IN REVIEW

Challenging Sociologists

REVIEW BY GEORGE LEEF

Sociology began as an academic discipline to investigate the origins of and potential solutions to social problems. It operated like other social sciences, with scholars proposing ideas and supporting them with evidence. Their ideas would be subjected to analysis and counterarguments in a search for understanding. Debate was free and nothing was off-limits.

In recent decades, unfortunately, sociology has gone the way of other "soft science" disciplines in that ideology often overrides inquiry. Some ideas are now forbidden because their discussion might be offensive to some people. Sociology courses and journals are so dominated by "progressive" notions that the field has lost its formerly robust character.

Some sociologists want to rescue their discipline from this groupthink. Two of them, Fabio Rojas of Indiana University and Charlotta Stern of Stockholm University, have assembled a formidable collection of essays in their new book, *Sociology and Classical Liberalism in Dialogue*. Their project is meant to get fellow sociologists to reconsider their embrace of progressive and even Marxist perspectives and think about the insights of classical liberalism.

In their introduction, the editors write:

> Sociologists are often concerned about the effects of political and social institutions on the poorest and most marginal in society, and classical liberals have much to say about which institutions improve, or damage, those groups. Conversely, sociologists have a lot to teach classical liberals because they have a rich language for understanding the link between culture and institutions.

Because both sociology and classical liberalism have been around a long time, why the need for this introduction? It is because liberal-minded scholars have become extremely rare in sociology. Most sociologists are hostile to liberalism and hew dogmatically to statist ideas about social problems. As Rojas and Stern observe, "The dearth of classical liberal and libertarian scholars working on sociological topics suggests that important ideas are lost in the field."

It was not always that way. Among the early sociologists were scholars who had an appreciation for classical liberalism. They included Herbert Spencer and William Graham Sumner, both of whom warned against the unintended and deleterious consequences of collectivism through government action. Another early sociologist, less well known than Spencer and Sumner, was Britain's Harriet Martineau, who had absorbed Adam Smith's observations about social order emerging through voluntary cooperation.

Unfortunately, sociologists like Spencer, Sumner, and Martineau are mostly forgotten if not disparaged in the field today. Sociology has become a "discipline of discontent," with a current obsession on "unmasking the sources of inequality and power." But it misses the fact that those sources are often rooted in government policy.

Contemporary liberals / Although sociologists who appreciate classical liberalism are few and far between, Rojas and Stern have assembled a book by some of those who disagree with the leftist mainstream in the field. Below, I discuss several of these essays.

Most sociologists are hostile to liberalism and hew dogmatically to statist ideas, obsessed with "unmasking the sources of inequity and power."

John Iceland and Eric Silver, both of Penn State, lead off with "Does Economic Liberalism Reduce Poverty?" They note that sociologists commonly accept the Marxist critique that capitalism brings about misery for the masses. Their "conflict theory" clashes with the classical liberal observation that capitalism is a result of peaceful cooperation and has a record of bringing about general advances in living standards for all. The authors review and rebut the standard claims that economic liberalism harms the poor by giving businesses power over workers and creating unjust disparities in wealth. Iceland and Silver respond, "While inequality is a feature of classical liberalism, a central problem with many critics is that they overlook the fact that the advent and spread of economic liberalism coincided with dramatic increases in standards of living ... not only in the U.S. and Europe but globally." In sum, sociologists wedded to

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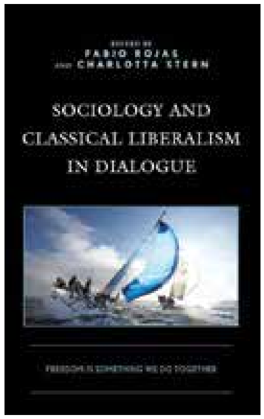


Sociology and Classical Liberalism in Dialogue

Edited by Fabio Rojas and Charlotta Stern

222 pp.; Lexington Books, 2024

Marxist views would obtain a more realistic picture of the world if they'd consider how well classical liberal economic institutions—e.g., private property, free enterprise, free trade—have done at enabling people to lift themselves out of poverty.

Rojas makes an estimable contribution with his essay, "Race, Freedom, and Social Change." Classical liberals, he notes, have strongly criticized race-based inequality since Adam Smith. But today, most sociologists maintain that racial inequality stems from liberalism and must be fought with coercive governmental mandates. Rojas pushes back against the increasingly popular idea among sociologists that slavery and capitalism are somehow linked, pointing out that the consensus that slavery is a moral wrong originated in the countries where classical liberalism had taken root. He writes, "The puzzle is why capitalist nations have reformed so much when sociological theory suggests that these reforms should not happen, or be superficial in character."

Particularly interesting is Rojas's presentation on ways that minority communities in the United States have used their liberty to combat government-sanctioned oppression. The famous bus boycotts in southern cities in the Civil Rights Era were effective because Black residents could pool their resources to provide transportation alternatives to municipal buses and regulated taxis. Rojas concludes with the observation that liberal societies are quite good at eroding oppression and exposing hypocrisy, a feature that should interest sociologists.

In his essay "The Predatory States of America," Brandon Rudolph Davis of Tulane argues that government policies meant to solve social inequalities have a strong tendency to make things worse, a fact that sociologists seldom take into consideration now. Davis introduces public choice theory into his analysis, focusing on criminal law and enforcement. Sociologists, he argues, need to consider the incentives facing public officials rather than automatically declaring that racism is the cause of racial disparities in criminal law. He states, "If prosecutors are willing to bring charges in marginal and low-quality cases, it provides law enforcement with an incentive to make low-quality arrests, which I argue contribute to mass incarceration and the overrepresentation of racial minorities within the criminal justice system."

In her essay "Feminism and Gendered Labor Markets," Charlotta Stern makes the case that most sociologists mistakenly adhere to the "left-feminism" belief that all differences in outcomes between men and women are attributed to repression, discrimination, and patriarchal culture. That perspective is unable to account for many observable gender differences in labor markets. In contrast, Stern writes:

> Classical liberalism is humble rather than bold; it does not presume that individuals share the same goals. It is also stern, a feminism that strongly believes in reason and toleration, and presumes that individuals themselves are responsible for their pursuit of life goals.

Stern laments the way left-feminist sociologists feel compelled to push "egalitarian" lifestyle choices that many women (and men) do not desire.

Healthcare issues also concern sociologists. In "Toward a Classical Liberal Theory of Health Care," Rochester Institute of Technology professor Lauren Hall argues that classical liberalism provides a "toolbox" for understanding those issues. She offers the powerful insight that healthcare institutions and policies tend to be captured by interest groups, thereby turning them to the groups' advantage, often at the expense of minority populations. Licensing regulations and certificate of need laws stifle competition in the provision of services that would benefit minority groups, such as the regulations that keep midwives from legally competing against the medical profession's preferred birthing option, the hospital. Hall chides her fellow sociologists for complaining about what they call "the anarchy of choice" in markets when increased choice would clearly benefit people they profess to care about.

University of Illinois professor Ilana Redstone examines academe in her essay, "The Problem on Campus Is How We Think." In her view, sociologists have become far too certain of their positions. "Certainty," she writes, "makes it difficult to cultivate a culture that is open to a wide range of viewpoints and makes communication across ideological divides all but impossible." Sociology has become mired in the "certainty trap." Students and scholars often hesitate to voice opinions or even ask questions lest they be harshly treated for not thinking "correctly." If sociology is to be restored as a vibrant academic discipline, it needs to escape from the certainty trap.

Market limits? / One essay is not particularly persuasive. In "Classical Liberalism versus Populism and Authoritarianism," George Mason University professor Jack Goldstone argues that if most people are to accept classical liberalism, the state must intervene in the economy. According to Goldstone, "The goals of preserving a balance of liberty and prosperity and equality must be achieved with some degree of limits on free markets." Among these are minimum wage laws and strong labor unions.

This position is quite debatable. In America, we had a high degree of support for classical liberalism before we had minimum wage laws or labor unions. Have these coercive economic interventions safeguarded a classical liberal consensus, or have they induced people to think, "If the government can act to confer benefits on some groups, why not organize politically and press for the state to give more?" Goldstone apparently believes that there is a stable equilibrium somewhere between the laissez-faire of pure classical liberalism and a government that meddles relentlessly in the lives of the people, but I think history says otherwise.

Putting my disagreement with Goldstone aside, *Sociology and Classical Liberalism in Dialogue* throws down a challenge to sociologists: Stop acting like zealots and once again act like scholars. Will any of them rise to this challenge?

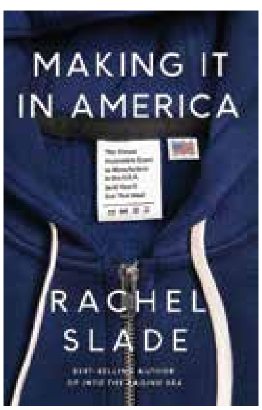
Manufacturing in America

REVIEW BY GREG KAZA

In her recent book *Making It in America*, independent journalist Rachel Slade sets out to find someone "actually attempting to manufacture things in the U.S." She finds Ben and Whitney Waxman, founders of the Maine-based apparel company American Roots. On her journey, she introduces readers to a US zipper company founded by a Taiwanese immigrant, an old-school veteran of New York's Garment District, Mississippi cotton, and the hoodie, which she argues has evolved "from gym gear into a symbol of subversion."

Early in the book, Slade quotes a Harvard Business School instructor who asks, "Why should Americans care about manufacturing?" The answer has to do with culture, economics, and politics. Culturally, some fabrics have been "produced for more than five millennia" and thus are deeply rooted in a culture. Moreover, in the United States the ideas of "economic independence" and "freedom" are associated with the country's foundational principles. Economically, Slade notes, textiles are a $3 trillion worldwide industry employing more than 60 million people. Politically, manufacturing plays a key role in the economies of Georgia, Michigan, North Carolina, and Wisconsin, all "swing states" in recent presidential elections.

This entrepreneurial story is based in Maine, a refuge for idealists where utopian fervor is a Yankee tradition. Maine's culture, Slade writes, spans "across the centuries and across the political spectrum—from celibate Shakers to right-wing libertarians and doomsday preppers." The book describes how the Waxmans (actually, Ben Waxman and Whitney Reynolds; their firm predates their marriage) started American Roots, a manufacturer that produces "fleece products completely made in America."



