Steven Levitt Seminar

Crooked Timber

http://www.crookedtimber.org

Authors (in alphabetical order).

Tyler Cowen

Henry Farrell

Tim Harford

Kieran Healy

Steven Levitt

John Quiggin

Table of Contents

Steven Levitt Seminar - Introduction

Steven Levitt's work is familiar to many *Crooked Timber* readers. He's a professor in the University of Chicago's Economics Department, a winner of the John Clarke Bates medal, the editor of the _Journal of Political Economy_, and the author of a rather terrifying number of peer-reviewed articles. He's also just co-authored a book with Stephen J. Dubner, a *New York Times* journalist who wrote a widely cited profile of Levitt last year. *Freakonomics* is currently Number Two on the *New York Times* bestseller list, and Number One on the *Wall Street Journal*'s business bestsellers list. In addition to all the above, Steve and his co-author have just started a blog centered on the book, and will soon start writing a monthly column for the *Times*. We asked Steve a while back whether he would be prepared to participate in a Crooked Timber seminar; he very kindly agreed, and you see the result before you. We're also grateful to have the participation of two non-CT regulars. Tyler Cowen is a professor at George Mason University; he blogs at *Marginal Revolution* and still puts in an occasional appearance at the Volokhs. Tim Harford writes the "Dear Economist" column for the *Financial Times*. His first book, *The Undercover Economist*, is coming out in November 2005.

Kieran Healy argues that Levitt and Dubner's use of the term "incentives" covers a multitude, and examines the relationship between freakonomics, economics, and the social sciences. John Quiggin argues that Levitt's work is driven unflinchingly by the data, and that it provides evidence that even if incentives work, they don't work in the ways that their designers might have expected. Henry Farrell supplements Healy's and Quiggin's arguments with a comparison between Levitt's work and Gary Becker's agenda for a unified economic approach to human behaviour. Tyler Cowen draws out some hypotheses from Levitt's joint work on the economics of crack cocaine. Tim Harford examines why so few people try to popularize economic thinking. Finally, "Steve himself": responds to all the above.

As with our Mieville seminar, we expect that the main discussion will take place in comments to Levitt's reply post. Feel free, however, to comment on individual posts if your comment seems more germane to a specific post or point made therein. As always, please be polite; unnecessarily offensive comments are likely to be deleted.

http://crookedtimber.org/2005/05/23/steven-levitt-seminar-introduction/

A Wealth of Notions

Kieran Healy

I'll admit that I rolled my eyes a little at first. Behold the Freakonomist! "Politically incorrect in the best, most essential way," said the blurb. A "rogue economist," who goes out of his way in the first few pages to say he is "afraid of calculus" and doesn't know how to do theory. Amazing! Incidentally, he trained at Harvard and MIT, was at the Harvard Society of Fellows, won the John Bates Clark medal and teaches at the University of Chicago. Now there's a sociologically interesting kind of maverick. If only my own fear of calculus had propelled me towards the same peripheries. But this is unfair. Steven Levitt does first-class work that's reliably provocative in the most productive sort of way. The packaging of the book — the silly title, the song-and-dance to make Levitt himself seem a little, well, freakish — seems mostly the result of getting a journalist and a marketing department on board and turning out the goods a little too fast. The product is a bit thin. But the underlying material is terrific.

Bearing in mind that each step is a hell of a lot easier to say than to do, Levitt's standard operating procedure is as follows: 1. Find an interesting puzzle. 2. Get hold of a relevant dataset (the bigger the better). 3. Come up with a really clever instrumental variable, or measurement technique, or natural experiment, or other methodological move that extracts evidence from the data in a surprising and compelling way. 4. Voila! You can now demonstrate an elegant, usually counterintuitive, social mechanism. The book gives a tour of Levitt's many successes in applying his enormous talent for this kind of work. The topics vary from gun violence to cheating in Sumo wrestlng, from the long-term effects of Roe vs Wade on crime to patterns of free-riding on a bagel delivery service, from the social structure of drug-dealing to the sources of changes in popular baby names. His knack for finding striking answers to tricky problems using recalcitrant data is remarkable.

