favor of agricultural producers is classified under the Agreement on Agriculture as exempt or non-exempt. The term "measure" refers to a specific agricultural policy or program. Exempt measures can be used without limit; these include policies that do not distort trade or production, some types of payments for environmental policies, and a variety of measures used by developing countries. Non-exempt measures are counted and compared against limits defined in the Agreement on Agriculture. There are two types of limits on non-exempt support: limits for specific products (corn, wheat, etc.), and limits for the agricultural sector as a whole. WTO members are expected to comply with these limits and deliver notifications of their domestic support to the WTO at regular intervals.

Even within the clearly defined rules of the Agreement on Agriculture, there is considerable room for the application of different domestic agricultural policies. Limits on support differ from member to member, with developing countries having more favorable (higher) limits. However, many of the largest economies are allowed to exceed support limits for specific products so long as their total support for agriculture is within its overall limit. The overall limit differs by country; for some members it is zero and for others it is a positive number. For members with a positive overall limit, this provides flexibility in the policy space as countries can shift support between different products. Brink and Orden provide data that show that the given limits on domestic agricultural support are rarely breached in the largest economies. The ability to shift support among different products or exemption categories, coupled with the fact that many countries

About Our Reviewers:

ART CARDEN is Margaret Gage Bush Distinguished Professor of economics at Samford University's Brock School of Business.

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 for health policy with President Ronald Reagan's Council of Economic Advisers. He blogs at EconLog.

PIERRE LEMIEUX is an economist affiliated with the Department of Management Sciences of the Université du Québec en Outaouais. He blogs at EconLog.

A. FORD RAMSEY is associate professor of agricultural and applied economics at the University of Georgia.

PETER VAN DOREN is editor of *Regulation* and a senior fellow at the Cato Institute.

are well under support limits, indicates more flexibility for WTO members than might be assumed.

Ongoing trends / A significant portion of the book quantitatively evaluates changes in the types and amounts of domestic support that have prevailed over the past 30 years. The vast majority of reported domestic support for agriculture comes from just five countries or political entities: the European Union, the United States, Japan, China, and India. Support through trade-distorting policies has fallen globally and been replaced by exempt support. Brink and Orden take this as evidence that the Agreement on Agriculture has disciplined the policies that countries utilize and shaped the trajectory of global domestic support in agriculture. They argue:

> Members thus need to keep their WTO obligations under consideration as they implement support measures. This suggests that without Agriculture Agreement limits on … support there would likely be more, not less, trade-distorting support.

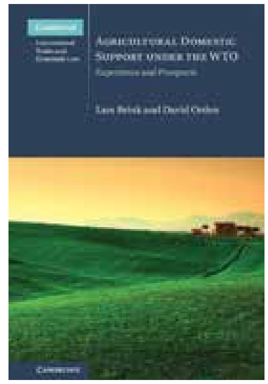
Is decoupled support really decoupled? / The largest and fastest growing category of exempt support is commonly called "Green Box" support. These measures have "no, or at most minimal, trade-distorting effects or effects on production." Basic criteria are that these measures must not involve transfers from consumers or provide price support to producers. (Hence, the "Green" moniker indicates the support is acceptable under the Agreement on Agriculture, not that it has some environmental justification.) For example, government support of agricultural research would be considered exempt under the Green Box, while government purchases to support prices would be non-exempt. The EU and United States continue to make extensive use of policies falling in the Green Box. Many of these policies are referred to as "decoupled" because they do not depend on current prices or production.

A key question, which the authors address in Chapter Three, is whether some exempt measures under the Green Box are truly minimally distorting. In other words, are decoupled measures really decoupled? The issue of decoupled agricultural subsidies attracted the attention of economists in the late 1990s and 2000s when the United States implemented a system of decoupled direct payments to agricultural producers. Although the literature reviewed by Brink and Orden points to relatively small effects of decoupled policies on production, many exempted measures affect agriculture over longer periods of time. Productivity enhancements allow for more output to be produced with the same inputs, so government funding of agricultural research and development is likely to have long-term effects on world agricultural markets. Income support can prevent inefficient producers from leaving agriculture, again causing a deviation from long-term competitive equilibrium. In practice, what can be classified as decoupled support is determined largely by legal precedent in WTO negotiations and dispute settlement.

Which price support? / An interesting point raised by Brink and Orden is the divergence of what the Agreement on Agriculture defines as a market price support and an economist's understanding of a price support. Price supports are government interventions that maintain prices above what would prevail at a competitive equilibrium. In the international context, price supports raise domestic prices above the so-called world price. Economists would measure market price support by taking the difference between the domestic price of a commodity and the price at the border and then multiplying by domestic production of the commodity. Instead of using observed prices, the Agreement on Agriculture directs WTO members to use a domestic price determined by the policy under consideration and a border price that is based on prices prevailing from 1986 to 1988. Given the outdated prices used in calculating market price support, the authors suggest that the WTO formula is not a good indicator of economic support for agriculture.

Enforcement and monitoring / A common misconception is that the WTO can enforce member compliance with its regulations. In fact, the WTO has no ability to enforce rules in the Agreement on Agriculture or any other WTO discipline. That the WTO only operates through members' voluntary compliance becomes obvious in the fifth, sixth, and seventh chapters, which focus on transparency, negotiations, and disputes involving agricultural support. Transparency refers to member countries' notifications of agricultural support. The issuance of these notifications—reports that calculate and specify the amount of agricultural domestic support applied by a country—is one of the basic requirements for signatories of the Agreement on Agriculture.

Many WTO members do not submit notifications in a timely manner. As the authors find, "Twenty-eight members had by 2019 never submitted a … notification." Notifications are also routinely out of date. The lack of recent information (or any information at all) on domestic support is compounded by the wide latitude given to members in classifying



Agricultural Domestic Support Under the WTO: Experience and Prospects

By Lars Brink and David Orden

224 pp.; Cambridge University Press, 2023

domestic support. Although members frequently submit questions to the WTO on issues around transparency, routine noncompliance with basic regulations casts doubt on the ability of members to police one another.

Similarly, the book's discussion of dispute negotiation and resolution highlights a contrast between written regulations and practice. The authors identify 16 WTO disputes involving domestic support for agriculture. Of those, a decision was reached by the Dispute Settlement Body in only nine cases. Even if a decision is made, the WTO can only recommend that a member bring its policies into compliance; it has no enforcement ability. It relies on members' good faith efforts. Currently, the WTO's dispute settlement mechanism no longer functions as intended; the United States has blocked nominations to its appellate body and effectively thrown a wrench in the dispute settlement process. Combined with problems of transparency, issues in dispute settlement highlight some of the very real challenges facing the WTO.

The path forward / The final two chapters of the book address 21st century policy priorities and lessons to be drawn from experience with the Agreement on Agriculture, respectively. The former deals with what the authors denote as evolving policy priorities: productivity growth, biosecurity, water management, biodiversity, and climate change. The main message is that contemporary priorities could be addressed with policies that conform to existing WTO discipline or with minimal tweaks. Perhaps easier said than done, given that negotiators cannot even bring the dispute settlement process back online.