Making It in America: The Almost Impossible Quest to Manufacture in the U.S.A. (And How It Got That Way)
By Rachel Slade
352 pp.; Pantheon Books, 2024

Ben Waxman grew up with manufacturing. At age 12, his parents, Dan and Dory, launched Casco Bay Wool Works to produce capes. By the firm's fourth year, it recorded $500,000 in sales. But it could not compete with foreign competitors. "One night," Slade writes, "after fourteen hours of plowing following a massive snowstorm, Ben pulled the truck over to chug a tepid Dunkin' coffee." When he arrived home that night, he "woke up Whitney and told her they were going to make fleece vests."

A former union organizer, Ben views domestic manufacturing as important to "a better America." Friends thought him crazy, but American Roots experienced remarkable sales growth: $8,000 (2015); $400,000 (2016); $800,000 (2018); $1.1 million (2019); and $3.5 million (2022).

The book's cast includes the firm's first employee, Anaam Jabbir, who fled Iraq for US asylum after the war, patternmaker Ann Russo, and producers of US-made fabrics, zippers, and cotton. Ned Pilchman of American Fabrics, one of the last "fabric converters in the country," is a Garment District veteran focused on transporting bolts of fabric. "It's heavy, heavy, heavy," Pilchman explains. I grew up in a Michigan automotive family on the production side and found Slade's step-by-step description of production processes and manufacturing challenges the book's strongest section.

Radical? Reactionary? / Slade is weakest when discussing economics. She cites Adam Smith but ignores David Ricardo's theory of comparative advantage. The index does not include a reference to Ricardo, and Slade alternates between blaming free trade and China for US manufacturing losses.

For instance, she writes, "After thirty years of free trade policy, the American economy has drifted from producer–exporter to buyer–importer and American consumers now find themselves in a dire situation." Further, she says, what "happened to American manufacturing over the past two decades was not the organic by-product of free market policy. The Chinese government in particular … subsidized [exports] every step of the way" to "get a foothold in the lucrative American market."

Slade's use of pejoratives detracts from what could have been a serious work to explain manufacturing to a broader audience. She terms "free market theory—a radical, reactionary hypothesis developed by then-fringe economists Milton and Rose Friedman in the 1960s." She claims "free market jargon made mediocre thinking sound smart" in the United States and equates Friedmanite monetarism with supply-side economics.

Product differentiation / New England textile manufacturing has been in decline for decades. In excerpts from Berkshire Hathaway annual reports, the holding company's CEO, Warren Buffett, explained the challenges of textile manufacturing:

1977 "A few shareholders have questioned the wisdom of remaining in the textile business which, over the longer term, is unlikely to produce returns on capital comparable to those available in many other businesses."

1978 "The textile industry illustrates in textbook style how producers of relatively undifferentiated goods in capital intensive businesses must earn inadequate returns except under conditions of tight supply or real shortage."

1980 "During the past year we have cut back the scope of our textile business."

1985 "In July we decided to close our textile operation, and by year-end this unpleasant job was largely completed."

Berkshire was founded in 1839 as a New England textile manufacturer. Buffett bought Berkshire in 1965, and in 1993 the company bought Maine-based Dexter Shoe Company, paying $433 million in stock. Slade explains, "Buffett thought American industries would be able to resist the forces of globalization." In Berkshire's 2007 annual report, Buffett wrote, "To date, Dexter is the worst deal that I've made."

How could any entrepreneur make New England textile manufacturing work if America's greatest living investor failed at the task? The answer is *product differentiation* in American Roots' marketing—that is, the firm has persuaded consumers there is something about its products that consumers should be willing to pay for. That is the inverse of the "undifferentiated goods" Buffett lamented.

Slade terms the hoodie "an American icon." During the Great Depression, the hoodie was a niche market providing athletic gear for college sports teams. By the 1960s, the hoodie market expanded as more Americans attended college, wearing their "school colors on and off the field." But Slade contends athletic apparel wasn't considered "appropriate attire" outside campuses until the 1976 movie *Rocky*. Her argument is that Rocky Balboa "sparked the hoodie craze when he donned a plain gray hoodie for his famous run" through Philly's mean streets.

The Waxmans weren't thinking about the hoodie's cultural significance when they launched American Roots. They wanted to help rebuild a domestic supply chain, pay their workers a decent wage with benefits, and serve their niche customer base. American Roots has been in business for nearly a decade, and I look forward to reading a sequel about them in 10 years. *R*

Bank Capital

REVIEW BY PHIL R. MURRAY

Anat Admati is professor of finance and economics at Stanford Graduate School of Business. Martin Hellwig is former director of the Max Planck Institute for Research on Collective Goods. In 2013, only a few years after the global financial crisis, they came out with the much-heralded *The Bankers' New Clothes*, and now they have released a "new and expanded edition." "Our purpose in writing this book," they proclaim, "is to demystify banking and explain the issues to widen the circle of participants in the debate."

They define "the bankers' new clothes" as "flawed and misleading claims that are made in discussions about banking regulation." What's wrong with banking, they say in short, is that bankers use too much debt to cover their investing. Accordingly, Admati and Hellwig want to require bankers to use more equity. This second edition contains new chapters on central banking, bailouts, and the rule of law.

Equity and debt / If you think bank capital means deposits, you are thinking the way bankers want you to think, but that is wrong. That money, in essence, is lent by depositors to banks, and the banks are obligated to pay it back. Meanwhile, bank *capital*, specifically, is money the banks receive from their investors. "In the language of banking regulation," Admati and Hellwig clarify, capital just "refers to the money the bank has received from its shareholders or owners." Capital is equity: a nonborrowed source of funds.

Bankers argue that requiring them to hold more equity will reduce their lending and slow economic growth. "In fact," the authors inform us, "capital regulation does not tell banks what to do with their funds or what they should hold." Every dollar of shareholder equity may be lent in the same way that every dollar borrowed may be lent.

But bankers resist financing their asset purchases with more equity because equity is a more costly source of funds. Admati and Hellwig give the bankers' perspective:

> The view that it is more expensive to use equity funding than to fund by

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> borrowing is sometimes justified by the observation that for each dollar they invest in a bank's shares, shareholders "require" a higher return than debt holders require.

The authors deem that perspective as "yet another article of the bankers' new clothes." Required rates of return, they explain, depend on the combination of equity and debt that corporate managers use. Using more debt increases the risk of default and causes lenders to ask higher interest rates. Likewise, shareholders raise the return on equity they require when a corporation uses more debt. Put the other way around, using more equity and less debt reduces risk. Shareholders will reduce the return on equity they require.

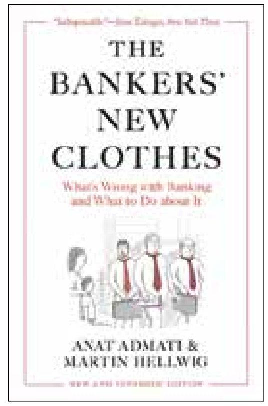
Following the authors, suppose Kate has \$30,000 for a down payment on a house, borrows \$270,000, and buys a house for \$300,000. Her equity-to-asset ratio is 10 percent. Paul puts \$30,000 down, borrows \$120,000, and buys a house for \$150,000. His equity-to-asset ratio is 20 percent. Paul is using more equity relative to his investment. The return on equity (ROE) equals the return on assets (ROA) times the reciprocal of the equity-to-asset ratio. If the price of Kate's house rises 5 percent, her ROA = \$15,000 ÷ \$300,000 = 5%. Her ROE = 5% ÷ 10% = 50%. If the price of Paul's house also rises 5 percent, his ROA = 5% and his ROE = 5% ÷ 20% = 25%. Paul's return on equity is lower than Kate's because his \$30,000 funds a smaller investment. But by using more equity relative to his investment, Paul is further from insolvency in case of a decrease in the price of his house. A decrease in the price of Kate's house that is over 10 percent will render her insolvent. To render Paul insolvent, it would take a decrease in the price of his house greater than 20 percent. That is the sense in which using more equity is less risky.

Funding costs and returns / Whether a corporation that uses more equity will experience higher "funding costs" depends on the corporation's profits. For instance, "using a different mix [of equity and debt] might affect such things as the amount of taxes the corporation pays, the subsidies it receives, or the investment decisions it makes." Given that a corporation may subtract interest expense from income before paying taxes, using more equity may increase funding costs.

Admati and Hellwig add that banks offload the consequences of bad investments onto the Federal Deposit Insurance Corporation (FDIC) and taxpayers, too, in the case of bailouts. "This can make borrowing cheaper and more attractive for banks," they continue, "but such cost savings are paid for by others and therefore should not affect policy." The implication is that if a bank uses more equity, it may experience an increase in funding costs. However, that is not a valid reason not to require banks to use more equity because the cost to taxpayers will decrease.

Some bankers say dumb things. "Because we have this substantial self-funding with retail deposits," said one banker, "we don't have a lot of debt." That banker does not know that deposits are a bank's liabilities, or he is trying to mislead. Recall that bankers claim that using more equity is more costly because shareholders require a higher return on equity than lenders require on their loans. Admati and Hellwig report that "bankers and others routinely claim that having more capital would 'lower returns on equity.'" That is not necessarily the case.

Consider the authors' numerical illustration. Suppose a more leveraged bank has a return on assets of 1 percent and an equity-to-asset ratio of 10 percent. Its ROE will be 1% ÷ 10% = 10%. A less leveraged bank with an equity-to-asset ratio of 20 percent and the same return on assets of 1 percent will have an ROE = 1% ÷ 20% = 5%. That is a banker's view: using more equity lowers shareholders' ROE. Admati and Hellwig open the reader's eyes to the alternative scenario when a bank incurs a loss. Suppose the return on assets is −1% for both banks. The more leveraged bank's ROE will be −1% ÷ 10% = −10%. The less leveraged bank's ROE will be −1% ÷ 20% = −5%. The less leveraged bank's ROE is higher.



The Bankers' New Clothes: What's Wrong with Banking and What to Do about It

By Anat Admati and Martin Hellwig

604 pp.; Princeton University Press, 2024

When bankers claim that using more equity will lower the return on equity, they are not telling the whole story. Banks that use more equity will have higher returns on equity ("less negative") during bad times such as financial crises. Perhaps bankers do not know this, or their self-interest clashes with better policy.