Nothing about this approach to research is unique to economics. In this respect, Levitt's protests that he's not a regular economist are more than just marketing talk. As *Freakonomics* moves from topic to topic, it's clear that empirical puzzles about social action interest Levitt much more than a desire to elaborate or extend the theoretical framework that characterizes modern economics. Now, what makes for a distinctively economic approach is itself a contentious problem. There are several answers available from within the field, and economists tend to go back and forth between them as the circumstances demand. They often like to think of themselves as the hard-headed realists of the social sciences. On this view, social life is about rational agents selfishly and unremittingly pursuing their goals under conditions of scarcity. Thus, economics is about building rigorous models that capture these facts of life. The contrast is with woolly-headed humanists and sociologists, who allegedly prefer altruism to self-interest and social norms to individual rationality. At other times, though, economists play the role of hand-wringing rationalists. In this interpretation, individuals frequently fall short of the rational ideal. Thus, economics is prescriptive rather than descriptive, telling us how we ought to act, if only we were clever enough to think straight. And at yet other times, they claim an instrumentalist middle-way, freely acknowledging that their models make unrealistic assumptions, but arguing that as long as people in the aggregate act as if they were rational utility maximizers, then economics is the best game in town. For its advocates, this is an ideal position, a way to have your theoretical cake and eat it. To critics, it makes it impossible to reject the null hypothesis in research: If people don't seem to be acting in a rationally self-interested way, you're obviously not looking hard enough.

Where does *Freakonomics* stand? On the face of it, it's in the realist camp:

> What this book is about is stripping a layer or two from the surface of modern life and seeing what is happening underneath ... Incentives are the cornerstone of modern life … Economics is, at root, the study of incentives: how people get what they want, or need, especially when other people want or need the same thing.

Unless you already know what an incentive is, however, it's hard to make any sense of this last definition. Although the book does a good job conveying the findings of Levitt's research, its treatment of important concepts is breezy, even allowing for the fact that its goal is to reach a big audience. Initially, the book's story is straightforward: people respond rationally to incentives, and the data reflect this if you look at them the right way. Levitt's research on realtors is like this. He is able to show that realtors generally sell other people's homes for less money than they sell their own. This is because the extra commission they stand to make from getting a house to sell for $310,000 instead of $300,000 is too small to make the extra time and effort worth their while. But it turns out that, much more often, it's very tricky to figure out where the incentives really are, or what form they take. Careful scrutiny of the right data can reveal unexpected or perverse outcomes, as when teachers cheat on behalf of their students in response to new rules about student performance in examinations. In still other cases, such as patterns of baby-naming, the incentives are very unclear and the precise nature of the process is very difficult to specify.

As Levitt's empirical concerns broaden, the notion of incentives is forced to do more and more work. Incentives can be financial, social, murky, moral, perverse, hidden, planned, misplaced, other-directed, and so on. Like the "positive reinforcement" of behaviorist psychology, or the "functional imperatives" of 1960s sociology, "incentives" threatens to become an all-purpose placeholder having a specific meaning in each particular case, but without adding up to a distinctive explanatory concept. The danger is that you'll always be able to explain things in terms of incentives, as long as you're prepared to make your concept of incentives broad enough to include whatever it is that gives people reason to act in the situation under study.

A reader who just wants to learn about the many neat findings doesn't have to worry about the way the theme of "It's all incentives" is twisted this way and that, or care that it begins to fray under the stress. But there are implications for the kind of economics that Levitt is doing. At the very beginning of *Freakonomics*, we get a glimpse of the book as it might have been:

> We did consider, for about six minutes, writing a book that would revolve around a single theme — the theory and practice of applied microeconomics anyone? — but opted instead for a sort of treasure-hunt approach.