The final chapter concludes with several suggestions for reform. Brink and Orden believe the Agreement on Agriculture should be retained, but there should be more consistency in rules among different members and the way in which rules are applied. Measurement of price support should be improved to bring the WTO in line with economic measures of support. Alternative formulas would be consistent with the way that price support is measured by other international organizations. While the suggested reforms may seem banal at first glance, the problems they could solve are pervasive. Achieving any reforms would be a significant effort, given that 164 members of the WTO would need to agree to such changes by consensus.

Conclusion / *Agricultural Domestic Support Under the WTO* is a well-timed explanation of the Agreement on Agriculture and review of its effects on domestic policies favoring agricultural producers. It is especially relevant because US politicians plan to debate farm legislation that will direct American agricultural policy for the next five years.

The authors identify several avenues for addressing some of the problems that have plagued the Agreement on Agriculture. Although the book focuses on a seemingly niche area of WTO regulation, many of the lessons extend beyond agriculture.

The authors close with a call for a new sense of purpose and motivation to revitalize WTO members in the negotiating process. It isn't clear who will lead this charge, either in the United States or globally. A renewed sense of purpose will be needed given the apparent failure of the last 20 years of negotiations to produce substantial agreement. R

Against Zombie Economics

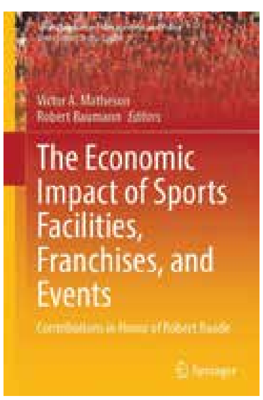
REVIEW BY ART CARDEN

I cast my first vote at age 18 in 1997, voting "yes" on a proposal to spend government money on a stadium for Major League Soccer's Columbus Crew. I did not know it then, but economists were in pretty much universal agreement that stadiums are poor public "investments."

That consensus has only strengthened over time, as demonstrated in *The Economic Impact of Sports Facilities, Franchises, and Events.* The book contains 16 essays in honor of stadium economics pioneer Robert Baade of Lake Forest College. Economists argue a lot, but as John Charles Bradbury puts it in his contribution, "There are few topics on which there is more agreement among economists than the economic impact of sports stadiums." The science is settled, to coin a phrase: even when economists do find evidence that stadiums, franchises, and mega-events generate local tax revenue, create jobs, or make cities better places to live, the effects are much, much smaller than what boosters claim based on sophisticated sounding but fundamentally flawed economic impact studies. Bradbury explains the "Baade Rule": "If you want to know what the true economic impact of an event is, take whatever number is being claimed by the boosters and move the decimal point one place to the left."

Baade got this research rolling in the 1980s. As the book's contributors explain, his tentative conclusion that stadium spending does not translate into economic growth has withstood almost four decades of reexamination and refinement with better data and empirical techniques. The chapters address and measure things like the modest contributions big-time college football games make to sales tax revenue, people's willingness to pay to maintain NFL rivalries, the contributions of "micro-events" like regional bike races, the effects of the 2016 Democratic and Republican Conventions, how taxes changed when the Dallas Cowboys moved from Irving to Arlington, TX, how franchises affect property values, how the St. Louis Rams' move to Los Angeles affected the St. Louis region, the effect of stadium construction on construction employment in the Twin Cities, how on-campus stadiums affect college football attendance, and prospects for future comparative work between North America and Europe.

The book closes with a short essay on stadium financing by one of the editors, Victor A. Matheson, that will make readers sigh when they put the book down. He writes, "Stadium subsidies are a perfect example of 'zombie economics,' or bad ideas that just will not die." He cites recent deals that remind me of H.L. Mencken's quip that "democracy is the theory that the common people know what they want and deserve to get it good and hard." Pointing to last year's agreement that Buffalo, NY, taxpayers will provide $850 million for a new football stadium, Matheson writes, "When economists suggested it was hard to imagine a worse stadium deal than the one in Buffalo, Nashville said, 'Hold my beer,' and proposed a $2.1 billion stadium with $1.26 billion in public money which was later approved."



The Economic Impact of Sports Facilities, Franchises, and Events: Contributions in Honor of Robert Baade

Edited by Victor A. Matheson and Robert Baumann

232 pp.; Springer, 2023

Happy but not rich / If stadium subsidies are such terrible ideas, then why do they remain so popular? One reason is good old-fashioned rent-seeking in a world where there are concentrated benefits and dispersed costs: construction companies looking at millions of dollars in contracts and news outlets needing content have a stronger incentive to lobby for a stadium than someone who might be annoyed at having to pay somewhat higher taxes or navigate gameday traffic. Even then, a lot of people made worse off financially still believe that a new stadium will bring in big bucks.

In her contribution to the volume, titled "The Unshakeable Belief in the Economic Impact of Sports," Nola Agha offers a few plausible reasons. First, people conflate direct and conspicuous spending with "economic impact," even though these are mostly highly visible reshufflings. The steel and concrete used to build the stadium aren't used to fix a bridge, and all the flashy visible activity happening at and due to the event might displace harder-to-see mundane activity. She notes that Super Bowl L led to a *decrease* in sales at San Francisco's Pier 39.

As impressive as tens of thousands of fans are on gameday, any facility or team will account for a very small part of an area's economic activity.

When Birmingham, AL, hosted the World Games in the summer of 2022, the hair salon I used announced it would close-up shop during the games because of parking and other problems. One small business owner I talked to expressed frustration that they had been sold a big vision of swarming customers but that it looked like everyone was going to the food trucks brought into the park that hosted one of the events.

People familiar with the economics of stadiums will find a lot of additional evidence for what they already know. It is hard to statistically identify the effects of stadiums and mega-events because, as the essays point out, they suffer from needle-in-a-haystack problems. As impressive as a horde of tens of thousands of fans might be on gameday, any facility or team will account for a very small part of an area's economic activity. Even when scholars can cut through the noise and identify the relevant effects, they are often paltry compared to what boosters promised. Geoffrey Propheter and Shihao Dai found that the Dallas Cowboys' move from Irving to Arlington increased tax collections in both places. However, the change barely accounted for rounding errors in municipal budgets. Moreover, the fact that Irving tax collections rose, they argue, is at least some evidence that sports and mega-events crowd out other local activities. Displacement effects get some additional support from Brad R. Humphreys's study of the St. Louis metro area after the Rams moved back to Los Angeles.

We learn in the volume that Baade's go-to line when reporters ask about the effects of stadiums and mega-events is, "These events might make us happy, but there isn't much evidence that they make us rich." The essays in this volume strengthen his argument. Teams and events are a lot of fun, but city leaders looking to make their citizens healthier, wealthier, and wiser would have about as much success depending on Santa Claus to deliver those benefits as they would a new stadium.

I have known for a long time that I voted unwisely in 1997. I was an ignorant high school kid, and the economic research on stadium subsidies wasn't as well-developed. Middle-aged men and women looking to lead their cities in the mid-2020s don't have those excuses. But there is no need to be morose. Channeling Ronald Coase (as the authors do), if the essays in this volume mean that just one city says "no" to a team looking for a nine-figure handout, their authors will have earned their salaries many times over. R

IN REVIEW

Good Book, Bad Title

REVIEW BY DAVID R. HENDERSON

Fans of economist Milton Friedman—of whom I'm one—should count themselves lucky that Stanford historian Jennifer Burns has written a detailed biography of him. Based on intensive archival research that only a patient, first-rate historian can do, she covers his intellectual life in its various stages from his time in high school to his death. Along the way, we see how he struggled in the 1930s and even, to some extent, in the 1940s to figure out his role in academia. Burns also shows in great detail the important influences in his life and, later, the many ways he has influenced the economics profession and the bigger world of policy—on taxes, monetary policy, welfare policy, and the draft, to name four of the most important.