Bankers' incentives / Bankers fixate on ROE because their pay depends on it. The trouble is that bankers borrow more to increase ROE and their pay, and that increases risk. Bank managers and bank shareholders are not the only bearers of that risk; lenders and taxpayers share it.

Admati and Hellwig portray bank shareholders as naive. They claim that "because derivatives trade over the counter and not on organized exchanges…, shareholders might not even be aware of the risks that are taken." Even if, as seems likely, bankers own shares, their compensation is sufficient over time to outweigh losses that eventually appear.

Lenders are not naive, according to the authors. Depositors accept low interest rates because their deposits are insured by the FDIC. Banks pay insurance premiums to the FDIC; however, the premiums are not based on the risks a bank takes. Banks benefit from "implicit government guarantees" such as government bailouts, Federal Reserve purchases of "lower quality" securities, and borrowing directly from the Fed at low interest rates. Buyers of bonds sold by banks expect the government to support banks in times of crisis, and therefore they accept lower interest rates.

Policy proposals / Admati and Hellwig characterize the banking industry as "fragile," by which they mean near insolvency. They urge regulators to prohibit banks from making dividend payments so that the banks will increase their equity. With more equity, banks can make more loans or pay down their liabilities. Also, the authors urge regulators to mandate that banks sell new shares of stock to increase equity. The incoming funds can likewise be lent out or used to pay down liabilities. If a bank has no earnings to retain or cannot find investors willing to buy shares, regulators should consider closing it.

The concept of "risk weighting" assets seems sensible: Banks should use equity to finance riskier assets, but may use debt to finance the purchase of riskless assets. But the application of this concept is problematic. Admati and Hellwig put it this way:

> In theory, risk weights are meant to adapt equity requirements to the risks of the banks' investments; in practice, the weights are determined by a mixture of politics, tradition, genuine and make-believe science, and the banks' self-interest. In this mixture, some important but real risks are overlooked.

Their critique is supported by evidence that during the tumultuous year of 2008, banks with more equity relative to *total* assets were less likely to fail than banks with more equity relative to *risk-weighted* assets.

The authors want banks to increase their equity until their equity-to-asset ratios are in the range of 20–30 percent. Bankers will resist. But as Nobel Economics Prize winner Merton Miller pointed out, bankers expect similar commitments from their borrowers. The chief benefit of requiring banks to use more equity is a reduced likelihood of financial crises.

The authors demonstrate this with a numerical example: If a bank's equity is 3% of its assets and the value of its assets decreases by 1%, 33% of its equity disappears. But if a bank's equity is 25% of its assets and the value of its assets decreases by 1%, just 4% of its equity disappears. We may expect fewer bank failures and fewer bailouts paid by taxpayers. That would be great—except politics makes such policy unlikely.

Admati and Hellwig characterize the banking industry as "fragile" and urge regulators to prohibit banks from paying dividends.

Readers will learn what happened at Silicon Valley Bank (SVB). The primary source of SVB's funds was "uninsured short-term deposits," and its primary use of those funds was to buy bonds. When the Fed raised interest rates in March 2022, SVB veered toward insolvency. Some of its depositors moved their money to money market funds paying higher interest rates. Simultaneously, the value of its bonds decreased. It tried to meet deposit outflows by selling bonds and selling new shares of stock, but the bond sales at depressed prices were insufficient and there was no appetite for its stock. California's Department of Financial Protection and Innovation declared SVB insolvent and took over the bank. The FDIC paid off SVB's depositors, including uninsured deposits over the coverage limit of $250,000.

The case of SVB serves as another lesson for regulatory reform. Based on current accounting rules, a bank "usually" puts bonds on its balance sheet at face value. If bond prices fall, the bonds remain on the balance sheet at face value on the condition that the bank "intends to hold debt securities until they are repaid." When faced with deposit outflows, a bank may need to sell bonds before they mature. If the proceeds from the bond sales are insufficient to meet the deposit outflows, current accounting rules enable a bank to "hide" the insolvency. Thus, Admati and Hellwig propose "market-value accounting" whereby a bank lists bonds on its balance sheet at market prices.

Conclusion / Readers who blame markets for bad outcomes will appreciate Admati and Hellwig's condemnation of bad bank behavior. For instance, they describe how, during the hot real estate market of the 2000s, Washington Mutual, Bear Stearns, and probably JP Morgan Chase "marketed mortgage securities that [their] employees knew were of poor quality while misrepresenting the quality to investors or providing inaccurate information when asked." Readers who blame government officials will appreciate insights such as this: "Politicians want the bankers' cooperation to make the investments the politicians favor—or campaign contributions." Admati and Hellwig state, "There are many instances where flawed government activities are a problem, but without laws and without law enforcement by government, markets would not work and we would all be much worse off."

Requiring bankers to use more capital is a reasonable way of assigning the costs of risky behavior to those engaging in the behavior. If the authors are correct that there are no valid objections to this proposal, perhaps the political obstacles to it will be overcome and the future will show whether they are in fact correct. *R*

IN REVIEW

The Almighty Dollar and Its Keepers

REVIEW BY VERN MCKINLEY

The US treasury secretary is the principal economic adviser to the president and is responsible for managing a department with an enormous range of responsibilities. According to Treasury's website, the secretary is responsible for formulating and recommending domestic and international financial, economic, and tax policy, participating in the formulation of broad fiscal policies, and managing the public debt. Saleha Mohsin's book *Paper Soldiers* focuses on the treasury secretary's role in overseeing the management of the US dollar. Mohsin is senior Washington correspondent for *Bloomberg News*. *Paper Soldiers* is her first book.

The book's title gives a visualization by metaphor of the transformation of the dollar into a vehicle for the US government, working with counterpart governments, to impose economic sanctions on the world's tyrants and rogue nations. The author explains that the dollar and access to it are used as a primary weapon in the aggressive sanctions that the United States applies to such bad actors.

Since the end of World War II, the dollar has had status as the world's "reserve currency," meaning that it is a widely used currency, is held in large quantities by central banks as part of their foreign exchange reserves, and is the currency of choice for denominating transactions, for example petrodollars. The question is how long can that status continue.

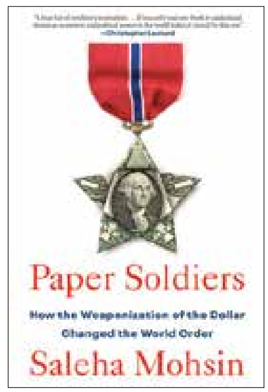
History of the dollar / Mohsin provides a whirlwind historical review of the dollar prior to the 1990s.

Drawing from a time before the dollar achieved its internationally revered status, she quotes a letter to Congress from Samuel Chase, Abraham Lincoln's treasury secretary: "Immediate action is of great importance. The Treasury is nearly empty." She then provides a contemporary opposing view:

> What good was paper currency? A mere illusion funded on faith that its issuer held glory worth investing in, perceived as fraudulent and unconstitutional by critics at banks, in Congress, and even inside Chase's Treasury department.

The reader is then led through the Bretton Woods Conference, where world leaders created "a blueprint for multination economic cooperation," with the conference acting as the "coronation of the dollar as the world's reserve asset … [and] the Golden Age of Capitalism." The turbulent inflation of the 1970s and the United States' jettisoning of the gold standard were followed by a floating exchange system and the strong dollar ushered in during the Ronald Reagan and George H.W. Bush presidencies.

Rubin years / During his two years as Bill Clinton's first treasury secretary, Lloyd Bentsen oversaw an environment with the greenback "plunging" in value and "investors worried about economic growth that remained slow." It was becoming quite clear that interventions were fruitless and "the era of aggressive government intervention was slowly coming to a close."



Paper Soldiers: How the Weaponization of the Dollar Changed the World Order

By Saleha Mohsin

304 pp.; Portfolio/Penguin, 2024

Mohsin contrasts the ensuing Robert Rubin era with eight words from his confirmation hearing before the Senate Finance Committee: "A strong dollar is in our national interest," a statement Mohsin calls "Rubin's strong dollar mantra." Rubin's underling, Timothy Geithner, described it thusly: "It was a statement of broad intent that we were not going to try to artificially engineer a decline in the currency."

Based on Mohsin's analysis, the new policy was a benchmark event in dollar policy and the mantra was carried out and "recite[d] almost on command" by US treasury secretaries for the ensuing 25 years. By 1995, "the dollar began an upward march…, rising roughly 16 percent in the four years [Rubin] was Treasury chief." About that time, a question from the *Wall Street Journal*'s William Murray allowed Rubin to describe a goldilocks economic era: "I think the strength of the dollar that we have had for quite some time now has served to lower interest rates, keep a lower inflation rate, and therefore promote job creation and growth in the United States."

O'Neill and Snow years / The terms of George W. Bush's first two treasury secretaries, Paul O'Neill and John Snow, were consumed with responding to the September 11 terrorist attacks and their aftermath. Mohsin describes O'Neill as a "curious choice" for the role "considering his complete lack of financial sector experience." Snow also had a dearth of experience in the sector. The pair carried out the financial response to the attacks:

> What happened next revealed to the

> world just how strong a force the U.S. dollar could be.… It wasn't about the exchange rate. It was about the dollar as a weapon to punish miscreants, pursue American foreign policy goals and global security objectives—and keep Americans safe.… Bush would begin the war on terrorism by unleashing the power of the U.S. Department of the Treasury … using the dollar's power to punish the nation's enemies.

The tools applied to this task included targeting "entities that had been blocked from the U.S. financial system—meaning they could no longer access the dollar.… Treasury was now part of the national security apparatus … and the dollar was one of its weapons."

Paulson years / Mohsin describes Bush's third and final treasury secretary, Henry Paulson, as the man who "was perfect for the job" and "would go on to help save the entire economy from outright calamity" in the 2007–2009 Great Recession. She obliquely states that his role in bailing out megabanks can be connected to the dollar:

> We want the U.S. Treasury Department to be run by people who understand … the importance of stability and predictability in anything that relates to America's money and debt.… We need a secretary who can put their personal credibility on the line to protect the nation's most valuable asset: the dollar.… Paulson being chosen, lobbied, and finally persuaded to accept the job may be the most fortuitous development of the era for the global economy.

