

The Relentless Pursuit of Incentives

FREAKONOMICS: A ROGUE ECONOMIST EXPLORES THE HIDDEN SIDE OF EVERYTHING

BY STEVEN D. LEVITT AND STEPHEN J. DUBNER

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It's rare that a book on economics makes the best-seller lists. But *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* by Steven Levitt and Stephen Dubner has been there for several months and shows no signs of leaving.

Levitt is an economist at the University of Chicago who in 2003 won the John Bates Clark Medal, given every two years to the top American economist under the age of 40. Dubner is a journalist, who wrote a profile of Levitt in the *New York Times Magazine* the same year. That article began with the following passage:

The most brilliant young economist in America — the one so deemed, at least, by a jury of his elders — brakes to a stop at a traffic light on Chicago's South Side.

It is a sunny day in mid-June. He drives an aging green Chevy Cavalier with a dusty dashboard and a window that doesn't quite shut, producing a dull roar at highway speeds.

But the car is quiet for now, as are the noontime streets: gas stations, boundless concrete, brick buildings with plywood windows.

An elderly homeless man approaches. It says he is homeless right on his sign, which also asks for money. He wears a torn jacket, too heavy for the warm day, and a grimy red baseball cap.

The economist doesn't lock his doors or inch the car forward. Nor does he go scrounging for spare change. He just watches, as if through one-way glass. After a while, the homeless man moves along.

"He had nice headphones," says the economist, still watching in the rearview mirror. "Well, nicer than the ones I have. Otherwise, it doesn't look like he has many assets."

Steven Levitt tends to see things differently than the average person. Differently, too, than the average economist. This is either a wonderful trait or a troubling one, depending on how you feel about economists.

Such puzzles — why a homeless man would have \$50 headphones, for example — are the type of thing that interests Levitt. And presumably those eclectic interests are what intrigued Dubner and the *New York Times Magazine* about Levitt. He doesn't try to answer sweeping macroeconomic questions or offer an opinion on where the economy is heading in the next year. In fact, if you were to ask him about such topics, he would probably say that your guess is as good as his. Instead, Levitt has made a name for himself through careful empirical examination of microeconomic questions.

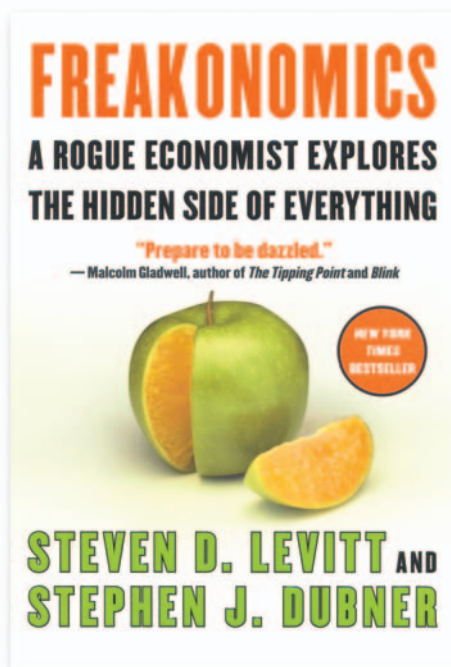
Unusual Topics, Conventional Methods

Many of those questions might seem beyond the scope of economics. But as Levitt and Dubner write, "the science of economics is primarily a set of tools, as opposed to a subject matter," and this means that "no subject, however offbeat, need be beyond its reach." Fine, you might say. Still, aren't some of those offbeat subjects — such as why African-American parents often give their children distinctively "black names" — frivolous compared to more conventional topics of economic inquiry? That's a judgment call. But looking at seemingly frivolous topics can help us better appreciate the role of incentives, which Levitt and Dubner rightly claim are "the cornerstone of modern life. And understanding them — or, often ferreting them out — is the key to solving just about any riddle."

Indeed, if there is a unifying theme to Levitt's work, it's the belief that incentives guide individual people's lives and in the process shape the course of society. Levitt is not unique in this way. All economists think that incentives matter. But Levitt is relentless in the application of this principle, and that has led him to some controversial conclusions.