Her book is by no means a hagiography. At various points, she criticizes Friedman, sometimes unfairly. She's also a little unfair to his wife, Rose Friedman, an economist in her own right. But that makes Burns's many positive evaluations of Milton's work all the more credible.

Although she is, as noted, a historian and not an economist, and sometimes makes little slips in her economic exposition, her big-picture understanding of economics is impressive, especially on one of the toughest issues to understand: monetary policy. Indeed, she lays out the fact that the Federal Reserve does not directly control interest rates better than many economists I've read.

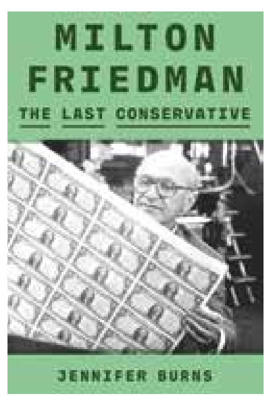
Early intellectual life / One of the most impressive aspects of the book is Burns's narrative about Friedman's early attempts to, as we said in the 1970s and 1980s, "find himself." Where did he fit in economics? On the one hand, some of the strongest influencers of his thinking were "economic institutionalists" like Wesley Mitchell, who tended to dig into data and refrain from engaging in microeconomic analysis. On the other hand, Friedman was strongly influenced by University of Chicago microeconomist Jacob Viner, whose price theory class in Friedman's first quarter at Chicago in the fall of 1932 was "unquestionably the greatest experience of [Friedman's] life."

His intellectual development didn't follow a straight line. Although a huge part of his education was at Chicago, Friedman completed his doctorate at Columbia University. Early on, he was torn about which way to proceed in choosing a dissertation topic. He ultimately chose a statistical comparison of doctors' and dentists' salaries, which he worked on with Simon Kuznets, his mentor at the New York–based National Bureau of Economic Research. Friedman's insistence that the difference between the two salaries reflected the American Medical Association's lobbying to restrict the number of slots in medical schools created a lot of controversy. Some economists disputed the idea that the correct comparison was with dentists' incomes. It took years and some heavy hitting by Kuznets to get Columbia to approve Friedman's dissertation and grant him a Ph.D.

In his and Rose's autobiography, *Two Lucky People*, Milton wrote that early in World War II, when he was an economist at the US Treasury, he wrote an analysis that was "thoroughly Keynesian." In my review of that book, I noted my disappointment that he didn't tell the reader how and why his views changed. When I spoke to him a few months later, he told me that many people had expressed the same disappointment but that his shift in thinking was so gradual that he couldn't point to a "Saul on the road to Damascus" conversion. One of Burns's major accomplishments is to help the reader understand how his views evolved. One gets the impression that she did more thorough research on his early work than Friedman himself did when writing *Two Lucky People*.

The book that persuaded me that Friedman was a Keynesian in the early 1940s was his 1943 *Taxing to Prevent Inflation*, co-authored with Carl Shoup and Ruth P. Mack. The title says much about the content: the idea was to increase taxes to reduce demand for goods and services, thus reducing inflationary pressure. The idea does seem "thoroughly Keynesian." In discussing the work he did at the Treasury that led to the book, he wrote in *Two Lucky People* that he hadn't even mentioned monetary policy. But Burns supplies a reason why. She notes that Friedman was not a free agent; he was a Treasury employee. Also, she notes, it's not surprising, as it appeared to be to Friedman, that in an analysis written for the Treasury, he didn't discuss monetary policy as a way of controlling inflation. He was working with available levers; monetary policy in 1942, when the authors did their work, was simply not an option on the table.

Moreover, she notes, strands of his thinking in his other writing at the time suggest that he had never bought into Keynesianism. In a 1944 book review published in the *Review of Economics and Statistics*, he wrote that "the Keynesian saving–



Milton Friedman: The Last Conservative

By Jennifer Burns

575 pp.; Farrar, Strauss and Giroux, 2023

investment theory which has had such vogue in recent years" was "unbelievably simple. Yet simply unbelievable." Burns also uncovers a 1940 letter he wrote to his mentor and later Federal Reserve chairman Arthur Burns (no relation to Jennifer) in which he reported on a road trip to visit Rose's family on the West Coast. Friedman noted that Southern California "gives you the feeling that the frontier is not yet gone and makes you feel like telling the stagnationites to come out and take a look." "Stagnationites" refers to the view, which many Keynesians and Keynes himself held, that the economy could stagnate for lack of private investment opportunities. Friedman clearly did not buy into that view.

Bare-knuckle fighter / After World War II and early in his time at the University of Chicago, Friedman consciously set out to form a group of economists interested in the same issues that he was interested in and not conforming to the dominant Keynesian view at the time. By then, Keynesians had started to build multi-equation econometric models of the economy. Much of that work was financed by the Cowles Commission, which was based at the University of Chicago. It seemed like an uneasy disequilibrium.

Friedman was unsparing in his criticisms of that approach to macroeconomics. Burns quotes an attendee at a 1951 conference, whom she identifies in a footnote as the (recently deceased) MIT economist Robert Solow. According to Solow, Friedman had said that "the whole econometric model-building enterprise had been shown to be worthless and congratulated the Cowles Commission on its self-immolation." Solow was always less than generous in his treatment of Friedman; still, one can imagine Friedman saying something almost as acerbic. When the Rockefeller Foundation, a key funder of Cowles, asked Friedman to evaluate it, he wrote that the people at Cowles "are primarily mathematicians or statisticians rather than economists."

Friedman tried to get colleagues at Chicago who were more to his liking, people like George Stigler, then at Columbia, Burns, then at the NBER, and Dorothy Brady, a Labor Department economist with whom he had earlier worked on data on consumption spending. He failed in those efforts in the short run, although much later he helped nab Stigler. Meanwhile, Chicago—influenced by Cowles economists Tjalling Koopmans (later a co-winner of the 1975 Nobel Economics Prize) and Jacob Marschak—made offers to Cowles-friendly people like Paul Samuelson, then at MIT, Kenneth Arrow, who had moved from Cowles to Stanford, and James Tobin of Yale. All three, who themselves later won Nobel Prizes, turned down the offers and, Burns suggests, for the same reason: they didn't want "to head into the lion's den." Samuelson was explicit: "It would polarize me; it would radicalize me."

Friedman set out to form a group of economists interested in the same issues he was and not conforming to the dominant Keynesian view.

Bit by bit, as a result, Friedman started getting the faculty he wanted.

Role of women / In a chapter titled "Hidden Figures," Burns discusses how Friedman, early on, worked with talented women economists. They included Rose, Brady, Margaret Reid, and (most important) Anna J. Schwartz, co-author of their magnum opus, *A Monetary History of the United States, 1867–1960*. Those who have seen the movie *Hidden Figures* about women at NASA will recognize the connection to this chapter.