I don't find her argument for this convincing. She grinds on that the secretary must be "willing to think creatively, push the limits of power.… Few private sector jobs can prepare someone for the unique demands of leading Treasury, but running Goldman Sachs comes pretty darn close." No explanations or supporting citations back up any of these conclusory claims.

She makes short shrift of Paulson's critics who, she explains, called him "Mr. Bailout":

> Critics say that Paulson was out of control.… But what Paulson wielded was a finance ministry with its power revved to the max.… [His] leadership and the efforts of those who worked alongside him across the administration, Congress, Wall Street, and the Federal Reserve, weren't mistake-free but they were heroic.

Again, she provides no supporting evidence for this view.

This scenario plays out regularly: Fiery rhetoric is exchanged back and forth, and in the end the two sides complete a last-minute compromise.

Geithner years / Games of chicken over the debt ceiling occupied much of Treasury's focus during Barack Obama's presidency:

> Obama needed Congress to increase how much debt his Treasury Department could issue in financial markets. The level at the time was $14 trillion, but Congress already made legal a spending package that called for debt issuance to go above that level. Now the federal government needed that added cash to keep the country running.

Mohsin explains:

> Republicans … were demanding that Democrats outline a plan to eventually bring the country's finances into better order.… The standoff between the White House and congressional Republicans approached a tipping point.… The entire global financial market was at stake.

Obama's first treasury secretary, Geithner, told lawmakers, "Breaching the congressionally mandated limit 'would shake the basic foundation of the entire global financial system. [The] consequences would last for decades.'"

This scenario plays out on a regular basis: Fiery rhetoric is exchanged back and forth, and in the end the two sides complete a last-minute compromise. In this particular confrontation, the "scenario forced Geithner and officials at the Federal Reserve to create a contingency plan if the debt ceiling wasn't raised.… Treasury and the Fed worked through the mechanics of the backup plan."

Mnuchin years / The first chapter of *Paper Soldiers*, "Surviving Donald Trump," starts with a 2018 quote from Trump treasury secretary Steven Mnuchin: "A weaker dollar is good for us." The International Monetary Fund's Christine Lagarde equated that language to an "opening salvo of a currency war."

Trump economic adviser Peter Navarro emphasized in meetings with the president the decades-old precedent "for the Treasury Department controlling the dollar." Mohsin begins a later chapter, entitled "A Treasury Heirloom Shattered," with quotes in sequence from Trump, Navarro, commerce secretary Wilbur Ross, and Mnuchin, all of whom either railed against other countries that were weakening their currencies or against "an excessively strong dollar." To Mohsin this was all part of Trump's effort to "redo the world economic order.… Bob Rubin's strong dollar paradigm was dead." Longtime allies were concerned the Trump administration would not "abide by long-held commitments of non-intervention" in the currency markets. Mohsin does not enumerate any actual examples of these feared interventions in the dollar market and does not speculate whether such interventions would be likely in a second Trump term.

Yellen years / Mohsin recounts Janet Yellen's strong statement on the dollar at her confirmation hearing as Joe Biden's treasury secretary: "The United States does not seek a weaker currency to gain competitive advantage." But the country soon undertook a currency battle, albeit for a different reason.

Just a year after Yellen became treasury secretary, Russia invaded Ukraine. This triggered a "financial war" that would rely on "a different weapon: the dollar." Russian President Vladimir Putin would call it "an economic blitzkrieg." The primary targets were "Russian oligarchs, government officials, businesses and even superyachts, belonging to Putin's cronies," a process Mohsin describes as "financially excommunicating the world's eleventh-largest economy." She explains that this plan would "leave families hungry, people jobless, and companies with millions of dollars lost," particularly in Europe.

Sanctioning the Central Bank of Russia and major Russian banks through limiting access to the dollar and international payment systems was at the center of the currency war in an attempt to hamper Putin's ability to finance his aggression. The author winds up this chapter with foreboding language about what the sanctions mean for the United States and the dollar, with hope that it is not "the start of a downward spiral" for both and that "the consequences of the United States losing its status as the owner of the world's reserve asset are far-reaching." She sounds somewhat hopeful with some squishy language as the book closes: "America is likely to continue its reign—which means the dollar will, too."

Conclusion / *Paper Soldiers* is a timely book. Its jacket describes the topic of the dollar as "under-discussed," and that is spot on. When Mohsin chronicles the straightforward factual history, the book is at its best.

But there are a few drafting errors that should have been caught by the author or the editors. The most egregious is a reference to the Great Recession as "the worst financial crisis in a century." In all my reading on historical financial crises, I have never heard a single commenter state that that crisis was worse than the one that drove the Great Depression.

Another major error is when Mohsin identifies the treasury secretary who was first appointed by Reagan and stayed through the George H.W. Bush presidency as "Nicholas Baker." This appears to be an erroneous blending of the names of two treasury secretaries from that era: James Baker (who held many roles, including chief of staff and treasury secretary under Reagan and secretary of state and (briefly) chief of staff under Bush) and Nicholas Brady (who did serve as treasury secretary for the end of the Reagan administration and throughout Bush's).

There are other mistakes, but also many awkward references: first to people in the government as "those who ran the country," and another that "the Treasury secretary's job is to grow the U.S. economy and create jobs."

In contrast to the factual history, the book's policy analysis is not especially convincing and Mohsin stumbles badly, particularly the noted sections chronicling Paulson's time as treasury secretary. She really struggles to make an argument that a certain policy path is good and often simply draws conclusions without any underlying analysis or assumes the reader takes the statement as obviously true. As for data, it would have been helpful in discussing the dollar to have a few charts or graphs showing the value of the dollar against other currencies over time. The topic lends itself to such analysis, but there are no charts or graphs in the entire book. R

To Control Capitalism, or Not?

REVIEW BY VERN MCKINLEY

When I was growing up, my parents purchased clothes and holiday gifts and periodically visited restaurants and fast-food outlets. They paid for their purchases only with cash or instruments easily converted into cash (typically checks). They relied on their favorite platform for purchases, the Sears catalogue, consummating purchases through what was known as cash on delivery (COD). They did not rely on any non-mortgage consumer credit. Many other Americans were the same way.

A lot has changed since then.

Most consumers today regularly employ "plastic," meaning credit cards. A new book delves into the history of consumer credit: *Plastic Capitalism*. The author, Sean Vanatta, introduces readers to the emerging use of consumer credit dating back to the 1940s and traces the ups and downs of federal and state control of the credit card market through the 1980s. Vanatta is a lecturer in economic and social history at the University of Glasgow and a senior fellow at the Wharton Initiative on Financial Policy and Regulation at the University of Pennsylvania. This is his first book.

Capitalism and controls / Vanatta sets a neutral tone in the book's preface: "This is a book of history, and I will not venture either policies or predictions." However, the author advances an underlying narrative of "blame the capitalist bankers," which is hinted at in a summary of his history on *Plastic Capitalism*'s book jacket: "How bankers created the modern consumer credit economy and destroyed financial stability in the process." Vanatta emphasizes and regularly returns to two major historical themes, both of which are raised in the book's title and subtitle: capitalism and the need for financial control to counteract what he favorably quotes from economist Herman Minsky as "the basic instability in a capitalist economy."

In early chapters, Vanatta writes of Franklin D. Roosevelt and his Fed chairman, Marriner Eccles, who the author claims are responsible for

> saving capitalism.... In Eccles's view, the root of the nation's prolonged depression was the collapse of consumer spending.... Eccles and his colleagues believed permanent federal controls could ensure stable growth within the context of Keynesian demand management.... Eccles told the Senate Banking Committee in June 1947 that installment credit accentuates the boom and it accentuates the downswing. It tends to make for instability.... [T]he credit system required federal management.

Strangely enough, Vanatta does not mention the massive monetary policy failings of the Federal Reserve during the 1930s.

He continues on the lessons of the Depression:

> The New Deal ... rescued [capitalism and democracy], in part by making capitalism subject to a greater measure of democratic participation and oversight.... The New Deal emerged from the failure of capitalism to reconcile itself to democracy, and the failure of financial capitalism in particular to provide the stability required by democratic society. The New Deal restrained private finance and bent its powers toward public purposes.... The Great Depression of the 1930s destroyed much of capitalism and threatened to destroy all of it. In its wake a new social compromise emerged, which in the United States included ... the rigorous control of finance.

The New Deal set the trajectory for the next half century of regulation of consumer loans and credit cards. The primary controls Vanatta surveys in *Plastic Capitalism* include interest rate ceilings (usury laws), credit controls, and a mailing ban for unsolicited credit cards, but he also discusses annual and service fees.

Charge it! / The original charge accounts were not the multipurpose tool available today, but instead they had their genesis in consumer need for credit with a specific retailer or group of retailers. Vanatta describes them as "a forerunner of the bank credit card. The charge program allowed consumers to shop at a variety of local stores using a single, bank-sponsored credit plan, which they repaid at the end of each month."

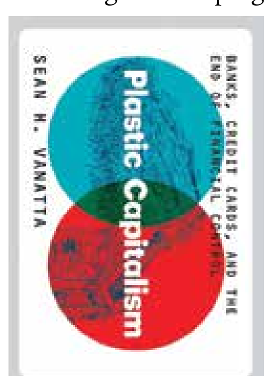
Early efforts at retailer self-financing of consumer credit held a great deal of risk: "The number of merchants who have been knocked out of business by supplying their own credit is enormous," he writes. In the mid-1940s that risk was the trigger for Brooklyn banker John C. Biggins to develop Charg-It, "a revolving credit account [consumers] could use to shop at a variety of local retailers. The bank would pay merchants for the goods consumers purchased and assume the bookkeeping costs and credit risk."

Vanatta sets the scene of the decidedly contemporary description of the perceived role for married, female consumers:

> Once she passed the credit check, Mrs. Housewife was issued a charge card by Franklin National Bank, imprinted with her husband's name and their account number.... Bankers designed their charge account plans to facilitate female-led, family consumption. Charge account bankers imagined their market as white, female, married and affluent.