A book called "Explorations in the Data-Driven Search for General Social Mechanisms" probably wouldn't have gotten very far either. But that's essentially what *Freakonomics* is. Most of the distinctive themes of economics are absent from it, most notably the preoccupation with efficient markets and the commitment to the rationality of individuals, narrowly conceived. Moreover, Levitt freely draws on hypotheses and theory from elsewhere, notably sociology and psychology, and his work can be seen as contributing to those fields as much as to economics. This becomes clearer as the book progresses. In cases like the realtors, Levitt's contribution is to find a very clever way to empirically estimate something that economic theory straightforwardly predicts. Elsewhere, though, the connection to this kind of economic theory is much less direct (repeated reference to incentives notwithstanding), and Levitt's contribution rests on his more general talent for connecting good research questions to data. Here he has taken a methodological approach that has become very popular in econometrics – the use of instrumental variables – and applied the method to a much broader class of problems than economists usually concern themselves with. In an ideal world, Levitt would represent a new breed of empirically-oriented researcher working across the boundaries of social science disciplines, expanding our knowledge of a wide variety of social processes and perhaps laying the foundations of a new kind of social science, alongside people working at equivalent boundaries in other fields, like cognitive psychology and economic sociology.

I hope that's what the future holds, but there is cause for pessimism. Economics has a bad habit of routinely re-discovering (and taking credit for) ideas that are well-established elsewhere. Sometimes, whole fields are victimized in this way — social networks, institutional analysis, culture — as smart economists assume an idea that's new to them is new to everyone and go off and reinvent some wheels. *Freakonomics* does have some sociologists and psychologists lurking in its footnotes (a stronger engagement with Stan Lieberson's work on names would have made Chapter 6 a lot more interesting, for instance), but to be fair there are only one or two instances where a well-researched idea is presented as though no-one had ever thought of it before. Roland Fryer's working paper on "The Economics of Acting White" is cited as the source of the notion that "some black students 'have tremendous disincentives to invest in particular behaviors … due to the fact that they may be deemed a person who is trying to act like a white person.'" This idea was articulated in just this form in the mid-70s by John Ogbu (as the "oppositional culture" hypothesis) and arguably also by James Coleman in The Adolescent Society, written in 1961. A mention of the large literature on the topic would have detracted from the Freakonomic buzz, I guess. The broader point: Economics is well-positioned to innovate in the social sciences, because it attracts very talented graduate students and provides excellent training in formal modeling and quantitative methods. But it is hamstrung by its lack of interest in teaching the same students much of anything else (such as its own intellectual development as a field) and its tendency to look down on cognate disciplines as poor relations, even as it borrows some of their ideas. The result is that Economics farms out reflections on its own foundations to a small cadre of methodologists and philosophers, who talk amongst themselves, and to occasional "We Can't Go On Like This" speeches by Presidents of the AEA or Nobel Laureates. Meanwhile, it's business as usual for everyone else.

In many ways, Levitt is the successor of people like George Akerlof and Thomas Schelling, thinkers with a broad interest in social processes and a creative approach to understanding them that is rooted in their training in economics but not limited by it. Levitt differs from them in his preference for quantitative data analysis over model-building, but the similarities are otherwise strong. In particular, Levitt shares their attraction to and feel for systems of social interaction that involve incentives and co-ordination, broadly defined, but that are not markets. Yet Schelling's main intellectual influence has been outside of economics, in political science, public policy and sociology. It may be that Levitt's career will develop in a similar way. Or it may be that the trend toward rewarding a more interesting empirically-minded socioeconomics (evinced by recent Clark medal winners like Daron Acemoglu and Levitt himself) will provide incoming graduate students with, well, an incentive. This can only benefit economics and social science in general. The history of interaction between these disciplines is perhaps better characterized by sociological concepts like social closure, network density, opportunity hoarding, boundary-maintenance and symbolic violence, than by economic ideals like free trade, efficient exchange and mutual gain. But the possibility for great things is there. Just don't call the result "Freakonomics," is all I'm asking.