One of Friedman's biggest accomplishments was his 1957 book *A Theory of the Consumption Function*. Even his harshest critics have respected this important work. He probably couldn't have done it without the input of various women. At the time, consumption was a backwater in economics. Since it was about consumer spending, the people who studied it were disproportionately women. Economists simply assumed that Keynes's consumption function was the last word; according to Keynes, higher-income people saved a higher percentage of their income than lower-income people. But Friedman worked on consumption with Rose, Brady, and Reid. Reid, who had earned her Ph.D. at the University of Chicago in 1931, was on the faculty of Iowa State College. The four of them had a different idea that fit the data better than Keynes's: people's consumption spending was based not on that year's particular income but on "permanent income," the income that was a kind of average of a few years' income.

Burns focuses on one way that the "permanent income hypothesis" undercut the Keynesian model: it meant that higher-income people weren't just socking away money while looking for rare investment opportunities. But when I learned the hypothesis in graduate school, my professors focused on a different way that it undercut Keynes: it meant that when government increased spending to get out of, or avoid, a recession, people wouldn't spend a large percentage of the increased income on consumption because they would understand that it wasn't permanent.

Burns seems to disapprove of the fact that Friedman didn't share authorship with his co-researchers. She notes that in his introduction, he stated that the book was a "joint product of the group," referring to himself, Brady, and Reid. Assuming that Burns hasn't left anything important out of the story, I do think the book should have been co-authored.

One area, though, where a female researcher gets due credit is *A Monetary History*. Burns argues that without Schwartz, the book would not have existed in anything like its actual form because she was so interested in weaving a historical tale. Thank goodness she was, because the resulting book tells the tale well. The longest chapter, on the contribution of monetary policy to the Great Depression, was one of the most exciting pieces of economic history I read in graduate school.

Long-run contributions / Burns does a nice job of evaluating Friedman's long-run contributions to macroeconomics. Although she never numbers them, I would count three, all of which she discusses at length.

The first is that Friedman brought back into the mainstream the idea that monetary policy was potent. During the dominant Keynesian era, which lasted from about the mid-1930s to the early 1970s, most economists thought that monetary policy was impotent in either preventing or causing recessions or in causing inflation. Friedman and Schwartz disabused the economics profession of that view. Although they did not convince all economists that monetary policy was the main cause of the Great Depression, they certainly convinced most economists that it played a crucial role.

Second, Friedman reminded economists that one cannot judge the looseness or tightness of monetary policy by looking only at interest rates. He recognized the importance of the Fisher effect, named after Irving Fisher, which is that people's expectations of future inflation affect nominal interest rates. If people expect inflation to rise because of increased growth of the money supply, then nominal interest rates will rise as lenders insist on being compensated for the reduced purchasing power of future payments on their loans. So, a higher interest rate can be a sign of a looser, not a tighter, monetary policy. Similarly, if a shrinkage of the money supply causes people to expect deflation, nominal interest rates will fall even if monetary policy is tight, rather than the opposite. In the early 1930s, low nominal interest rates signaled tight monetary policy.

Friedman's third major contribution to macroeconomics was to challenge the idea that the Phillips Curve, named after New Zealand economist A.W. Phillips, showed a stable tradeoff between inflation and unemployment. Friedman's macroeconomics archrivals in the 1960s, Samuelson and Solow, suggested that the tradeoff gave policy makers a "menu" that would allow them to pick an unemployment rate and a corresponding inflation rate. But in his 1967 presidential address to the American Economic Association, Friedman challenged that view, arguing that to keep unemployment below what he called the "natural rate," the Federal Reserve would have to increase the growth rate of the money supply until people's expectations caught up, and then the Fed would have to increase it again. Failing to increase the inflation rate would cause the unemployment rate to rise, so that an economy could have both high unemployment and high inflation. This happened in the early 1970s and led to the term "stagflation." Friedman was prescient. The early 1970s experience led to widespread skepticism of the Phillips Curve.

Most people who know of Milton Friedman wouldn't have encountered him if he hadn't been a successful public intellectual.

Public intellectual / Most people who know of Milton Friedman wouldn't have encountered him if he hadn't been a successful public intellectual. For that, he owed much credit to Rose. He had given some lectures at Wabash College on various economic policy issues in 1956. Rose turned his notes into chapters in a 1962 book titled *Capitalism and Freedom*. My favorite line in the whole Burns book is her comment on how radical Friedman's critique of big government was: "Capitalism and Freedom stuck it to the Man years before doing so became trendy."

In 1966, *Newsweek* magazine asked Friedman to write a regular column, alternating with left-of-center Samuelson and centrist Henry Wallich. This, more than *Capitalism and Freedom*, made Friedman one of the best-known economists of the 1960s and 1970s. Almost every column was a gem: making one or two points, with basic economic reasoning and evidence, about the negative effects of particular government regulations or the benefits of a free economy or, often, about the failures of Federal Reserve monetary policy.

But what really put Friedman on the map was his 10-part 1980 PBS series *Free to Choose*. He and Rose later fashioned the scripts into their co-authored book by the same name. One of the refreshing aspects of each TV episode was a debate between Friedman and two allies on one side and two opponents on the other. I remember my girlfriend at the time, who came from a somewhat leftist background, being awed by those debates, especially Friedman's civility and good humor. For that reason, I was disappointed that Burns refers to the debates as "staged." There was nothing staged about them.

The draft / Outside of monetary policy, probably Friedman's biggest success was in helping end the military draft. He spoke eloquently against the draft at a famous 1966 conference at the University of Chicago and, in 1969, was one of 15 people whom President Richard Nixon appointed to the President's Commission on the All-Volunteer Force, called the Gates Commission after its chair, former defense secretary Thomas Gates.

According to Friedman, the commission started its work with five members against the draft, five in favor, and five on the fence. By the end, the commission voted 14–0 to recommend that Nixon end the draft. (The one abstention, by NAACP head Roy Wilkins, was because he had missed too many committee meetings, though he agreed with his colleagues that the country should move toward an all-volunteer force.) Four years later, the draft was ended.

Disappointingly, Burns mentions few of these details. Although she credits Friedman for his role in helping end the draft, she omits one of the most famous and interesting dialogues that occurred during the Gates Commission proceedings, a back-and-forth between Friedman and Gen. William Westmoreland. When Westmoreland objected that an all-volunteer force would mean the United States would have an army of "mercenaries," Friedman responded that he would prefer that to an army of slaves.

Burns's harsh treatment / At various points in the book, Burns treats both Milton and Rose harshly. She writes, for example, "His vocal opposition to the 1964 Civil Rights Act, the sweeping legislation that outlawed racial discrimination in hiring and public accommodations, casts a shadow over his legacy." Later, she quotes several statements he made in 1964 defending Sen. Barry Goldwater's "no" vote on the act. But she doesn't explain why Friedman took that position, even though, two years earlier, he had explained in *Capitalism and Freedom* that his position was because of his strong support of freedom of association.

Concerning her subtitle, Burns notes that referring to Friedman as a liberal would mislead most people, given how the word is used today.

Moreover, Burns claims that Friedman failed "to understand state-sponsored segregation in the South as a violation of African Americans' freedom." Yet, in *Capitalism and Freedom* he denounced "laws in the Southern states imposing special liabilities upon Negroes" and compared them to Hitler's Nuremberg laws. It sounds to me as if he did understand.