Vanatta also recounts an early history of an "elite and masculine" market focus, commonly called "travel cards" reserved for "jet-set executives." The first such travel and entertainment card, initiated in 1950, was Diners Club.

A deluge of credit / Bank of America (BofA), a megabank during the late 1950s as the credit card market was under development, styled itself as a "consumer bank," keeping in mind its longstanding commitment to "the little fellow." The approaches varied for how major banks built their market share in the nascent credit card market. BofA's model was controversial because it "revolutionized consumer and merchant recruitment. Instead of relying on merchants to recommend creditworthy cardholders, [BofA] launched its program by mailing out millions of unsolicited cards directly to bank customers." BofA executive Joseph P. Williams "believed the bank could build adequate volume and sustain the new credit program only by putting cards into consumer hands." The first pilot test was undertaken in the Fresno market and "the cards were made of plastic. Before then, payment cards were either metal ... or paper."



Plastic Capitalism: Banks, Credit Cards, and the End of Financial Control

By Sean H. Vanatta

416 pp.; Yale University Press, 2024

The only apparent limitation was that the recipients had to be "established customers.... If they were already [BofA] customers, they would use their cards properly." The projected delinquencies were understated: "Williams expected an initial delinquency rate of 4 percent; the actual rate was close to 20 percent." Self-appointed consumer advocates criticized what they called "sales-persuasion chants in praise of debt."

A further backlash was triggered as a more broad-based industry solicitation effort was set into motion: "Following the strategy pioneered by [BofA], from 1966 to 1970 bankers flooded American mailboxes with tens of millions of unsolicited credit cards." Anecdotal evidence from Chicago area banks revealed extreme cases of an overly enthusiastic marketing effort:

> People with strong credit histories or relationships with multiple banks received as many as a dozen cards.... One woman received cards from two separate banks, which was unfortunate, since she had been dead five months. Small children received credit [cards] in the mail.

Word of these marketing strategies circulated widely. Longstanding House Banking Committee Chair Wright Patman was not pleased, complaining:

> If there was ever an unsound banking practice, it has to be the sending out ... of millions of unsolicited cards to an unsuspecting public. Indiscriminate card mailing jeopardized bank stability. It diverted credit flows from national social priorities.

Patman called for a "statutory moratorium on credit cards ... [and] introduced legislation prohibiting FDIC-insured banks from issuing unsolicited cards." Vanatta notes that even the *Wall Street Journal* referred to the credit card banks' "scattergun mailings." After congressional hearings Vanatta references as "a show trial for unsolicited mailings," legislation was approved and signed by President Richard Nixon that included an unsolicited mailing ban. Nixon signed separate legislation, the Credit Control Act (CCA), that granted the Federal Reserve broad-based powers to limit credit. A Federal Reserve Bank of Richmond report from 1990 described the CCA as exhibiting almost dictatorial power over credit use.

A capitalist approach? / After the federal legislative response, much of the responsibility for credit control shifted to the state level. This was driven by the Supreme Court's 1978 *Marquette National Bank* decision, under which Vanatta explains, "Card transactions ... would be regulated by the state where the bank was located, not where consumers lived or used their cards." He calls this "a turning point away from the New Deal regulatory order and toward the deterritorialization of U.S. consumer finance."

An exemplary case is Citi's credit card operations. Frustrated with "New York's strict interest rate regime" and "conflict with federal regulators" over interstate banking restrictions, Citi CEO John Reed saw an opportunity to avoid restrictions on expansion at both levels by locating credit card operations in South Dakota. Reed emphasized Citi's lending through credit cards:

> Almost everything we have traditionally distributed through branch system can be delivered on the card. And cards could go anywhere, enabling Citi to traverse federal and state branching boundaries and build a truly nationwide card-based consumer bank.

Meanwhile, 1980 legislation approved by a wide margin in South Dakota and relying on court precedent "exempt[ed] all regulated lenders from the state's usury limit..., allow[ing] South Dakota banks to charge any interest rate the market would bear."

Last gasp / This all happened against the backdrop of the Federal Reserve's bungling of monetary policy in the 1970s, followed by a burst of inflation. Fed Chair Paul Volcker's policies left the credit markets in turmoil in the late 1970s and early 1980s. According to Vanatta:

> consumers grasped cards as a lifeline to purchasing power and the previous generation's prosperity.... In March 1980, [President Jimmy] Carter exercised powers granted by the [CCA] (1969) and authorized the Federal Reserve to institute controls on credit card lending.

Apparently, desperate consumers faced with out-of-control inflation needed to be reined in by the government. Vanatta's take on the inflationary response is more charitable, defending the interventionist response:

> Carter's credit policy mirrored the 1960s political response to mass unsolicited card mailing. In both cases, politicians reacted to breakneck credit marketing by enveloping card plans in the New Deal's restraining web of financial rules.... By 1980, however, the balance of forces had shifted. An unrelenting campaign to discredit New Deal economic controls had borne fruit. Proponents of unrestrained markets, like Paul Volcker, commanded the policy high ground.... The stagflation of the 1970s, coupled with the increasing prominence of free-market ideology among academic economists, undermined the Keynesian ideas that had guided policy in the postwar era.

In practice, the imposition of controls exuded an arrogance of government knowing the precise level of and terms that consumer lending should be under. Under the CCA, "Carter could authorize the Federal Reserve to regulate 'the extension of credit in an excessive volume.'" Treasury secretary W. Michael Blumenthal's advice to Carter was consistent with this confidence:

> Some consumers may be extending their debt positions to an extent that is not desirable. Your advisers also agree unanimously that action should be taken to limit the most liberal terms of consumer credit.

Volcker "opposed controls, which would interfere with the Fed's monetary policies and the natural workings of the market." Volcker added, "I'm no enthusiast of using direct controls since they can be counterproductive." Treasury also "suggested imposing higher monthly payments to stymie demand."

Carter gave the final go-ahead for a system of controls, scolding Americans like children, blaming "our failure in government and as individuals, as an entire American society, to live within our means.... Consumers have gone in debt too heavily." Vanatta described Carter's approach: "Like a disappointed father or remonstrating pastor, Carter implored Americans to shift from spending to saving."

The Fed's follow-through on the policy "placed restrictions on credit cards as well as check credit overdraft plans, unsecured personal loans," and other related products. Not surprisingly, consumers pulled back and that may have contributed to the double-dip recessions of the early 1980s and Ronald Reagan's 1980 landslide. Vanatta admits the controls "may have gone too far."

Conclusion / *Plastic Capitalism* provides a thorough history of the development of credit cards and consumer finance, and for that alone it is worth a read. Vanatta provides over 60 pages of endnotes as a byproduct of his painstaking research, with nearly every paragraph in the book (after the preface) end-noted with citations. It will be too detailed for most readers, including what is at times an exhaustive discussion of the legislative process.

The book places the case for direct control of the credit card market in a positive light compared with less restrictive "capitalism." For me, Vanatta does not make a convincing case that our system of consumer credit has "destroyed financial stability" and sometimes needs to be tamed by the blunt instrument of government credit allocation. *R*

From the Past

A Realistic Yet Radical Theory of Justice

REVIEW BY PIERRE LEMIEUX

In an article published 30 years ago this year, Anthony de Jasay offered an observation that seemed to diverge from his usual pessimism about the future of liberty. In some areas, he argued in "The Bitter Medicine of Freedom," freedom principles persist and perverse effects of collective choices have become apparent.

The article is one of 16 reproduced in his 2002 book *Justice and Its Surroundings*. The book is a work of high political philosophy anchored in good economics and consistent with the real world. Although de Jasay is not a household name, he is arguably one of the most creative political philosophers and economists of the 20th and early 21st century. He defined himself as both a classical liberal and an anarchist. Whether the reader espouses or not the anarchist side of his philosophy, I don't think he (or she, of course) can come away from this book with his previous ideas not affected in some way.

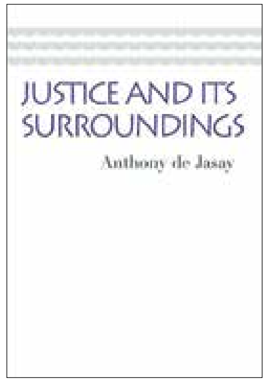
As its title hints, the book discusses justice and what surrounds it but is not justice. "If a thing is what it is, and not something else," the author writes, "we ought not to call it by something else's name or describe it by something else's defining characteristics. ... Justice is justice, and not fairness or equality of some kind."

Needless state / We must not simply assume that justice requires redistribution of wealth and that the redistributive state is necessary. De Jasay builds on his previous demonstrations that the state is not required for social order because a spontaneous and non-imposed social order is possible. Property can be considered as the infrastructure of society and it is, with its consequence of commerce, "prior to political authority, to the state." All-voluntary private relations and the all-coercive state are at the two extremes of a spectrum. He writes:

> A strong state, supposing it is logically possible prior to an efficient economy, could find the wherewithal [to maintain order]; but no reason is furnished why it would choose to restrain from using this strength in ways that would probably be more harmful to an efficient market than the much-dreaded Mafia.

De Jasay notes that law, notably tort law and the law of property, was "historically prior to any proto statal authority," notably in medieval Venice and Genoa, and in many Renaissance towns including Ghent and Bruges. The law merchant was "enforced mainly by peer pressure." "It is as possible to say that states hindered, undermined, and retarded markets, as that they helped them," he writes.

State coercion is not necessarily the only solution for the enforcement of private contracts. Simultaneous exchanges are self-enforcing: I don't tender the money if you don't nearly simultaneously give me control over the goods, like at a checkout counter. For exchanges where delivery or payment is delayed, a reputation of cooperation would often be sufficient to prevent default. When you order a good from Amazon and promise to pay for it, you know your credit card will be debited when the good ships, and you are virtually certain to get the good—and can even return it for reimbursement if you don't like it. Would it be different if there were no government? De Jasay argues that a cooperative game is played in society, not a prisoner-dilemma game, and that subjection to a central enforcer is not necessarily required.



Justice and Its Surroundings
By Anthony de Jasay
321 pp.; Liberty Fund, 2002

He argues that the traditional theory of public goods and their production by the state is problematic for many reasons. One is that the supposed market failure may be replaced by worse political failures, not to mention exploitative coalitions and a systemic bias toward the growth of the state. In a free society, schemes of voluntary cooperation for the provision of public goods are possible. De Jasay also repeats his critique of the social contract argument: "It is difficult to … assert in the same breath *both* that men need the state because contracts of mutual performance are undermined by the prisoners' dilemma, *and* that the social contract is not so undermined."