Getting the Data to Talk

John Quiggin

Among the many fascinating contributions in the latest contribution to the popular literature on economics is a chapter defending the (mildly surprising) conclusion that having a black-sounding name like DeShawn is not a disadvantage in the US, once you take account of the class, education and family backgrounds variables typically associated with such a name. Having named their own baby *Freakonomics*, economist Steven Levitt and journalist Stephen Dubner must be pretty confident on this point, and their high ranking on the New York Times bestseller list would appear to bear them out.

The subtitle of *Freakonomics* is *A Rogue Economist Explores the Hidden Side of Everything* and it's a summary of some of the research contributions made by Levitt, the 'rogue economist' of the title. Indeed, the authors go to some pains to point out that Levitt is not really an economist at all, at least not in the ordinary sense of the term. He is quoted as telling his co-author, 'I just don't know very much about the field of economics. I'm not good at math. I don't know a lot of econometrics, and I also don't know how to do theory. If you ask me whether the stock market's going to up or down, if you ask me whether the economy's going to grow or shrink, if you ask me whether deflation's good or bad, if you ask me about taxes - I mean, it would be total fakery if I said I knew anything about any of those things.'

It's a surprising thing to say about someone who's been awarded the John Bates Clark medal for the best American economist under the age of 40, but this does not appear to be mere false modesty. There's very little economics in *Freakonomics.* Levitt is an incredibly smart social scientist, but most of his work could equally well have been done by someone trained in quantitative versions of sociology or poltical science.

Although he's a product of Harvard and MIT and a full professor at Chicago, what Levitt has taken from the economics profession is not so much a body of theory to be applied, as a set of tools for empirical analysis and an unflinching willingness to look at social and policy issues without regard to social norms or received wisdom. More importantly, he's combined all this with creative flair and an impressive capacity to see the right way of teasing compelling conclusions out of refractory data.

It's not hard, for example, to see that, if teachers are rewarded and punished on the basis of scores from tests they administer themselves, that they're likely to rig the results. What's harder is to work out, as Levitt did, how cheating would manifest itself in answers to multiple choice tests, when the physical evidence that might have revealed cheating (the original test sheets) has long since been destroyed.

Similarly, it’s easy enough to see that real estate agents may be motivated to go for a quick sale and commission, rather than holding out for the best possible price, even though that would be in the interest of the sellers. but hard to see how you might test it. Levitt’s bright idea was to look at real estate agents selling their own homes. Sure enough, they waited longer and got more money. The disparity has diminished, but not disappeared, since the arrival of the Internet, and the sites like realestate.com.au that allow anyone with the time and judgement to become experts on the state of the market.

In terms of unflinching willingness to follow the data where it leads, there can be few examples more striking than the paper by Levitt and Donohue arguing that the drop in crime rates experienced in the United States in the 1990s was due, in large measure to the legalisation of abortion two decades earlier which, Levitt and Donohue hypothesised, prevented the birth of unwanted children at high risk of becoming criminals.

This is a striking and unsettling finding, at at time when the debate over abortion law in the United States is hotter than ever. Naturally there have been vigorous critiques. The most prominent of these, by John Lott and John Whitley seems like a very weak reed in view of the subsequent discrediting of Lott’s major work, on guns and crime. As Levitt and Dubner note in the gun crime context, Lott’s supporters were embarrassed by the revelation that he posted favorable reviews of his own work, and attacks on his rivals, using a female pseudonym, Mary Rosh. (Lott himself was unabashed, as were his employers at the American Enterprise Institute). Less embarrassingly, but more seriously, Lott apparently invented a survey which he used to support his claims, and engaged in other dubious maniplulations. Given the ease with which statistical analyses can be selectively biased, no reliance can be placed on Lott’s results. However, there is still every possibility that subsequent work using different data and methods may support the conclusions of Lott and Whitley or at least fail to replicate that of Levitt and Donohue.

What’s notable, though, is that the central premise of the proposed explanation, that unwanted children are more likely to end up as criminals, comes from the realm of sociology. Economists have had little to say on this subject.