Burns also states that in 1998, Friedman "improbably claimed that men now faced gender discrimination within academic economics." Her "improbably" is simply dismissive. Shouldn't a careful historian look at the data? I was on various hiring committees in academia at the time and, though I didn't see it at my school, I heard many stories from colleagues about discrimination against men in other parts of academia.

Although Burns gives due credit to Rose for her influence on *Capitalism and Freedom* and Milton's *Newsweek* columns, Burns harshly judges Rose's sole-authored 1965 American Enterprise Institute book, *Poverty: Definition and Perspective.* Burns calls the study "pedantic and hard to follow." I found it easy to follow and informative. In it, Rose argued that the 1964 Council of Economic Advisers' (CEA) landmark definition of poverty contradicted its own stated methodology. She re-estimated the poverty line and found substantially less poverty than the CEA had. She also matter-of-factly noted that Black families were on average larger than White families, a factor in their higher poverty. Concludes Burns, "Rose's rhetoric stands out for its utter lack of empathy." I had a different reaction: her study stood out for her careful and systematic reasoning from facts.

A conservative? / Finally, I need to comment on Burns's subtitle. Early in the book, she explains her thinking in describing Friedman as a conservative. She admits that he took pains to say that he wasn't a conservative but, instead, a liberal. She notes, though, that referring to him as a liberal would mislead most people, given how the word is used today. At times he called himself a libertarian, but she rejects that word on the narrow grounds that he believed in having the government manage the money supply.

Certainly, Friedman shared many views with conservatives. But his push to end the draft, although he had many conservative allies, was not clearly a conservative cause. Also, as Burns notes, he believed that, with a substantial welfare state, illegal immigrants were preferable to legal ones because illegal immigrants would be less likely to take advantage of welfare. Burns comments aptly, "It was one last provocation, directed at both the left and the right." In short, Burns herself sees that this was not a conservative view.

Also, Friedman, as far back as 1972, opposed making various drugs, including heroin, illegal. That doesn't seem very conservative. It is, however, consistent with classical liberalism and libertarianism.

Conclusion / In her final chapter, Burns lists some critics of Friedman. One is Columbia economist Jeffrey Sachs, whose criticism she disposes of nicely. She writes, "Jeffrey Sachs declared 'Almost nothing remains of [Friedman's] intellectual legacy,' an interesting claim from an economist who helped the USSR privatize its state holdings and tamed hyperinflation in Bolivia, which he understood through the '1956 classic definition' advanced by Friedman's money workshop." Burns also cites without comment Duke historian Nancy MacLean, whose book *Democracy in Chains* so distorted economist James Buchanan's views. (See "Buchanan the Evil Genius," Fall 2017.) Burns, to her credit, gives Friedman his due.

The last few pages are definitely worth reading in full, but a few lines stand out. One is, "Simply put, Friedman is too fundamental a thinker to set aside." And the last lines are pure gold: "If we are unlucky, the future will condemn and dismiss Friedman and all that he built. If we are fortunate, the future will look back across the twentieth century and find the questioning, curious, and singular mind that surfed the long waves of political and economic change." R

IN REVIEW

Designed for Another World

REVIEW BY PIERRE LEMIEUX

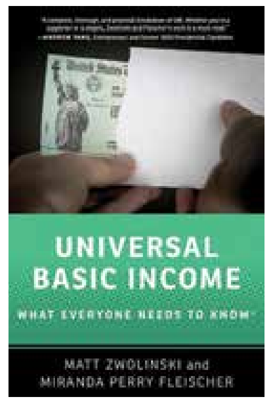
Matt Zwolinski and Miranda Perry Fleischer's *Universal Basic Income* lives up to its subtitle, *What Everyone Needs to Know*—or nearly. In 66 short chapters, the book provides a trove of easy-to-read information on the different proposals for a universal basic income (UBI), how they would work, how they compare to the welfare state's current programs, and the arguments for and against.

A professor of philosophy at the University of San Diego, Zwolinski was the creator of the "Bleeding Heart Libertarians" blog, active from 2011 to 2020. Fleischer, also a libertarian, is professor of finance at the university's School of Law. As Zwolinski wrote on the blog, bleeding-heart libertarians "believe that addressing the needs of the economically vulnerable by remedying injustice, engaging in benevolence, fostering mutual aid, and encouraging the flourishing of free markets is both practically and morally important." The blog's motto, "Free markets and social justice," suggested "a new and distinct vision of libertarianism." Not a small thing!

In its ideal form, UBI would be an unconditional and equal cash transfer given monthly (or semi-monthly) by the government to all individuals or families. The idea goes by other names, such as "basic guaranteed income." A "negative income tax" is one of its different forms. Zwolinski and Fleischer note that people of many political persuasions agree with the idea, including many who describe themselves as classical liberals or libertarians.

No-brainer? / Replacing the inefficient patchwork of current welfare-state programs (more than 100 at the federal level alone) with a UBI seems like a no-brainer. The stand-by protection it would provide against poverty could make politically palatable the abolition of many economic regulations, including those that harm the poor, such as occupational licensure, minimum wages, trade union privileges, and protective tariffs.

Another argument for a UBI is that the same assistance could be offered at lower taxpayer cost or, alternatively, provide more assistance to the poor at a given cost because "cash transfers allow individuals to make their own decisions about what they need most.… There is good reason to think we'll make a bigger improvement in people's lives by giving them cash rather than goods and services." For anybody who is not a paternalist, cash assistance appears to be more efficient, although there could be a question as to whether some people who cannot support themselves can be presumed to be efficient at managing a budget. If the UBI replaced all existing assistance programs, pure administrative costs (determining eligibility, sending checks, monitoring fraud, and such) would likely go down, too.



Universal Basic Income: What Everyone Needs to Know

By Matt Zwolinski and Miranda Perry Fleischer

256 pp.; Oxford University Press, 2023

Moreover, the economic cost of assistance would decrease because of the disincentive effect of many government programs. For example, if beneficiaries know they will lose Medicaid by earning a bit more, their incentive is to limit their production and earnings to remain on assistance. Zwolinski and Fleischer note a Congressional Budget Office estimate that, for households around the poverty line, the implicit marginal tax rate when getting off assistance programs is 34 percent on average, meaning the household loses $34 in assistance for every $100 its occupants earn on the market.

These efficiency arguments led some classical liberals to support a UBI. Milton Friedman's proposed approach was the negative income tax, which uses the tax system to establish an income floor below which nobody can fall. A negative income tax works like a subsidy when one's earned income is lower than one's "allowance" (one's standard deduction or personal exemptions in the calculation of one's income tax). If one's earned income is zero, the negative income tax would pay the exact amount of what would be a UBI equivalent. As earned income increases over that guaranteed minimum, the subsidy (negative income tax) gradually phases out by a percentage equivalent to the tax rate. A negative income tax and the part of the allowance it guarantees is arithmetically and fiscally equivalent to a UBI.

The equivalence between a UBI and a negative income tax allows us to see how, despite being given to all citizens (or residents) of a country, a UBI will be recaptured in income tax from taxpayers who have earned income. Zwolinski and Fleischer explain all this with numerical examples.