Floating externalities / The author of *Justice and Its Surroundings* argues that redistribution, far from delivering justice, is nothing but what the poorer half of voters decide to expropriate from the richer half. I think that even if this claim can be questioned in its extreme form—if only because the poor and rich do not act as anthropomorphic entities—it certainly explains part of what we observe. And claiming that the expropriators gain more in utility than the expropriated lose is just a subjective opinion, far from any logical theory of utility.

One redistributionist argument is that current incomes are in a large measure "attributable to an accumulated pool of tangible and intangible wealth" left by our predecessors. In this perspective, the current wealthiest people unfairly benefit from a sort of floating externality from previous generations, and everybody is equally entitled to this manna. De Jasay shows this argument is invalid. On the one hand, each contractual party (saver, investor, lender, etc.) who contributed to creating this supposed externality received what he considered sufficient consideration and he or his descendants are not owed anything. On the other hand, people who have benefited from these consequences of the past owe nothing to anybody. "Society" no more owns the putative pool of wealth inherited from the past than it owns the knowledge in the public domain.

There is no argument for "society" to redistribute what "it" does not own. The rightful owners of the fruits of the past "are those who, by no matter what combination of luck and desert, manage to internalize them"—that is, to use these benefits. For example, if I use the knowledge of finance developed by previous generations, the benefits I gain belong to nobody other than me.

As for the argument that redistribution benefits the rich or the better positioned because it allows them to keep part of their wealth or their situation in society, it cannot be true. Once the principle of redistribution is accepted, there is no reason why its beneficiaries would stop redistributing in their favor until complete equality obtains.

What is justice? / Since at least Plato, philosophers have probed the nature of justice. The answers proposed by mainstream theories of justice assimilate it to what social choice—that is, collective choices through elections and other political processes—decides. Mainstream theories of justice "merge the theory of justice into social choice theory," according to de Jasay. In this view, justice is essentially what the state decides it is.

The central part of *Justice and Its Surroundings* develops a radically different theory of justice. De Jasay starts from a natural prohibition of torts, which are "non-trivial violations of the liberties of others" that are "recognized in immemorial and near-universal cross-cultural conventions": murder, theft, or other violation of rights and liberties. He thus defines justice in terms of rights and liberties but, to avoid circularity, the definition of the latter must "not presuppose some prior account of justice." He also avoids the usual philosophers' recourse to natural law. Besides the protection against murder and theft, what are rights and liberties?

In an original typology, de Jasay considers a *right* as created by a voluntary exchange with a matching obligation. I lend you \$100 for one year, and you agree to assume the obligation of reimbursing me \$104 next year; thus, I have a right to \$104 at that time. A *liberty* is something physically feasible that I may do if it is not a tort and does not violate an obligation I assumed. Property results from a liberty that one has chosen to exercise by exchanging something one owns for something somebody else owns. In a Lockean perspective but without the famous "proviso," original appropriation simply rests on a liberty to appropriate something not already appropriated. Any voluntary contract coming after such appropriation is just. Justice is the distribution resulting from the totality of all just acts. It is voluntaryism. Justice in this sense is confirmed by empirical evidence given by actual voluntary agreements to create and transfer rights.

The distinction between, on the one hand, liberties as what is possible to do without directly harming others or reneging on previous obligations voluntarily assumed and, on the other hand, rights as the counterpart of obligations, is a powerful tool for developing a conception of justice that is non-circular, consistent with the real world, and liberal. It does not presuppose the existence of a state enforcer; whether it excludes a minimal state—what de Jasay previously called "the capitalist state"—may be an open question. Given that distinction, I think we can encapsulate de Jasay's complex theory of justice in a combination of a strong presumption of liberty (or, in fact, *liberties*), spontaneous conventions as the foundation of law, and a strong respect for private property.

Liberties / Liberties allow for contract-created rights and other voluntary agreements. Everything is admissible that is not explicitly prohibited because it would constitute a tort, including a violation of a freely consented obligation. De Jasay justifies this principle with an interesting epistemological argument. The principle that everything feasible is admissible if not explicitly prohibited finds its justification in a simple fact: A near infinity of feasible actions exists and admitting the opposite principle—that everything is forbidden unless it is explicitly allowed—would require a near-infinite list of admissible actions. In practice, the principle "would freeze everything into total immobility." Listing specific prohibitions is the only practical way for social life to exist. It is roughly the same as saying that justice is about prohibiting specific harms to others (torts). Every exchange is just unless it is proven to be non-voluntary.

In torts, de Jasay seems to include all offenses against person and property, probably some significant nuisances, and perhaps incivilities. He could have been clearer about that. He would perhaps answer that what is explicitly forbidden is a matter of convention. Is this a too easy way out?

Conventions / What de Jasay calls "conventions" is analogous to David Hume's eponymous concept, to Friedrich Hayek's spontaneous rules of conduct, and to Nash equilibria in game theory. Every convention that serves to maintain a social order exists as a fact. Every liberty is a fact and is only unjust if it consists in a demonstrable tort, including the violation of a demonstrable obligation voluntarily assumed. To be unjust is to commit an ascertainable unjust act toward somebody. When a social convention guides behavior, whether in matters of torts or civility (which passenger can take a vacant seat, for example), justice consists in following that convention.

Property / Benefiting from the presumption of liberty, one may own something unowned that he discovers or something that he obtains from its legitimate owner through a voluntary exchange or as a gift. This property principle corresponds to Cicero's *suum cuique*, "to each his own." A right of property comes from the exercise of one's liberties. Conventions prevent significant harms by limiting liberty and property when they cause torts. There is no re-distribution, except through voluntary gifts. Note the central place of private property, not to be questioned except for factually demonstrable reasons. Although some may consider this idea "conservative," de Jasay sees it as a consequence of the liberal presumption of liberty.

Justice as fact / An obvious implication of this theory of justice is that one can only be responsible for a state of affairs that one has caused, as opposed to the consequences of impersonal forces, whether natural or social. Note again how de Jasay can claim that justice is a matter of fact, not a matter of subjective and variable judgments: property (what someone controls) and the voluntariness of an exchange are verifiable; the existence of a convention is observable.

Problem of equality / Let's come back to the surroundings of justice and the idea that justice is not about equality. There are indefinitely many ways of implementing equality in a group. For example, de Jasay asks, "Should everybody do military service, or only the young, or only able-bodied young males?" The answer depends on whether equality is defined along the criterion of age or sex.

Similarly, the idea of equal treatment (treat like cases alike), sometimes called the generality principle, "leaves the justice of a treatment indeterminate." Treating all like cases alike is either a tautology or else "equal treatment of cases according to one variable will normally entail their unequal treatment according to other variables." If it is a matter of symmetry between the like cases, why should income or other rewards be singled out as the relevant variable for nondiscrimination instead of "pain, productivity, opportunity cost, benefit, or something else?" "Before like cases can be treated alike, it must be decided which case is like which other case. … Ultimately, however, all such observations are intrinsically subjective and can be reduced to my say-so against your say-so." All ideas of equality amount to a call for collective choice—that is, what the state decides equality means.

De Jasay does not believe in a general and formal equality before the law as the liberal state is called to provide. This is because there is no state in his theory. He might say that equality before conventions exists as a matter of fact. Many will find this to be a weakness of his theory, at least in a standard classical liberal perspective.

De Jasay criticizes the late political philosopher Brian Barry's presumption of equality as neglecting "the Humean conventions at the base of civilized societies and productive economies," notably property. Barry's notion of justice amounts to saying, "Nobody owns the cake to be distributed, nobody has baked it, nobody provided the wherewithal for baking it." Such a theory of justice is supposed to work without property rights or, at best, with very limited and weak ones. How, then, do we get enough production for those entitled to production without working for it?

Socialism / Besides equality in the abstract, we also meet socialism in the surroundings of justice. The command version of socialism is not efficient because there are no market prices to transmit correct signals on scarcity and demand. "Market socialism" has been proposed as an alternative that combines social ownership of the means of production, "equality at the starting gate" (equality of opportunities), and free markets for everything else.

But, de Jasay argues, these requirements are contradictory. Correct price signals cannot exist without markets for the means of production. Social ownership means in practice that the state is the owner and controller. The state is the agent of an abstract "society," which generates a giant principal–agent problem and humongous inefficiency. Only a regime of private property is consistent with economic efficiency.

Equality of opportunities is inconsistent with markets. From the "starting gate," writes de Jasay, one "can have a real race, or 'fix' the result, but not both." If there is a real race in the sense of market competition, inequalities will develop and the result will not be egalitarian. If the result must be egalitarian in some sense, the market process must be constantly corrected by the state. If Taylor Swift starts the pop-singer race on the same line as everybody else, she will reach the finish line first, except if she has been handicapped again and again during the race. And, to go back to the cake analogy, it is unrealistic to expect that producers will continue to bake the same cake that will be later sliced and eaten by somebody else at the pleasure of collective choice.

The last chapter of *Justice and Its Surroundings* presents freedom as a bitter medicine because it implies responsibility for oneself and some insecurity. It requires resisting the temptation of social choice over questions of "who gets what." Ignoring "the exceptional individual," people don't like this medicine, as shown by the whittling down of freedom over the "past hundred years or so" in democratic societies. De Jasay even found it surprising that "this freedom most of us do not really like is nevertheless holding its own." As I mentioned before, de Jasay believed in 1995 that "in some areas collective choice seems to be restraining itself to give way to the operation of 'hard,' non-vacuous freedom principles." That was the era of the so-called "Washington consensus" and a US president, Bill Clinton, who was certainly not a classical liberal but who now appears, with hindsight, to have been less dangerous to individual liberty than those who came after him.

Questions and critiques / As usual, de Jasay's arguments are tight and challenging, if not persuasive. A basic question is, could we theoretically and beneficially do away with the state (the whole apparatus of political government) in favor of a spontaneous social order? A closely related question is whether the organization of our societies meets the requirements of justice.