One point where Levitt sticks with the verities of the economics tribe is his repeated insistence that incentives matter. The empirical studies certainly give plenty of support to the view that human beings are purposive agents, pursuing their own ends and responding creatively to their environment, which includes deliberately constructed incentives and market price signals. The alternative, structuralist idea, that people are passive bearers of socially constructed roles, gets short shrift.

Yet, in nearly every case considered by Levitt, incentives turn out not to work the way that might have been expected by the people who designed them. Parents respond to a small charge for late pickups from a childcare centre by increasing the number of late pickups; apparently, the specification of a monetary price cancelled any feeling of moral obligation.

In other cases, incentives are too weak to produce the expected results. Real estate agents are paid for selling houses at the highest possible price, but their share of any increase in the sale price (the commission percentage) is too small to induce them to ‘go the extra mile’ for their customers. Sumo wrestlers are rewarded for wins, but nonlinear jumps in the reward schedule lead to matches being fixed when they are vital for one contestant but marginal for the other.

Most striking of all is Levitt’s analysis of the economics of drug dealing in Chicago housing estates, based on data collected, at significant personal risk by sociologist Sudhir Venkatesh. We begin with the irony that harsher sentences, designed to deter gang activity brought small-time gang members into contact with Mexican and Colombian cocaine importers, and thereby helped to fuel the crack epidemic of the early 1990s.

Of even more interest is the fact, documented in detail using the account books of a drug gang, that the average street-level dealer makes about $3.30 an hour, less than the minimum wage. Levitt plausibly explaines this as a tournament, in which the dealers accept low pay and high risk in return for a shot at the position of gang leader, earning more than $100 000/year, tax free.

It’s easy to see, however, that in a gang with more than 50 members, the expected payoff is not that great Suppose that the leader can expect perhaps five years in the job before falling to the hazards of prison, a rival gang, or an ambitious subordinate, and that the average gang member would have to work at least that long on the street corner before aspiring to the top job. Then the expected return from the leadership lotter is no more than $2000/year or around $1 an hour, only a marginal supplement to the miserable returns documented by Levitt.

There are plenty of plausible explanations for this. For example, explaining the fact that the chance of winning lotteries is routinely overweighted has been one of the major tasks for theorists of generalised expected utility models, and the same explanations would be applicable here.

The fact remains though, that, while people respond to incentives, they don’t respond the way the people who created the incentives might expect, or the way textbook economics might predict. Not that long ago, most economists would have said this was a problem for psychologists or sociologists and left it at that. Increasingly, however, the barriers between economics and the other social sciences are breaking down, with the rise of subfields like behavioural economics and economic sociology.

If we are going to make progress in understanding how human beings actually behave, rather than how idealised social science models say they should behave, skill in extracting meaningul patterns from refractory data will be crucial. Steve Levitt is showing us the way.

… And Then Listening to It

Henry Farrell

Steven Levitt's work, as summarized in *Freakonomics* and the original articles on which *Freakonomics* draws, is eclectic in both subject matter and methodology. In the best sense of the word, it's problem-driven research. Levitt has an extraordinary knack for finding interesting problems and interesting data that can be brought to bear on those problems. This is a large part of its attraction to the broader social science community – when you read something that Levitt has written or collaborated on, you get the sense of someone who is genuinely excited at discovering more about the ways in which the world works. His work is driven by curiosity, and it shows. As Kingsley Amis's Jim Dixon says, an awful lot of academic work consists of "funereal parade[s] of yawn-enforcing facts," that throw "pseudo-light" on "non-problems." Not Levitt's articles. Insofar as thirty-page chunks of social science can be fun, they're fun.