To help maintain the classical liberal society where markets largely replace reliance on family and other traditional support groups, Friedrich Hayek also agreed with the establishment of a minimum income floor, but only for those who could not provide for themselves. Sometimes, conservatives have also lent a hand to the UBI project, if only to bribe voters. In 1969, President Richard Nixon proposed a watered-down UBI, the Family Assistance Plan, but it ultimately failed in Congress. However, progressives ("liberals" in the American sense) remain the main UBI promoters.

Not so fast / On more careful inspection, however, a UBI is not that much of a no-brainer. For one thing, consider its cost. Giving each person (including children via their parents) $1,000 a month would, according to Zwolinski and Fleischer's estimates, cost about $4 trillion a year, which corresponds (in fiscal year 2023) to nearly two-thirds of federal expenditures and about 90 percent of all federal revenues. But it would still leave a non-working single person slightly below the federally determined poverty line (about $14,000 a year). A more realistic payment of $500 a month per person would leave even a family of two parents and two children below the family poverty line ($28,000). In most cases, though, the UBI would substantially reduce *deep* poverty (defined as household income that is half the poverty threshold). These back-of-the-envelope calculations suggest that a UBI is either unaffordable or else it does not lift everybody out of poverty.

Obviously, at least some of the existing welfare programs would have to be partly or totally replaced by the UBI, if only to reduce the net cost. The question is which ones. What happens to people who would be poorer after the establishment of a UBI—say, because they were heavy users of Medicaid? Would the UBI replace school subsidies? Food stamps? Social Security? The answers would of course be political, which does not bode well for the integrity, cost, or efficiency of the project.

In any event, Zwolinski and Fleischer opine, it is difficult to imagine how a UBI could add less than $1 trillion to federal expenditures. Financing could require a value-added tax of about 10 percent, or an income surtax in the 7–9 percent range. Even a modest $500 UBI would bring the ratio of government expenditures close to European levels.

A pure UBI, which is unconditional, may have little effect on the incentives to work at the bottom of the income scale. Higher income earners, however, would pay more taxes, which would affect their incentives and likely reduce total national income (the sum of all incomes) compared to what it would otherwise have been.

Libertarian justifications? / There are other issues besides taxpayers' cost and economic incentives. For many people, providing some sort of safety net is a matter of ethics, and the UBI's relative efficiency would make it preferable to other welfare programs. But it is not a simple matter. Zwolinski and Fleischer believe that "society has (at minimum) a duty to provide a basic safety net to all and that a UBI is the best means of doing so." But who is "society"? Where do these duties come from? Vague claims of "social justice" won't do.

The authors believe that "society has (at minimum) a duty to provide a basic safety net." But who is "society?" Where do these duties come from?

Zwolinski and Fleischer invoke some moral arguments that are often endorsed by libertarians and may support a UBI. One argument goes back to John Locke's proviso that land can be privately appropriated only if there is "enough and as good left" for others. This is not literally possible because the best land will be appropriated first. This line of thought justifies Henry George's Single Tax on the value of unimproved land and the redistribution of its proceeds to landless individuals. The redistribution could be done via a UBI. "Still," Zwolinski and Fleischer note, "most libertarians remain skeptical of a UBI," which may be an understatement. The Lockean–Georgist argument, though, carries some weight.

Zwolinski and Fleischer rapidly evoke James Buchanan's idea of "income insurance," which could also take the form of a UBI. This argument may be the strongest defense of their thesis from a political philosophy viewpoint. With his co-author Gordon Tullock, Buchanan argued that rational participants in a social contract might recognize income insurance as a legitimate function of the state. Uncertain of his economic future, including the danger of being exploited by winning coalitions, the virtual adherent to the social contract may want a regime of income insurance. In his later work, Buchanan even left open the possibility that the social contract could include side payments (bribes) to win the consent of individuals who think they would be more efficient in a Hobbesian war than in a peaceful liberal society. The bribes could take the form of a future UBI. We'll pay them to keep the peace, as it were.

The authors of *Universal Basic Income* do cite a still-later article in which Buchanan argues that equal-per-head "demogrants"—in other words, a UBI—"financed by a flat rate of tax on all incomes" could promote the general welfare. The *general* welfare can only mean the welfare of everybody according to nondiscriminatory rules. I think our authors' plea would have been more convincing if they had emphasized this line of thought. They would, however, have had to deal with the problem that, in our societies, the income tax is not proportional but progressive, a feature that, along with "social justice," does not appear consistent with Buchanan's nondiscriminatory requirements.

Problems and questions / Where does that leave us? With many problems and questions. I think it is far from sure that a realistic UBI would lead to less pressure for governments' interference in markets. Many non-libertarian promoters see the project as just another dirigiste measure, if not the key to open the gate wider to the socialist paradise. Other measures will be demanded to solve the problems remaining after a UBI is implemented.

I also think libertarian promoters overestimate the capacity of politics to deliver the sort of UBI they want. As we saw, it is not a panacea to abolish poverty. And how long would the UBI remain an equal cash transfer? Peter Boettke and Adam Martin have quite persuasively argued that what we know about political institutions, processes, and incentives seriously suggests that a real-world UBI would be very different from its ideal version.

The UBI comes to the political table with a lot of baggage. That Andrew Yang made the idea a central part of his 2020 presidential campaign is one indication among many. Zwolinski and Fleischer point out that many UBI supporters see it as a requirement of "social justice." Social justice apparently includes what "we as a society" (an expression the authors use twice) owe to those—presumably also part of the "we"—who have suffered injustices committed by the rest of "we." The logic of this conceptualization is not airtight.

Besides the many flaws in the concept of social justice, Zwolinski and Fleischer, like most analysts, accept a bit too uncritically the conventional wisdom that inequality is large and growing in the United States—despite, paradoxically, half a century of expanding the welfare state. Phil Gramm, Robert Ekelund, and John Early's 2022 book *The Myth of American Inequality* convincingly argues that, correctly measured with published but neglected government statistics, (real) income inequality after transfers and taxes has decreased over the past half-century. (See "Is Inequality Bad, Large, and Increasing?" Winter 2023–2024.) They also show that the increased inequality in market income (before transfers and taxes) reflects some real incomes increasing faster than others, often because of personal choices, regarding education or marriage for example. Some rethinking is required on this front.

The moral belief that one should support oneself (and one's family) if physically able to is not vacuous. A UBI, especially a generous one, would send the opposite signal, that an able-bodied person can live off an abstract and benevolent government in a free Garden of Eden. In the typical European country and some others such as Canada, even in the absence of a formal UBI, an able-bodied individual can typically live off the state, and the results have not been heavenly. In what appears to be the dawn of a new age of populism and irrationality, perverse effects would likely multiply.

Temptations and realities / Can we hope that more potential leisure would allow individuals to spend more time reflecting and forming informed opinions on philosophy, economics, and public affairs? Perhaps this would happen in some ideal society, but *hic et nunc* individuals relieved from the responsibility of self-reliance are arguably more likely to become supporters of tyrants or else become idle and bored nihilists open to violent adventures.

Zwolinski and Fleischer approach their topic intelligently and offer some good arguments. In my view, though, they underestimate the bad consequences of a UBI in our social and political climate allergic to individual liberty. We are not starting from an innocuous state in a society imbued with classical liberal ideas. We can probably turn against Friedman's espousal of a form of UBI something else that he wrote in *Capitalism and Freedom*:

> If, for example, existing government intervention is minor, we shall attach a smaller weight to the negative effects of additional government intervention. This is an important reason why many earlier liberals, like Henry Simons, writing at the time when government was small by today's standards, were willing to have government undertake activities that today's liberals would not accept now that government has become so overgrown.