Safer Cities

Before the publication of *Freakonomics*, Levitt was probably best known for his work on the declining crime rates of the 1990s, research that he and Dubner discuss in Chapter 4 of the book. At the beginning of that decade, violent crime was wreaking havoc in America's cities, and many social scientists and policymakers claimed that things were only going



to get worse. As late as 1997, with crime rates already on a steady downward trend, President Clinton warned that “we’ve got about six years to turn this juvenile crime thing around or our country is going to be living with chaos. And my successors will not be giving speeches about the wonderful opportunities of the global economy; they’ll be trying to keep body and soul together for people on the streets of these cities.”

Fortunately, this dire prediction did not come to pass. Crime rates in the United States continued to fall sharply, and instead of writing about the emergence of “superpredators,” the media focused its attention instead on how some of America’s once-doomed cities — New York, in particular — had become much safer places to live. The suburbs, which had once been seen as a safety valve for parents too afraid to take their kids to Central Park, were now viewed by many commentators as a scourge. Within just a few years, the media went from lamenting the perils of America’s urban centers to criticizing suburban sprawl.

What led to the decline in crime rates? According to many of the social scientists and policymakers who earlier had predicted that we were on the cusp of an urban apocalypse, it was a confluence of three factors: a growing economy; tougher policing, including a “no-tolerance” policy for many lesser crimes; and more restrictive gun-control laws. All three were plausible explanations. And all were things for which the social scientists and policymakers were happy to claim credit; it was their ideas, they said, that finally brought crime under control.

But when Levitt looked at the data, he doubted the importance of those oft-cited factors. They may have been part of the story, but he argued that there was a much more important factor behind the drop in crime: legalized abortion. In January 1973, the Supreme Court issued its decision in *Roe v. Wade*. Afterward, abortions were much easier and cheaper to obtain in the United States.

What does this have to do with falling crime rates? Think of it as a three-step process. First, children from dysfunctional households are more likely to become criminals. Second, those women who had foregone illegal abortions because of their expense were more likely to come from dysfunctional households. Third, following *Roe v. Wade*, many of the women who before would have given birth ended their pregnancies instead. The result, according to Levitt and Dubner, is that “the pool of potential criminals had dramatically shrunk.” So by the mid-1990s, “just as these unborn children would have entered their criminal primes, the rate of crime began to plummet.”

For people who believe that abortion is evil, this may be a difficult conclusion to accept. But in this case, acceptance doesn’t mean approval. One could accept Levitt’s argument as an empirical truth while still believing that abortion is

ethically wrong. Nor does it mean that you have to argue that every child born into a dysfunctional household will become a criminal. Indeed, most of us probably know cases to the contrary. What accepting this argument does require, though, is an openness to scientific inquiry, no matter where the data may lead you. Levitt and Dubner write: “Morality, it could be argued, represents the way that people would like the world to work — whereas economics represents how it actually *does* work.”

That idea is on display throughout the rest of the book, as the authors examine a host of other questions. For instance, they discuss why school teachers may help their students cheat on standardized exams, and how administrators can tell when this is happening. They consider whether a real estate agent can be expected to act in a home-seller’s best interest. And they dissect the internal organization of a drug-selling gang.

Nearly all of the topics in the book come from articles that Levitt wrote for professional economic journals. Those articles have been reworked for a nontechnical audience, but remain true to the original ideas. In short, Levitt and Dubner faithfully present the logic, while eschewing the math.

What’s in a Name?

Which brings me to the title — *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*. Many economists have criticized this choice. How, they ask, could Steven Levitt, winner of the John Bates Clark Medal, possibly be considered a “rogue” economist? After all, it’s one of the most prestigious prizes in the profession, and many past winners have gone on to win the Nobel Prize. Levitt, they say, is anything but an outsider.

These critics are both right and wrong. It is a misleading title. The topics Levitt chooses may be unconventional, but his methods are certainly mainstream. At bottom, he is a neoclassical economist — no doubt a uniquely talented one, but this doesn’t lend him rogue status. Also, at points throughout the book, the authors talk about freakonomics as a “field” of study. But it’s not. What Levitt does is use microeconomics to answer interesting questions. That hardly makes for a new field, a point the authors admit when they argue that economics is about the tools that its practitioners use, not the topics they choose.

Still, it’s hard to be too critical of the title. It almost certainly has made the book easier to market, resulting in more copies being sold and Levitt’s ideas being presented to a wider audience. Hopefully, some of those readers will discover that economics is not such a dismal science — that it offers powerful ways to look at the world in all its dimensions. If so, the costs of the book’s misleading title surely will be outweighed by its benefits. **RF**

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