Perhaps surprisingly, this doesn't necessarily make for a great book. Eclecticism works best in measured individual doses, and if *Freakonomics* has a flaw, it's that it has no clear organizing theme. As Kieran notes in his post, the only common thread in the book is the rather vague idea of 'incentives,' and the nature of the incentives changes from chapter to chapter along with the motivations of the actors involved. Some of Levitt's best known work (viz. his arguments about the effects of abortion on crime rates in later generations) doesn't even involve incentives at all. This means that the book sometimes feels a little breathless as it jumps from theme to theme (if this is page 90, it must be drug dealers), or lumps together two very different sets of arguments (risks from guns and swimming pools on the one hand, and the effect of parenting on the other) into a single chapter, because they both have to do with families. While I'd happily recommend the book to people who haven't encountered Levitt's work, or who are just interested in smart ideas that connect to everyday life, I'd strongly urge them to read it a chapter at a time. Too many rich ideas can lead to dizziness and intellectual indigestion if they're gulped down at one sitting.

But even if this makes for a slightly episodic book, it makes for a highly attractive model of research. There's an interesting contrast to be drawn between Levitt's eclecticism, and the agenda that was drawn out some nearly three decades ago by his friend and University of Chicago colleague, Gary Becker in *The Economic Approach to Human Behavior*. Now, I'm using Becker's work here, not exactly as a straw man, but as a prominent exemplar of a particular approach to economics. I suspect that even Gary Becker isn't Gary Becker in the sense that he was twenty-nine years ago – but the claims that he put forward then still resonate in the profession.

Becker, like Levitt, is heartily in favor of eclecticism, but an eclecticism that is subordinated to a preset intellectual agenda. He advocates the position that "the economic approach provides a valuable unified framework for understanding *all* human behaviour," (emphasis in original) because "all human behavior can be viewed as involving participants who maximize their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets." As Tyler might say, there are markets in everything (even if they're sometimes shadow markets). While Becker recognizes that non-economic variables can affect human behaviour, his very clear preference is for concentrating on the "economic approach," which, as he defines it, consists of three key assumptions – maximizing behaviour, fixed preferences and market equilibrium. In Becker's contention, these provide the key to understanding a wide variety of human behaviour, not only in the economic realm, but in the family and society too. Becker's approach is often characterized as economic imperialism, and there's a whiff of colonialism in his conception of the relationship between economics and the other social sciences (economics would provide the framework within which the contributions of the other social sciences should be integrated). None of which is to say that there isn't clear intellectual value to pushing the basic ideas of economics as far as they can go (and perhaps a little further) as Becker proposes.

However, this is not (as best as I can make out), what Levitt is offering us. There's a superficial resemblance – Becker, like Levitt, tackles an enormous variety of topics – racial discrimination, fertility, crime, education and so on. But Becker is trying to apply a single unified theoretical framework to all of these disparate topics. In short, he's arguing that their differences are superficial, and that they're fundamentally structured by a coherent and unified logic. Now, Andrew Samwick argues that Levitt represents a continuation of this tradition (for Samwick, Levitt is a sort of Becker on steroids).

> Steve is the next generation of the "Chicago School" of economics, in which the basic price theory of economics is inserted into every social environment imaginable. The original generation--Friedman, Becker, and Stigler--focused on what are by now traditional areas like education, the family, and the law. But I'd wager that even the founders of the School would have to admit that Steve's ability to see the economics in unusual situations is without equal, past or present. The next generation also comes armed with modern computing power and thus a much greater ability to analyze data in support of their claims. … What does it mean to "see the economics" in a given situation? Economics consists of exactly two ideas: optimization and equilibrium.