In short, UBI is an idea for another world. Hayek's idea of an income floor for those physically unable to support themselves or their families looks better adapted to our world. Such a conditional "BI" is not far from the current system, which could still be improved by reducing its disincentives to work. Perhaps this sort of conditional income floor can even be reconciled with Buchanan's original idea of income insurance?

Moreover, the problem of those who are prevented by law from supporting themselves—by occupational licensure, minimum wages, union privileges, tariffs, and many other regulations—suggests a big freedom reform in which it may be more promising to invest effort. As I mentioned, it is far from sure that a UBI would facilitate such a reform. Instead of attacking the windmills of often illusory injustices, we should stop the glaring ones currently committed by governments themselves.

An any rate, an ideal UBI raises so many questions that the best guidance probably consists in applying the first principle that Anthony de Jasay proposed for government intervention in a liberal society: "In case of doubt, abstain." R

READINGS

- Boettke, Peter, and Adam Martin, 2011, "Taking the 'G' Out of BIG: A Comparative Political Economy Perspective on Basic Income," *Basic Income Studies* 6(2): 1–18.
- Buchanan, James M., 1997, "Can Democracy Promote the General Welfare," *Social Philosophy and Policy* 14(2): 165–179.
- Buchanan, James M., 2011, *The Limits of Liberty: Between Anarchy and Leviathan*, University of Chicago Press.
- De Jasay, Anthony, 1997, *Against Politics: On Government, Anarchy, and Order*, Routledge.
- Friedman, Milton, 1962, *Capitalism and Freedom*, University of Chicago Press.
- Munger, Michael, 2015, "One and One-Half Cheers for a Basic-Income Guarantee," *Independent Review* 19(4): 503–512.

Complicated and Human

REVIEW BY ART CARDEN

Hayek: A Life is the first volume of a definitive biography of one of the last century's most important thinkers, co-authored by Bruce Caldwell, the general editor of Friedrich Hayek's general works. It ends in 1950 and leaves the reader waiting (impatiently) for the second volume, which will cover the half of Hayek's career that produced *The Constitution of Liberty*, *Law, Legislation, and Liberty*, *Denationalisation of Money*, *A Tiger by the Tail*, *The Fatal Conceit*, and his 1974 Nobel Economics Prize.

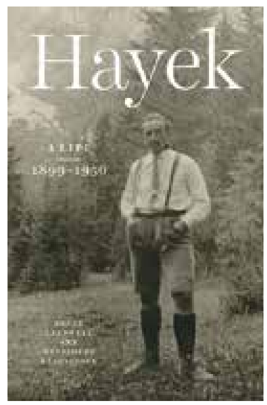
It is easy to lionize great thinkers like Hayek and see them as something approaching superhuman. However, as Caldwell and Hansjoerg Klausinger show in heartbreaking detail, Hayek was all too human.

Formative years / Hayek was a member of Austria's lesser nobility—hence Friedrich August *von* Hayek—and the son of a highly educated father who loved botany and took his family on weekly hikes in the countryside. It would be generous to describe him as a "mediocre student"—his brilliance was anything but evident from his shoddy schoolwork—and he dove into political activism at the University of Vienna after his stint in the military.

Caldwell and Klausinger describe Hayek's "initial political leanings [as] progressive/liberal, democratic, and anti-racist." His antiracism was not low-risk virtue signaling: Jews were unable to get jobs in the Austrian government and Austrian academia. Later, he would fight to get the eventual Nobel laureate W. Arthur Lewis a job at the London School of Economics over racists' objections.

Unfortunately, Hayek's liberal views did not extend to gender. Caldwell and Klausinger explain that he embraced the misogyny of his time. (This is reflected in a cringe-worthy exchange regarding Hayek's student Vera Smith during an interview with Armen Alchian, video of which can be found on YouTube.) Nonetheless, he was a member of Mises's *privatseminar* in Vienna, unique among similar groups in that it admitted women.

Hayek's relationship with Mises is especially interesting. Mises put himself in an "impossible position" in Austria because his refusal to leave the Jewish community disqualified him from government and academic jobs. Later, when a cash-strapped Mises moved to the United States, Hayek was barred by law from sending him money, so he ingeniously bought valuable books in Europe and sent them to Mises to sell. Hayek's relationship with Mises deserves a book of its own.



Hayek: A Life, 1899–1950

By Bruce Caldwell and Hansjoerg Klausinger

824 pp.; University of Chicago Press, 2022

Hayek shows that there is no one right way to be a great scholar. The authors describe him as a "puzzler" who read widely and looked for connections that might not be obvious (like his mentor, Friedrich von Wieser) rather than a "master of a subject" (like Eugen von Böhm-Bawerk). This includes a ray of hope for puzzlers who make plans and think big, but then find their work seemingly has yielded "dry holes": "It is a characteristic of Hayek's career that he would start projects that he would not finish, and that parts of those same projects would nonetheless find their way into other contributions." Some of Hayek's most interesting contributions (like *The Sensory Order*) stayed in a desk drawer for a long time before finding their way into print.

Knowledge and the economic order / If Hayek's work has a single uniting theme, it's the knowledge problem. *Hayek: A Life* discusses his analysis of knowledge and business cycles, socialism, and the scientific enterprise. Since this is only the first volume and ends in 1950, I expect we will read more about knowledge and constitutions in the second volume.

Hayek developed the most mature statement of the Austrian Business Cycle Theory by extending Mises's insight that monetary expansion reduces interest rates and systematically distorts the price structure. His most famous article is his 1945 contribution to the *American Economic Review*, "The Use of Knowledge in Society." It builds on Mises's argument about the possibility of economic calculation in a socialist society by explaining that a centrally planned economy could not effectively use the decentralized knowledge of "the particular circumstances of time and place." This insight is often misunderstood; Mises and Hayek's critique of socialism is epistemic, not computational: markets communicate things no central planner *can* know. In the early to mid-20th century, this was an iconoclastic if not heretical view. As Caldwell and Klausinger put it,

> If there were two propositions that nearly everyone, and certainly virtually all intellectuals, could agree on in England in the mid-1930s, they were that liberalism was well and truly dead and that some form of planning was needed to take its place.

Expert consensus did not deter Hayek. His apostasy culminated in *The Road to Serfdom*, the book that made him a celeb-

IN REVIEW

rity after *Reader's Digest* published a condensed version of it in April 1945. Contrary to popular belief, *The Road to Serfdom* was not a slippery-slope prediction that *any* planning would lead to totalitarian horror. Rather, Hayek described how totalitarian regimes had emerged and how they might again.

Dejected by the political direction of the Western world and concerned for the future of free society, he gathered the liberal remnant at a resort on Lake Geneva, Switzerland, in the shadow of Mont Pèlerin, for a long conference on the future of the liberal order. After rejecting several names, they decided to call the group the Mont Pelerin Society. Just like medieval monasteries preserved classical learning through the Dark Ages, the Mont Pelerin Society carried the classical liberal tradition through the heady days of technocratic Keynesianism and socialism.