The vast majority of (classical) liberal and libertarian theorists have answered no to both questions. De Jasay's theory of justice offers strong critiques of standard liberal theories, including those of Hayek and James Buchanan. It is telling that, in reviewing de Jasay's 1985 book *The State*, Buchanan recognized the significant challenge it represented for his own liberal-contractarian theory of the state. He wrote:

> Somehow those of us who retain a residual faith in some positive potential for [the state] must meet the challenge posed by this book. We must, in some form or fashion, incorporate the descriptive features of the state, as depicted, into a coherent and nonromantic normative account of constructive reform.

Despite their disagreements, the respect is mutual. *Justice and Its Surroundings* contains a critique of Buchanan and Roger Congleton's book *Politics by Principle, Not Interest*. Despite his fundamental criticism of a social contract à la Buchanan, de Jasay presents himself as a devil's advocate who "would not be displeased if, on some judgment day, [his plea] were found to have failed and that of Buchanan and Congleton to have prevailed." He later adds that he shares Congleton and Buchanan's "political predilections."

To summarize my main doubt about *Justice and Its Surroundings*, I wonder if de Jasay counts on conventions to do too much work in the establishment of justice. Buchanan's question (which was addressed to Hayek) is relevant: How do we evaluate the capacity of a convention to support a free spontaneous order? And what is to be done if an illiberal convention develops? Is this not possible within the Jasayian system?

Even if one rejects de Jasay's liberal anarchism, the book suggests a healthy skepticism toward the collectivist zeitgeist. It provides some guidance for more modest and urgent reforms in our own societies toward a strong presumption of individual liberty and a strict respect for private property. R

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A Philosopher Challenges Progressives

REVIEW BY ART CARDEN

University of Colorado philosophy professor Michael Huemer is a publishing entrepreneur, issuing *Knowledge, Reality, and Value* in 2021. Now he's out with *Progressive Myths*. People may be skeptical of a self-published book that doesn't have the imprimatur of an academic press, but Huemer has distinguished himself as a scholar who can self-publish responsibly, submitting his manuscript to peers for criticism. The book may not have appeared for another year or two if he had followed a more traditional publishing route, and that would have been a tragedy because it is very timely.

As the title indicates, *Progressive Myths* takes on false beliefs held by many self-described progressives. He defines a progressive myth as "an empirical, factual claim" that is:

- "believed by many progressives,"
- "seems to obviously, strongly support an element of progressive ideology,"
- "and yet … is demonstrably false or highly misleading."

Huemer presents almost two dozen such myths, which he separates into myths about individuals, race, sex, gender, economics, and science. The book concludes with analytical chapters examining why these myths emerged, why they persist, and what we can do about them.

Why does he write about progressive myths rather than conservative or libertarian ones? Huemer writes candidly that he thinks conservative myths about things like the "stolen" 2020 election and the global warming "hoax" are so obviously wrong that they do not merit discussion. Beyond that, he has an ideological purpose, explaining near the end of the book: "I did not write this book only to persuade you to reject the specific myths listed in the previous chapters. I wrote this book to undermine progressive ideology as a whole."

Progressive myths dominate the academic and cultural discourse—the areas upstream from culture—so Huemer challenges their epistemic and empirical foundations. "Why not let people have their mythology?" he asks rhetorically. "Two reasons: One, because it is factually false. … Two, the progressive quasi-religion is an extremely divisive and malevolent force in our society." In place of these progressive myths, he wants to "center" reason and truth-seeking.

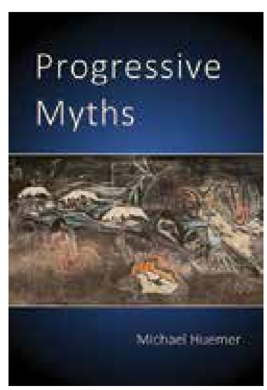
Individuals and racism / Huemer begins by discussing false beliefs about Trayvon Martin, Michael Brown, and Kyle Rittenhouse. Activists launched the Black Lives Matter movement after Martin, a Black teenager, was shot and killed by George Zimmerman after a scuffle when Zimmerman confronted Martin for acting suspiciously. Brown, a Black man, was shot and killed by a police officer in 2015, sparking riots in Ferguson, MO. Another police shooting of a Black man, Blake, galvanized the movement and led to riots in Kenosha, WI. During those riots, the teenaged Rittenhouse, who traveled there from Illinois, shot three people, killing two.

Huemer argues that each of those cases was more complicated than the commonly repeated narrative. Martin, Brown, and Blake were not killed in cold-blooded acts of racist fury, nor was Rittenhouse trying to commit a race-driven mass shooting. This is not to say the homicides shouldn't be troubling and even criminal, but rather that more was happening in each incident than what is commonly believed, and that understanding the details yields a different understanding of the shooters' motivations.

Huemer also examines the police killings of three other Black people: Eric Garner, Breonna Taylor, and George Floyd. Those cases do seem to be unjustified police homicides, but Huemer argues they were not race-motivated. Rather, the police acted negligently and carelessly; as he describes George Floyd's death, "Derek Chauvin killed George Floyd accidentally but culpably."

The individuals chapter is followed by one on race matters, which opens with a discussion of recent police killings of unarmed Black people. Huemer argues that it is wrong to attribute those deaths to broadly held racism among police officers because such deaths are so rare; roughly the same number of unarmed Black men are killed each year in an "officer-involved shooting" as Americans are killed by lightning strikes.

That is not to say there aren't disturbing police incidents, and the death of *anyone*—especially a wrongful death—is tragic. But in this chapter Huemer wants to discuss common public perceptions of general trends, not individual incidents, and at the beginning of the book he asks readers not to ascribe to him views he does not hold. Some readers might get to this point in the book and think he is saying something akin to "It isn't a tragedy when a Black life ends," but he isn't. Rather, he argues that progressive claims of a wave of racism-motivated police



Progressive Myths

By Michael Huemer

277 pp.; independently published, 2024

shootings are false. Also, policymaking based on incorrect beliefs about aggressive policing runs the very real risk of allowing crime to fester and hurting the people criminals threaten the most.

There is an analogy in Huemer's discussion of the drug war, which has disproportionately affected low-income minority communities and created the carceral state. Was it a racist conspiracy? No, Huemer writes, because the drug war had strong bipartisan support and enthusiastic backers among urban activists.

Why do these myths persist? / The book is a series of claims and counterclaims, and on issue after issue, Huemer shows that the progressive worldview has weak foundations. Do implicit biases and stereotypes explain economic and social discrepancies and inequalities? It's doubtful. The gender pay gap? The more you compare apples to apples, the clearer it becomes that women aren't "paid less for the same work." Gender is purely a social construct? No. The rich inherit their wealth and then don't pay their fair share of taxes as they exploit people in an unregulated economy? Coherent theory and empirical evidence say otherwise. Global warming is an existential threat that might end life on Earth by the end of the century? No. "The science is settled" on masking to stop Covid? Maybe not. The academy collects disinterested truth seekers who would never compromise for the sake of a political agenda? Again, no.

One by one, the shibboleths crumble. It turns out the United States isn't a racist, oppressive, patriarchal society. This isn't to say the country hasn't done many horrible things squarely at odds with our founding principles (particularly equality), but as Huemer points out, much of the rest of the world outright *rejects* those principles. Which is better, he asks: to have a society that imperfectly honors the principles of liberty and equality or a society that rejects them altogether?

So why do myths stick, and what should we do about it? As Huemer argues, political beliefs aren't like many other beliefs in that they can be indulged at essentially no cost. Believing that sticking a fork in a power outlet will give you superpowers is an incorrect belief that is costly to hold. You can, however, believe that capping credit card interest rates will help borrowers and have no ill effects because you likely will barely feel any of the negative consequences. Embracing the belief will not swing an election. Discarding it means alienating friends for no public policy payoff.

Calling for credit card interest rate caps differs from believing that you get from Birmingham to Nashville by driving south. As Huemer puts it, "What I suggest is that identifying the most rational beliefs about controversial subjects is difficult work, and most people will not exert the effort required, partly because they do not fear any significant costs from being wrong." Extreme beliefs also signal group affiliation and tribal loyalty, which produces pressure to espouse ever more extreme versions of a view and calls for ever-more vigorous punishment for heretics and occasional purges.

After a not entirely uplifting 24 chapters laying out progressive myths and explaining why they are, in fact, *myths*, Huemer concludes the book with a chapter explaining how to be better cognitive citizens. He offers six strategies: be skeptical, verify, learn how to verify, listen to critics, identify reliable individuals, and question ideology. He also offers nine habits of reliable thinkers: They give arguments that aren't circular, qualify their claims, acknowledge limitations and arguments pointing elsewhere, discuss objections, disagree with both major political parties on some issues, check their emotions, discuss evidence seriously, reason rigorously, and explain clearly.

Huemer, himself, is an island of reliability in a sea of unreliability based on these criteria. *Progressive Myths* makes its case clearly and persuasively, which sadly means it probably won't find its way onto many syllabi. Nonetheless, it is an important and timely contribution as we reckon with the current wave of progressivism and work to limit the damage it does. *R*

Working Papers BY PETER VAN DOREN

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

Pandemic Transfers and Poverty

Meyer, Bruce D., Jeehoon Han, and James X. Sullivan, 2024, "Poverty, Hardship, and Government Transfers" NBER Working Paper no. 33052, October.

In the Spring 2023 Working Papers, I described the history of federal support for poor children and the shift from cash transfers (the Aid to Families with Dependent Children program, 1935–1996) to tax credits offered only to those who work. During the pandemic, the tax credits were temporarily expanded to $3,000 for every child aged 6–17 and $3,600 for every child under 6. In addition, the credit was made fully refundable to those whose credits exceeded their tax obligations. The effect of the temporary expanded tax credit on child poverty and its effect on work effort became an issue in the 2024 presidential campaign, as both Kamala Harris and Donald Trump stumped on maintaining some version of it.

My Spring 2023 Working Papers discussed an article on the child tax credit by University of Chicago professor Bruce Meyer et al. They have now updated that work. They estimate income- and consumption-based poverty rates for the period 2015–2022 to allow examination of pre-pandemic trends, pandemic payments, and their expiration.