This is an interesting characterization of Levitt, and as Samwick argues, Levitt is clearly *influenced* by the earlier generation of the Chicago school. Still, Samwick is wrong in some very important ways. Levitt, unlike Friedman or Becker, seems to be primarily driven by the specific research question and by the data rather than by the desire to see everything through the lens of economics. When the question and the data point in the direction of interactions that can be modeled using optimization and equilibria, this is where Levitt goes. Thus, his work on cheating among Sumo wrestlers, and (my personal favourite, which isn't mentioned in *Freakonomics*) on mixed strategies in football penalty kicks. However, much of Levitt's work on other topics, including what is perhaps his most widely read article (the piece on abortion and crime rates in future generations) appears to have nothing to do with the economic approach, in either Becker's forumulation or Samwick's slightly down version of same. Neither equilibria nor optimization come into his story. One can go further – Levitt's work on choice over names for babies supports a set of assertions that go against the economic model as Becker and Samwick describe it. Levitt makes it quite clear that there is *no* equilibrium in baby names. "Low end people," in Levitt's terminology, want to adopt the names of high end people; they want to adopt names that sound 'successful.' But as soon as "a high-end name is adopted en masse, high-end parents begin to abandon it. Eventually, it is considered so common that even lower-end parents may not want it, whereby it falls out of the rotation entirely. The lower-end parents, meanwhile, go looking for the next name that the upper-end parents have broken in." As both Becker and Samwick's definitions imply, economics is about the quest for equilibria; equilibria are what give economic models their bite, their predictive power. So when Levitt starts analyzing the non-equilibriating processes in baby-names, he's really not being an economist in the sense that Becker and Samwick define 'being an economist.' One might better say that he's being a sociologist, in a well established tradition of sociology (in addition to the names that Kieran mentions, Levitt's findings are strongly reminiscent of Pierre Bourdieu's work on processes of social distinction).

Not so much economic imperialism perhaps, as the empire striking back. What's hopeful about Levitt's work for a non-economist like me (who likes economists, who likes working with economists, but who finds a lot of economics curiously disconnected from the real world processes that it claims to model) is what it suggests for the future. Perhaps, as smart economists really begin to gaze into the empirical data, the empirical data is gazing back into them. There's still a lot to be learned from the broad ranging application of Becker's economic approach to human behavior. It produces striking insights in places where one might expect it to provide no insights at all. But it's not the only game in town. A more problem driven and *theoretically* eclectic approach to economics, of the sort that Levitt seems to be doing, has a lot to offer in its own right. Furthermore, if it's done properly it has the potential to create real conversations across the social sciences, where now there's only mutual incomprehension.

Crime and Crack

Tyler Cowen

Economists should be forward rather than backward-looking, so I will consider Steve's new paper -- "Measuring the Impact of Crack Cocaine," co-authored with Roland Fryer, Paul Heaton, and Kevin M. Murphy.

The contributions of this paper are clear:

1. Crack cocaine enters the U.S. market in a big way in the mid-1980s.

2. It is possible to construct a meaningful time series for crack usage. This is the paper's most significant contribution.

3. Murder rates rise dramatically when crack comes. If I recall Steve's talk correctly, some young black homicide rates nearly tripled, of course starting from an already-high rate. This is a startling statistic.

4. Today crack continues to be consumed at high levels but mostly by longer-term addicts. This kind of crack consumption causes much less crime. Such a causal story, however, is closer to speculation than a proven result; it cannot be read off the numbers.

A central question is why crack has caused so many more murders than have other drugs. I can think of a few possible (and possibly false) arguments:

1. Heroin and pot make you sleepy. Crack gets you riled up.

2. Crack was a new drug when it hit the market. Gangs were competing to hook new buyers. This is a far more violent activity than serving established drug clientele.

3. In dollar terms crack was a "bigger" drug than ever before. The gross and the profit margins were bigger. The resulting turf wars over profits led to murders. It is not worth killing people over a few marijuana sales. (Yet still I find this puzzling. Falling prices have taken profits out of the market; the gangs must either have had an extraordinarily high discount rate or they behaved irrationally in killing each other. In the latter case we have no economic explanation at all for the hike in crime.)

4. Perhaps you buy other drugs from your friends, but you buy crack from dealers. (Most people get Ecstasy from their friends, and this market is not very violent.) The new question is then why this might be. Could crack somehow require less personal certification from trusted acquaintances?

These market features might have implications for drug policy. Most of the discussion focuses on either how to stamp out drugs or why we should legalize drugs. We should consider a new approach based on differential features of drug markets. Let us find out why crack differed from other drugs so much. Then watch for when these critical features resurface. If "another crack" comes along, what should we do to ameliorate the crime problem? Encourage people to buy it from their friends? Encourage exclusive territories for the new drug?