Personal life / Hayek's relationship with his third cousin Lenerl lurks in the background for most of the book, and then comes to the foreground toward the end when Hayek decides he can no longer stand being apart from her. She was Hayek's lost love, and he later admitted to his wife, Hella, that he had married her on the rebound after learning that Lenerl had married someone else.

Hayek's relationship with his family was marked by a certain cluelessness bordering on callousness. He brought his daughter Christine to a summer school and arranged for her to share a room with Lenerl. As Christine later remarked, "You do not invite your daughter to join you at the summer school and arrange for her to share a room with your mistress!" And yet, that's the kind of thing Hayek did.

Things came to a head in the late 1940s when Hayek decided to leave his family for Lenerl. Divorcing Hella was a complicated project that required no small amount of legal maneuvering. After researching where it was easiest to get a divorce, he interrupted his transition from the London School of Economics to the University of Chicago by taking a one-year visiting professorship at the University of Arkansas, in a state with more permissive divorce laws. It was a huge gamble: he would not have been able to secure the divorce without persuading the courts that he planned to make a permanent home in Arkansas, but his plan worked. He eventually got the divorce, but it cost him his friendship with Lionel Robbins and caused great pain to his family.

Conclusion / *Hayek: A Life* is the first half of a complicated story about a complicated man who was one of the great minds of the 20th century. Thomas Sowell has written that it is a measure of a scholar's greatness that people still grapple with his ideas long after they stop citing him because those ideas have simply become part of society's intellectual fabric. That's how Sowell described Hayek in his 1980 classic *Knowledge and Decisions*, and it's appropriate.

Caldwell and Klausinger masterfully weave Hayek's intellectual life together with his personal life. Seasoned Hayek scholars, people who are new to Hayek, and people who are just interested in the lives of notable people will profit from reading *Hayek: A Life*. The book is an important contribution to the literature on Hayek, economics, classical liberalism, and intellectual history, and it should find a large audience. *R*

Working Papers BY PETER VAN DOREN

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

Ban the Box

Kaestner, Robert, and Xufei Wang, 2024, "Ban-the-Box Laws: Fair and Effective?" NBER Working Paper no. 32273, March.

A recurring topic in Working Papers is criminal justice policy innovation. The goal of these policies is to reduce the negative effects of incarceration on subsequent employment.

In the Spring 2024 Working Papers, I reviewed a paper that examined the expungement of felony convictions in California. The paper found no effects on employment or incomes. The positive effects found in previous studies were likely the result of selection effects: the non-random population of those who initiated expungement.

In the Fall 2016 Working Papers, I reviewed a working paper on "Ban-The-Box" (BTB) policies, which prohibit employers from asking about criminal history (the notorious "Have you been convicted of a crime?" checkbox) 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. The paper found that employers responded by engaging in more statistical discrimination. That is, employers reduced their consideration of young Black men in general because the employers were prohibited from determining which of them had criminal records.

The current paper updates those findings. Some 37 states and 150 cities and counties have adopted some type of BTB law. Also, Congress passed the Fair Chance Act in 2019, which prohibits federal agencies and contractors from asking applicants about criminal history before making a conditional offer of employment.

The authors studied young men ages 25–44 with less than a college degree. The existence of any BTB law in a person's area of residence had no effect on employment over the period 2004–2019. The null effect consisted of a negative effect on employment of young (ages 25–34) Black men by approximately 3–4 percentage points (4 percent) between 2004 and 2014 and increased employment of this group of Black men by 2 percentage points (3 percent) between 2014 and 2019. The authors suggest the difference in the two time periods was the result of a lower unemployment rate in the latter period rather than the BTB laws.

Markups and Market Power

■ **Miller, Nathan H., 2024, "Industrial Organization and the Rise of Market Power," working paper, April.**

Some economists claim that business price markups have increased over time. I first described this research and criticisms of it in the Summer 2018 Working Papers.

This paper is a comprehensive literature review of the topic. It examines the details of how markups are measured and argues that the results are driven by these details. It describes two types of studies: those that use macroeconomic data, and industry-specific studies. Both types have their difficulties. The macro studies use an econometric method that assumes perfect competition to measure market power, a methodological move that one paper called "circular." Some industry studies document technological change that lowers production costs; because prices do not decrease as fast as costs, markups increase. However, other industry studies, including steel and automobiles, find decreased markups over time. No industry studies have found increasing prices. There is a difficulty, though, with the industry studies: They can be conducted only of industries that are stable and long-lived and thus are not representative of the larger economy.

Antitrust and Platforms

■ **Hovenkamp, Erik, 2024, "Platform Exclusion of Competing Sellers," SSRN Working Paper no. 4724751, February.**

Increased interest in antitrust has not just been driven by the return of populist concerns about large corporations. Some economists also favor increased intervention. Erik Hovenkamp is a young antitrust scholar trained in both law and economics. In this paper he examines cases in which Big Tech platforms like Google, Amazon, Apple, and Facebook refuse to deal with rivals. Hovenkamp offers a hypothetical example: Google removes all competing map apps from its Google Play store. As a result, Android users are effectively forced to use Google Maps. Google is exploiting control of a dominant platform (its app store) to impede competition in a secondary market (the market for map apps).

When would such a strategy increase profits? Traditional Chicago School antitrust analysis would argue never. Google already exploits whatever market power it has in the market for search through its advertising prices. Excluding rivals in the competitive market for map software would not increase profits.

But "Post-Chicago" antitrust analysis argues such a strategy would increase profits under certain conditions: (a) the secondary market (mapping software) is imperfectly competitive with differentiated products and economies of scale; and (b) a portion of buyers of the secondary good attach little or no value to the primary good (Google search itself). If excluding rivals reduced the sales of non-Google map apps below the minimum scale needed to remain profitable, Google could increase profits.

Post-Chicago antitrust analysis has existed for more than 30 years but has had little effect on actual antitrust legal practice. Hovenkamp argues that should change. For those readers who need a quick refresher on Post-Chicago thinking, this paper provides a good summary.

Consumer Credit

■ **Zywicki, Todd J., 2024, "Looking Forward by Looking Backward: The Future of Consumer Finance and Financial Protection," SSRN Working Paper no. 4728037, February.**

Todd Zywicki provides a concise history of consumer credit in this essay. He argues that elites have been concerned about debt that was not collateralized by other assets ever since the early Industrial Revolution. Even Adam Smith differentiated productive loans to "sober" individuals from loans to fund consumption. These concerns resulted in usuary laws that placed caps on interest rates that eliminated legal small loans to workers to smooth consumption. Such concerns continue to animate restrictions on payday loans today; see Spring 2017 Working Papers.

An important consequence of usuary laws was the emergence of black-market loans to finance workers' consumption-smoothing. One economist estimated that in 1911 about 35 percent of New York City employees owed money to illegal lenders. Former Federal Reserve chairman Alan Greenspan once referred to the plight of city-dwellers in that era as one of "virtual serfdom" to black-market creditors. The reform efforts of the Russell Sage Foundation and General Motors auto financing in the mid-1920s legitimized the use of consumer credit.

According to Zywicki, the level of household non-mortgage debt relative to income or assets has remained constant since the 1960s. Without the large increase in student loan debt, the consumer debt ratio for the typical household would be significantly lower today than 40 years ago. *R*