The largest component of the $2.7 trillion in pandemic spending was $800 billion in stimulus payments. Unemployment payments increased from $28 billion in 2019 to $581 billion in 2020 and $323 billion in 2021. In comparison, the expansion of the Child Tax Credit cost about $90 billion in 2021.

In the years before the pandemic and in 2020, the patterns for income and consumption poverty were very similar. In 2021 and 2022, however, changes in income and consumption poverty were quite different: Consumption poverty fell less than income poverty in 2021, and then income poverty rose sharply in 2022 while consumption poverty continued to decline.

The authors suggest that recipients saved their pandemic payments and smoothed consumption over time when the payments were eliminated. The current emphasis on the importance of the Child Tax Credit in reducing poverty during the pandemic is misguided. The effects of the stimulus payments and unemployment compensation payments were much larger.

Geography, Health Outcomes, and Selection

Kaestner, Robert, Ryan Gallagher, and Cuiping Schiman, 2024, "Selection of Movers on Observable Characteristics and the Effect of Place on Health and Healthcare Spending," SSRN Working Paper no. 4976443, October.

University of Chicago professor Robert Kastner conducts careful empirical work on important policy topics. He previously wrote in *Regulation* about the effects of additional cigarette taxes on adult smoking behavior (Winter 2014–2015). In the Summer 2024 Working Papers, I described his work examining the effects of "Ban-the-Box" laws on the employment of young Black men.

This paper examines claims in the academic literature about how much geography affects health outcomes. It critiques a research design that makes inferences by comparing health outcomes for those who move to or from an area with those who do not move.

Studies of the effect of place on health and healthcare spending used a limited number of observed variables as controls, such as age, sex, race, and baseline healthcare spending. But such measures are not very good predictors of future spending. A regression of 2016 Medicare spending on age, sex, 27 comorbidities, and dummy variables for 10 deciles of total Medicare spending in 2015 explained only 22 percent of 2016 spending.

Kaestner suggests that existing studies have much unobserved selection that differentiates those who move from those who do not. That biases the estimates of the effects of location on health. Researchers do not conduct a formal analysis of omitted variable bias because the Medicare data that studies use contain few individual characteristics.

According the Kaestner et al.:

> The likely bias of previous studies limits their usefulness because the magnitude of the true effect of "place" may differ significantly from the estimated effect. Even the direction of the bias is not known with certainty. Moreover, using the biased estimated effects of "place" to detect possible causes of the effect, for example, the quality of medical care, is likely to be misleading.

Antitrust and Competition

■ **Francis, Daniel, 2024, "Antitrust Without Competition," *Duke Law Journal* 74: 353–439.**

What is the goal of antitrust policy? Many would say to preserve competition. New York University law professor Daniel Francis argues that competition is so conceptually diffuse that it is virtually useless as an orienting measure for antitrust in real-world situations. "Competition in antitrust is often little more than a euphemism for the kind of thing that I, the speaker, believe antitrust should permit or promote—even if I will not or cannot explain why," he writes. Later, he adds:

> To put it a little crudely: the fact that a competition standard *looks* to the untrained eye like a reasonably specific and settled criterion *while in fact* conferring handy discretion on elite expert technicians to change the underlying standards over time is, at least, not obviously a vote in its favor. (Italics in original.)

Francis argues:

> Courts and other actors in the antitrust world often suggest that antitrust doctrine can and should ask: *does this behavior, or some specific effect or aspect of it, harm or promote competition?* But there is nothing like consensus—among either economic theorists or antitrust courts—about what that question really means: that is, about what evaluative criterion or criteria should be used to answer it.
>
> … Competition is a multidimensional phenomenon, defying easy essentialization, in an ambiguous and contingent relationship with social optimality. Views about competition's essential dimension(s) differ profoundly: absence of monopoly, headcount, welfare, dynamic innovation, market concentration, and so on have all played a role in the long conversation. (Italics in original.)

These ideas are not new. Francis notes that Harold Demsetz said in 1995:

> Even if one could measure competitive intensity along each and every single dimension of competition, *our inability to convert units of competitive intensity from one dimension of competition to another makes the general intensity of competition ambiguous and even meaningless*.… The Sherman Antitrust Act is logically impossible to carry out if its goal is interpreted as increasing the overall intensity of competition (or reducing the overall intensity of monopoly).… Increasing the intensity of competition (or reducing the intensity of monopoly) is not a feasible goal of antitrust. (Italics in original.)

What should be done about this intellectual incoherence? Francis answers:

> Whenever competition or one of its cognates (anticompetitive, procompetitive, competition on the merits, rivalry, whatever) is deployed in antitrust talk, it should be accompanied—or replaced—by a more specific evaluative norm. This approach may, and probably should, involve one or more of the more specific values and criteria mentioned above, such as welfare, market power, or concentration.

Electricity Transmission

■ **Zheng, Rangrang, Greg Schivley, Patricia Hidalgo-Gonzalez, et al., 2024, "Optimal Transmission Expansion Minimally Reduces Decarbonization Costs of U.S. Electricity," working paper 2024-2, University of Hawaii Economic Research Organization, February.**

■ **Botterud Audun, Christopher R. Knittel, John Parsons, et al., 2024, "Bridging the Gaps: The Impact of Interregional Transmission on Emissions and Reliability," NBER Working Paper no. 32996, September.**

■ **Chojkiewicz Emilia, Umed Paliwal, Nikit Abhyankar, et al., 2024, "Accelerating Transmission Expansion by Using Advanced Conductors in Existing Right-of-Way," Energy Institute at Haas Working paper no. 343, February.**

Historically, electricity was generated relatively close to consumers. The exceptions were the links from the large hydro generators in the Pacific Northwest to California and similarly from Quebec hydro to New England and New York. Now there is another exception: Large solar and wind projects are located far from population centers, and to connect them requires transmission expansion.

From 2005 to 2020, US electricity transmission capacity grew by 27 percent. The annual average increase in transmission capacity over 2015–2020 was greater than the annual average over the previous 30 years. But various academic and governmental projections for transmission over the next few decades suggest the "need" for 150–400 percent more transmission capacity.

Economists do not usually talk in terms of "need." Instead, they ask what combination of generation and transmission investment would minimize investment and operating costs over time. The first two of these working papers use different optimization models to generate estimates.

Zheng et al. consider three future pollution emissions control scenarios between now and 2050: no controls, a $190 per ton carbon price, and a zero carbon emissions requirement. The metric used to measure the benefits of transmission investment is the decrease in the average wholesale price of electricity. In the first scenario with no carbon emission controls, prices decrease by only 0.3 percent. In the third scenario with zero carbon emissions, prices decrease by 4 percent with optimal transmission investment.

Botterud et al. model the effects of the Big Wires Act proposed by Colorado Sen. John Hickenlooper in 2023. The legislation would require that each electricity region have the transmission capacity to transfer at least 30 percent of its peak demand to neighboring regions by 2035, which the authors estimate is a 68 percent increase in interregional transfer capability. Using the same metric as Zheng et al. (decrease in wholesale price of electricity) Botterud et al. report: "Our results lead to similar limited decreases, but the annual total system cost savings we obtain is in the order of $487 million to $3.21 billion. This is a relatively small percentage of total system cost but still large in absolute, annualized terms."

Chojkiewicz et al. propose replacing existing transmission lines with advanced composite core conductors that can carry approximately twice as much power as conventional conductors and locating renewable energy sources near existing lines. The use of existing transmission towers and rights-of-way avoids the land acquisition and permitting processes that impede the construction of new lines.

So, expanding transmission is important, but less so than many people believe. And existing transmission can be reconfigured to increase capacity.

OMB Guidelines for Cost–Benefit Analysis

■ **Viscusi, W. Kip, 2024, "Why OMB'S Social Welfare Function Is Not Society's Social Welfare Function," SSRN Working Paper no. 4927129, August.**

In November 2023, the Office of Information and Regulatory Affairs (OIRA), a branch of the Office of Management and Budget, issued a revised Circular A-4 that instructs agencies that propose significant new regulations how to evaluate their costs and benefits. The circular was last revised in September 2003.

The Fall 2023 issue of *Regulation* contained a special section evaluating potential changes to Circular A-4, including the introduction of equity considerations. Traditional regulatory cost–benefit analysis ignores equity effects, holding those matters are better addressed through explicit tax-and-transfer programs.

In Fall 2024 I reviewed a paper by New York University law professor Daniel Hemel that further analyzed the distributional emphasis of the Circular A-4 revision. If redistributive benefits of regulation are now to be considered in OIRA analyses, Hemel argued, the costs of redistribution (the regulatory analogue of deadweight losses from taxation) also must be considered. This is particularly true because Circular A-4 instructs agencies to evaluate the benefits of redistribution using a statistic that values increased consumption for the poor very highly.

Vanderbilt professor W. Kip Viscusi evaluates, in depth, the redistribution statistic described by Hemel in the context of valuing the benefits of risk regulations that reduce mortality. According to Viscusi, mortality reduction benefits are the largest source of estimated benefits of federal regulation. Regulation of fine particulate matter (PM 2.5), alone, accounts for one-half of the monetized benefits of all federal regulations.

Under the traditional approach that OMB promoted prior to the revision, when public funds are used "to reduce mortality risks, society does not assign a value to these risks based on the individual's income level." Instead, agencies used a Value of a Statistical Life of about $12 million for all lives saved regardless of income. Under the revised weighting scheme, benefits to low-income people are valued much more than benefits to high-income people (a 1 percent increase in income reduces the marginal value of benefits by 1.4 percent). The VSL now ranges from only $320,000 for those with household income of $1 million to $55.87 million for those with an income of $25,000.

Viscusi writes:

> One might expect that OMB would provide precise documentation of why it chose this value. As far as I can tell, there is no sound empirical basis for the assumption that there is a –1.4 income elasticity of the marginal utility of income. … Ultimately, the choice of the income elasticity of the marginal utility of income appears to be a judgment call by the OMB officials.

Viscusi concludes:

> Economists have no special expertise in making judgments on matters such as whether the welfare of steelworkers in Pennsylvania or dairy farmers in Wisconsin should be accorded preference in policy design. Ultimately, these are political decisions. Based on similar reasoning, OMB staff members have no special expertise in assigning different weights to impacts of population groups at different income levels.