Steve's paper has given us considerable food for thought. But I would like to see him take the next step of pinning down the relevant policy questions. Why has the crack market become safer rather than more dangerous? Which features of drugs lead to associated crime waves? Can we make drug markets -- yes "black" ones -- less dangerous?

The Dawn of A-List Economics

Tim Harford

What's it like to be a so-called 'populariser' of economics after Levitt and Dubner's *Freakonomics* hits town? To be honest, the feeling of inferiority is depressing after a while. I recently spent a week alternating between assuring my publisher that my book would be just as exciting as Levitt's, and assuring my editor at the *FT* that my profile of Levitt would be as masterful as Dubner's. The truth is that is that Levitt and Dubner have made the rest of us look like C-list econopundits.

The cognoscenti have two reactions to the *Freakonomics* buzz. One is gushing enthusiasm. That's not entirely unjustified. Levitt is a brilliant thinker and asks questions which are sometimes fun, sometimes important and often both. Dubner is a wonderful writer.

The second reaction is the irritation at all this 'freak' business. Levitt joins Paul Samuelson, Milton Friedman, Ken Arrow, Gary Becker, Joe Stiglitz, Paul Krugman and the rest as a John Bates Clark medallist; he's editor of the *Journal of Political Economy*. Are we really supposed to believe that he's a 'rogue economist'? I've had a moment or two of annoyance myself as I try to convince anyone who will listen that there were a few interesting pieces of economics before Steve Levitt came along.

Levitt's public persona is certainly designed to pull in the crowds, and he is not afraid to admit it. Some of his best work is sidelined in Freakonomics and in most profiles of him because it's not quite freaky enough, and that feels like a shame to those who know and admire it.

Our grumbling, however, is misplaced; it's the bittersweet teenage resentment that comes when the band that you once followed alone suddenly makes it big. It seems that deep down, we really loved the obscurity of economic thinking. Perhaps for that reason we have created such an appalling reputation for economics that the more you deny that you're an economist, the more books you can sell. This is not simply some trick cooked up by Levitt and his publicists – it's unique to economics. Popular science books sell very well but you won't catch Stephen Hawking claiming that he's a 'rogue physicist'. Popular philosophy is in vogue too. But the success of *Freakonomics* and the deliberate distance it places between itself and 'normal' economics simply reminds us that popular economics remains an oxymoron. There's no reason why that has to be true. Even before Thomas Schelling and Gary Becker got to it, our field encompassed, without any freakery at all, wealth, poverty, choice, desire, politics and shopping. If Levitt needs to disown that to sell books, we should blame ourselves, not him. The next bright young economist with a book in him should be eager to be associated with his own subject; that won't happen unless we do a better job of showing ordinary people why they should care.

We owe Levitt another debt of gratitude for reminding us that economics can be fun for its own sake. *Freakonomics* celebrates that fact, but it is nearly alone in the field. The best popular economics books of recent years have been out to make a serious point – Martin Wolf's *In Praise of Globalization* and John Kay's *The Truth about Markets* (in the US this became *Culture and Prosperity*) are outstanding examples. The books are wise and good to read but neither Wolf nor Kay has written to convey the sheer fun of the subject. Steven Landsburg often conveys the spark of economic thinking brilliantly, but with a punkish insistence that his outrageous conclusions be politically or emotionally dislikeable. (For most economists, the fun is trying to work out why Landsburg is wrong – never easy. I always wonder whether non-economists get the joke, funny though it is.) David Friedman's *Hidden Order* is just as much fun, but it's packed full of graphs – the textbook I wish I'd had as an undergraduate.

Levitt and Dubner, for all the elaborate efforts to distance themselves from mainstream economics, have given other economists an unprecedented opportunity. Maybe, just maybe, economics isn't just a tedious jumble of failed forecasts, mechanical macroeconomic reporting and libertarian sneering. Maybe Steven D. Levitt isn't the only economist with something fun to say about everyday life. He's led the way – it's up to the rest of us to follow.